

CHAPTER-ONE

INTRODUCTION

1.1 General Background

Industrialization is an important factor for achieving the basic objective of a country's economic and social progress. Industrialization not only provides goods and services but also creates employment opportunities. It facilitates and effective mobilization of resources of capital and skill, which might otherwise remain unutilized. It also acts as a vehicle for fostering Innovation and technological improvement. Industrial development, thus, has a multiplier effect on the economy. Industrialization is a comparatively new phenomenon in Nepal. The Biratnagar Jute Mills set up in 1936 marked the beginning of organized industry in the country. In the years that followed, industrial growth was accelerated. Industries like the Morang Cotton Mills (1941), the Morang Sugar Mills (1946, the Reghupati Jute Mills (1946), and the Juddha Match Factor (1946) were set up in Biratnagar in collaboration with Indian businessmen.

The outbreak of the Second World War gave added impetus to this trend. Due to extreme shortage of essential consumer goods in world market the promoters of these industries could reap windfall profits within a very short period of time. Within a period of 10 years, as many as 63 industrial units were opened in the country with a total capital investment of Rs. 72 million, of which only Rs.2 million was invested by Nepalese businessmen.

The early industrialization was thus the result of exogenous forces. Industrial units were founded in areas, which ensured an abundant supply of raw materials. With the return of business situation to normal after the War, most of these mills were liquidated. They could not sustain the post-war recessionary effects and much of the foreign capital was withdrawn. These short-lived industries were thus war-time babies whose demise caused a big set back to the process of industrialization.

Industrialization development in Nepal, however, started getting regular attention of the Government under the aegis of development plans after the dawn of democracy in 1951. Several industries were established in the public sector mostly with the financial and technical assistance of the then USSR and China. This process continued till the end of the Sixth Plan. As a result, Nepal witnessed the development of quite a large number of manufacturing industries in the public sector, particularly in areas like leather, sugar, paper, cigarette, brick and tiles, agricultural tools, and textile. Also, the Government on its own investment set up factories in sectors like cement and sugar.

The industrial development strategy of the Government, however, changed after mid-1980s. The Government then shifted its development strategy from state-led development to market-led open economy. As a result, many of the public sector industrial units were privatized in the early 1990s and some of them were liquidated. The government moved toward liberalization, Globalization and competitive policy.

Privatization is a key factor for economy development of developing country like Nepal. It has positive impact to reduce regional imbalance and payments of payments, increased income level, resource utilization and economic growth etc. In this reference, the government has conducted the procedures of privatization some public enterprises such as Bansbari leather shoes factory, Bhrikuti Paper mill and Hari Siddhi Brick Factory in first phase other public enterprises were Privatized in phase wise. Hence many public enterprises converted into private enterprises they are as follows:

Table No.1.1

The List of Privatized Public Enterprises are Given Below

S.N	Name of PES	Year	Nature
1	Bhrikuti Paper Mills	1992	Sales of assets
2	Hari Siddhi Brick and Tile Factory	1992	assets and trade sales
3	Bansbari Leather and shoes Factory	1992	assets and trade sales
4	Nepal Film and Development Company	1993	sales of shares
5	Balaju Textile Industry	1993	sales of shares
6	Raw Hide Collection and Processing Co. Ltd.	1993	sales of shares
7	Nepal Bitumen and Bared Industry Ltd	1994	sales of shares
8	Nepal Lube Oil Ltd	1994	sales of shares
9	Nepal Jute Trade and Developed Co.	1993	Liquidation
10	Tobacco Development Co.	1994	Liquidation
11	Nepal Foundry Industry	1996	Sales of Shares
12	Ragupati Jute Mills Ltd.	1996	Sales of Shares
13	Biratnagar Jute Mills Ltd.	2002	Contract management
14	Nepal Band Ltd.	1997	Sales of Shares
15	Nepal Tea Development Corporation	2000	Sales of Shares
16	Agriculture Project Service Centre Ltd.	2001	Contract management
17	Cottage and Handicraft Emporium Ltd	2002	Sales of Shares
18	Nepal Coal Ltd.	2002	Liquidation
19	Hetauda Textile Industry	2002	Liquidation
20	Nepal Transport Corporation	2002	Liquidation
21	Bhutil Power Company	2003	Liquidation
22	Birgunj Sugar Factory Ltd	2003	Liquidation
23	Agriculture Tools Factory Ltd	2003	Sales of shares
24	Bhaktapur Brick Factory	2004	Liquidation
25	Lumbini Sugar Mills	2006	assets and trade sales
26	Nepal Roshin and Turpentine	2006	assets and trade sales

Source: Ministry of Industry, Commerce & Industry (2006/007)

1.2 Budgeting System

Budgeting is a present planning to achieve future objectives of an organization. It involves planning for the various revenue producing and cost generating activities, Budgeting is also called profit, planning and control. Profit planning and control is a

new term in the literature of business. The importance of budgeting is emphasized by an old saying: "Failing to plan is like planning to fail". It is an important approach mainly in profit oriented enterprises. It is a tool of management and It facilitates the managers to accomplish managerial goals in a systematic way. Budgeting helps to accomplish the objectives with minimum effort and cost through long range efficiency and effectiveness, Budgeting is therefore and integral part of management.

Budgeting is not a new concept. It has been in use for a very long time. Everyone is familiar with budget, knowingly or unknowingly people make plans for their revenue and expenses, simply to make plans for revenue and expenses in budgeting. Budgeting denotes a planning or the future. It is a formal business plan or future. It is a formal business plan for some future period. A budget is both 'plan' as well as control.

A budget is the detailed plan outlying the acquisition and use of financial and other resource over some given time period. It represents the plan for the future expressed in formal quantitative terms. The act of preparing a budget is called budgeting the uses of budget to control firm's activities are known as budgeting control (Garrison 1998)

Budgeting as tools of planning is closely related to the broader system of planning is an organization of the basis objective that the organization ill pursue and the fundamental policies that will guide it (Khan and Jain, 1993)

Some definition given by various scholars are:

"The concept of comprehensive budget covers its use in planning, organization and controlling all the financial and operational activities of the firm in the forth coming period". (R.M lynch and R.W Williamson)

"Comprehensive profit planning & control is a systematic and formalized approach for accomplishing the planning co-ordination and control responsibilities of management" (Glenn A. welsch)

"A Plan or budget is the formal expression of the enterprises plans and objective started in financial terms for a specified future period of time." (I.M. Pandey).

In the simple word, budget is statement showing the planned income and expenditure for a future period prepared in terms of money or quantity both.

Profit planning and control represents on overall plan of operations, providing guideline to management and acting as Singh lights for the management. It enables the management to correct its policy. Profit planning's and control covers a definite period of time and formulates the planning decision of management. It consists of three main budgets.

-) **Operation Budget:** Operating budgets provides details about the firms operations i.e. production sales or purchase.
-) **Financial Budget:** Financial budget includes profit and loss statement, balance sheet, statement of changes in financial position and cash budget.
-) **Capital Budget:** Capital budget provide details of investment projects with amount of capital expenditure planned by the Firm.

1.3 Introduction of Western International Pvt. Ltd.

Western International (P). Ltd. is one of the private manufacturing industries in Nepal that were established in 2001. It was registered under private company Act no. 12829/056/057 on industry department. It was established by four investors, Hira Dhoj Shah, Narendra Sahi, Balendra Hamal and Ram Bahadur Chand. The initial period- authorized capital was Rs. 35, 00.000, and issued and paid-up capital was Rs. 12, 00,000. Due to the poor handling and poor performance by initial inventors company couldn't earn profit and after having continuous operating loss in business, initial promoters decided to quit their hands from the business. In 2004 they sold the company to M.B. Bishwokarma, Saroj Panthi, D.R. Sharma and Basanta Raj Khanal

with total valuation of Rs.11, 50,000. After purchasing W.I.P.L. new promoters decided to raise their paid up capital to Rs.16, 50,000 with the aim of introduce new plant and techniques to survive long run in the market. The head office of W.I.P.L. has been located at chidiya khola-5, Butwal, Rupandehi and factory is also operating at same place. Currently it providing employment to 22 people among them 7 are in office and other are in factory state.

The Company manufactures mainly two types of Mineral water product i.e. 1 liter pet bottle and 20 liter jar with the brand name of Carolina Mineral Water. Company needs different kinds of raw material to produce its finished products. Company also produces quantity production with the demand of its customers. The main objective of W.I.P.L. is to maximize the profit with maximizing the sales. The company purchases all required raw material from Nepalese suppliers i.e. Card-Box, 20 liter Jar, 1 liter Pet Bottle, Bottle leads, Shrink label, lead cap and different types of chemical to lab department to purify its water. The Company purchases all these raw material as semi finished products and turns them as final with the brand name of Carolina Mineral Water and sold them to its different customer of western region of Nepal.

WIPL use simple organization structure, which makes effective communication and proper management of the related person's. The organization structural and the list of supplier and customer of the industry as follows'

1.4 Focus of the Study

This research work focuses on the Master budgeting and its impact on profitability of WIPL. It is designed to describe different kind of functional budget used, how they are constructed and how they are assisting in overall planning process, policy making and financial control.

Generally, two types of budget are used in any organization that are tactical and strategic profit plan. Both of them are equally important. However, this study is designed to give more consideration in long range planning such as sales budget

production budget, material budget, labour budget, expenses budget and their uses for the planning of profit and these uses for the planning of profit. Budgeting is an accounting tool for making comprehensive profit planning and controlling. The period of study is 5 years i.e. from fiscal year 2004/05 to 2008/09.

1.5 Statement of the Problem

Most of the Nepalese manufacturing companies are suffering from poor performance that causes low profit or losses due to lack of effective planning and controlling system. They are also facing problem of poor management and lack of proper utilization of available resources and these problems lead the organization failing to meet their objectives.

Success of any business enterprise is measured in terms of profit earned by it, which is totally depends upon the systematic and comprehensive budgeting of an organization. Budgeting or financial plan is one of the important managerial devices that play a key role to achieve objectives of an organization. Budgeting details its financial plans and strategies to implement these plans. Budgeting therefore, is a means for effective formulation and implementation of strategic as well as tactical plan of an organization.

Profit planning system requires the effective co-ordination between various functional of budget such as sales plan, production budget, material requirement budget, labour cost budget, cash project & capital expenditure.

1.6 Research Question

The study mainly conducts to solve above mentioned problems by taking into account of budgeting process. The budget or financial plan improves the financial performance of an enterprise. Further the study is designed to find out the following research questions:-

-) What is the process of preparing profit planning & control system of WIPL?
-) What is the variance between budgeted and actual performance?
-) What is impact of budget on profit of WIPL?
-) What is the financial position of WIPL?
-) What improvement is possible in budgeting system?

1.7 Objectives of the Study

The basic objective of the study is to analysis the budgeting: profit planning and control process of Western International Pvt. Ltd. This study is undertake to evaluate and measure the effectiveness budgeting and its impact on profitability of WIPL. The main objectives of the study are as follows.

-) To examine profit planning and control process applied by WIPL.
-) To compare between budgeted and actual performance so as to find their variances.
-) To draw a financial position of WIPL by ratio analysis.
-) To give possible suggestion and recommendation to WIPL on the basis of finding.

1.8 Importance/ Significance of the Study

This research work has following importance:

-) It will be helpful to know the budgeting process used by WIPL.
-) The study will be useful for manufacturing industries in the area of budgeting process prevailing in Nepal.
-) This research will provide required information to various persons and parties such a general reader, employees, Investors, Shareholders, decision maker, businessman, customers, General public and Government.
-) The study can also used as pilot work for future research (as guidelines and reference)
-) In provides basis for proper acquisition and utilization of various resources to implement objectives.
-) It will be helpful to achieve desired profit thought effective profit planning and its implementation where profit is the heart of budgeting or financial planning.

1.9 Limitation of the Study

There are various limitations of this study. Such as:-

-) The study is concerned with only one industry i.e. Western International Pvt. Ltd.
-) Last five year data has been taken (i.e. 2004/05 to 2008/09)
-) The study is based on available secondary sources.
-) It only covers master budgeting: Profit planning and control. It does not deal other areas of Western International Pvt. Ltd.
-) The limited time and resources are the constraints of the study.
-) Specially, the result of the study is based on available data, tools and Techniques.
-) This study concentrated in accounting and financial aspect only.

1.10 Organization of the Study:

The study or research work will organize into five different chapters. They are as follows:

Chapter 1: Introduction: This chapter includes background of study, Introduction, statement of problem, objectives, focus of study, significant of study, limitation of study and chapter plan itself.

Chapter 2: Review of Literature: This chapter includes conceptual framework and related different studies and research gap.

Chapter 3: Research Methodology: In this chapter research design, data collection, research variable methods of research methodology are included.

Chapter 4: Presentation and Analysis of data: Data processing, Data analysis and interpretation are given in this Chapter.

Chapter 5: Summary, conclusion and recommendation This Chapter Includes summary, conclusion and recommendation of study.

CHAPTER-TWO

REVIEW OF LITERATURE

2.1 Conceptual Review

2.1.1 General Concept of Profit Planning and Control

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

Profit

Profit is the primary measure of the success of the organizations or business enterprises. Profit is the acid test of the individual firms Performance. Business firm is an organization designed to make profit. So profit is must needed for the survival of the business.

Management thinks profit as,

-) A tangible expression of the goals it has set for the firm.
-) A measure or performance toward the achievement of its goals.
-) A means of maintaining the health, growth and continually of the company.

It is the ultimate objective of management to maximize profit over the long term and consistent with its social responsibility. To plan profit intelligent management needs to know,

-) The economic characteristics of the firm's operations.
-) The nature of the market for its products.
-) The nature and severity of its competition.

-) The cost of these functions of production. The material, the labour, the productive capacity, the capital etc.
-) The relationship of the price it can get for its goods for the expenses of producing and selling them (Lynch, and Williamson, 1989).

By the discussion of the above definition, it can be conclude that profit is the ultimate goal of every business houses. They involve in business for making profit. Profit cannot be achieved easily. It should be managed well with better managerial skills. So profit is the planned ad controlled output of management. The survival measure of how well a business performs economically. Profit is a signal for the allocation of resources and a yard stick for judging managerial efficiency (Kulkurni, 1985).

Planning

Planning is the systematic way of perceiving how business industries or any organization will get where it should go by examining future alternative course of action open to any organization and choosing them. In choosing most feasible and desirable course of action, a perspective a frame of reference in establish for current decision. In this process, planning examining the involving chains of cause and effect likely to result. In the future and respectively exploit or combat them as the case may be (Verseny and Moheshwari, 1990).

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

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

-) Establishing enterprises objectives.
-) Developing premises about the environment in which they are to be accomplished.
-) Selecting a course of action for accomplishing the objective.
-) Initiating activities necessary to translate plan into action.
-) Current re-planning to correct deficiency (Welsh, Hillton and
-) Gordon, 1992).

Strategic Long-Range Planning

Long range planning five to ten years varying with the enterprise sometimes extended to ten 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 clear sense of direction and the practices which comprehensive long range plan provides. The long range plan covers all the key areas of anticipated activity; sales, expenses, research and development, capital expenditure, cash, profit and return on investment. (Pandey, 1987)

Basically it is more important for bread and long living enterprise. Long range planning is closely concerned with the concept of the corporation as a long living institution.

The main purpose of long range planning is:

-) To provide a clear picture of whether the enterprise is handled.
-) To focus on long term opportunities.
-) To keep enterprise strong.
-) To evaluate management personnel.
-) To bring attention to new techniques. (Pandey, 1987)

Tactical Short-Range 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 course are outline for the medium range plan, which doesn't concern implementation; its aim is weeding out a plethora of possibilities, which are for the most part long on promised and short on feasible results. (Welsch, Hillton and Gordon, 1992)

Tactical short-range plans cover about a year and are less formal and detailed than long range plans. It usually covers more than three months. It is done at all levels and involves directing the organization activities, overall strategic objectives consisting with the organization mission and policies. Single plan are developed for unique situation so it provides consistency and efficiency for on going operations.

The main purpose of tactical planning is,

-) To acquire and facilitate resource, personnel and raw material.
-) To control cost through planned acquisition and avoid higher cost purchasing.
-) To create new opportunities through assessing the environment and evaluating resources.
-) To avoid problems related to red tape. (Welsch, Hillton and Gordon, 1992)

Profit Planning and Control

Profit planning means the development and acceptance of the objectives and goals and moving and organization the efficiency to achieve the objective and goals. Profit is not separate technique; that can be though and operate independently of the total management process. The broad concept of profit planning entails an integration of numerous managerial approaches and techniques that might be explicit, such as sales forecasting and techniques that might be exploited, such as sales forecasting, sales quota system, capital budgeting, cash flow analysis, cost volume profit analysis,

variable budget, time and motion study, standard cost accounting, strategic planning management by objectives, organizational, planning, manpower planning and cost control (Welsch, Hillton and Gordon, 1992).

Profit planning involves development and application of broad and long range objectives of the enterprise the major component of profit planning and control model are:-

-) Developing and application of broad and long-range objectives of the enterprise.
-) Specification of enterprises goal.
-) Development of strategic long-range profit plan in broad terms.
-) Specification of tactical short-range profit plan detailed by assigned responsibilities (division, department, project, etc.)
-) Establishment of system of periodic performance reports detailed by assigned responsibilities.
-) Development of follow-up procedures (Lynch and Willamson 1989)

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

-) To state the firm's expectations in clear and formal terms to avoid confusion and to facilitate their attainability.
-) To communicate expectations to concern with the management of the firms so that are understood, supported and implemented.
-) To provide a detailed plan of action for reducing uncertainty and for the proper direction of individual and group efforts to achieve goals.
-) To co-ordinate the activities efforts in such a way that the use of resource is maximized.
-) To provide the means of measuring and controlling the performance of the basis of which the necessary corrective actions can be taken (Pandey, 1987).

2.1.2 Fundamental Concept of Profit Planning and Control

The fundamental are concerned with the effective application of the theory of management process. Welsch, Hilton and Gordon include the underlying activities or tasks that must generally be carried out to attain maximum usefulness from PPC. The mechanics of PPC involves activities such as the design of budget schedules, routines and repetitive computations and clerical activities related to PPC program. They stated an outline of the fundamental concepts of PPC as the following.

-) A management process that includes planning, organizing, staffing, leading and controlling.
-) A managerial commitment to effective management participation by all levels in the entity.
-) An organization structure that clearly specifies assignments of management authority and responsibility at all organization levels.
-) A management planning process.
-) A management controlling process.
-) A continuous and consistent coordination of all the management functions.
-) Continuous feed forward, feedback, follow-up and re-planning through defined communications channels.
-) A strategic (long range) profit plan.
-) A tactical (short range) profit plan.
-) A responsibility accounting system.
-) A continuous use of these inception principles.
-) A behavioral management program (Welsch, Hillton and Gordon, 1992).

2.1.3 Basic Assumption and Limitation of PPC

Profit planning and control is an important tool for management. However, each tool suffers some limitation and its use is fruitful within these limits. Profit planning and control is also not a limitless tool, so it is essential that the user of profit planning and control must be having a full knowledge of its limitations. The limitations of budgeting are as under. (Lynch and Williamson, 1995:168)

1. Basic on Estimations

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

2. Danger of Rigidity

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

3. Application for Long Period

The installation of a complete profit planning and control is not possible in a short period. It should be continuously used in the business, and should be revised and modified with the change situation in the business.

4. Execution is not automatic

A skill fully prepared profit planning and control will not itself improve the management of an enterprise, unless it is properly implemented. For the success of profit planning and control it is essential that all the related persons inside the enterprise should understand it. It is most required that each executive must feel the responsibility and should make efforts to attain the budgeted goals. Departmental leader should seriously think that it is their individual responsibility to fulfill the target set up in their departmental budget. The success of a budgeting system totally depends upon the efficient management and administration.

5. Not a Substitute for Management

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

6. Costly Affairs

The installation of PPC system is an elaborated process involving to much time and costs. Normally it is so costly that small column cannot afford to it. Even for a large concern, it is suggested that there should be some correlation between the cost of operating a budgeting system and benefits derived from it. The system should be adapted only when benefit exceed the cost.

7. Proper Evaluation

For finding out the inefficiencies, proper evaluation should be made. In the absence of proper evaluation, budgeting will hide inefficiencies. so there should be continues evaluation of the actual performances, standards also should be re-examined regularly. (Lynch and Williamson, 1995:169)

2.1.4 Purpose of PPC

A comprehensive profit planning and controlling is a systematic and formularized approach for stating and communicating the firm expectation and accomplishing management in such a way to maximize the use of a profit plan and to achieve the maximum benefit from resource available to an organization over a particular span of time. It serves as tool for management control. The maximum objective of PPC is to assist in Systematic planning and in controlling the operations of the enterprise. In fact, it is the best sources of communication and an important tool in the hand of management the purpose of budgeting or PPC may be summarized as follows :(Sharma and Gupta, 1995)

-) To state the firm's expectation (goal) in formal terms clearly to avoid confusion and facilities their attainability.
-) To communicate expectation to all concerned with the management to the firm so that they are understood, supported and implemented.
-) To provide a detailed plan of action for reducing uncertainly and for its proper direction of individual and group efforts to achieve goals.
-) To co-ordinate the activities and efforts in such a way that the use of resources is maximized.

To provide a means of measuring and controlling the performance of individual and units and to supply information based of which the corrective action can be taken. (Sharma and Gupta, 1995)

2.1.5 Budgeting: As a Tool of Profit Planning

A budget is a detailed, quantitative plan to guide its operations in the near future; the concept of a comprehensive budget covers its use in planning, organizing and controlling all the financial and operating activates of the firm in the forthcoming period (Lynch and Williamson, 1989:142)

Planning involves the specification of the basic objectives that the organization will ensure and fundamental policy that will guide it. In operational terms, it involves the steps of setting objective, specifying goals formulating strategies and expressing budgets. Planning should include qualitative narratives of goals, objectives and means of accomplishment. However, if plans were limited to qualitative narratives, the process of comparing actual results to expectations would only allow generalization, and trying to measure how well the organization met its specified objectives would be impossible. Therefore, management translates qualitative narratives into quantitative formats, or budgets (Raiboen, Barfield and Kinney, 1993).

The various activities within a company should be coordinated by the preparation of plans of actions for future periods. These detailed plans are usually referred to as budgets (Drury, 2000).

A budget is a detailed plan outlining the acquisition and use of financial and other resources over a given period of time. It represents the plan for the future expressed in formal quantities terms. The act of preparing a budget is called budgeting. The use of a budget to control a firm activities are known as budgetary control (Garrison 2000).

A budget is a detailed plan expressed in quantitative terms that specifies how resources will be acquired and used during a specified period of time. The procedures used to develop a budget constitute a budgeting system (Hilton, 2000)

A budget is a numerical plan of action, which generally covers the area of revenues and expenditures. A budget is a quantitative expression of a plan of action and aid to co-ordination and control. A budget may be formulated for an origination as a whole or for its sub-units. Budgets, basically, are forecasted financial statements formal expression of managerial plans. They are targets that encompass all phases of operations including sales, production, purchasing and manpower and financing. (Horngen, Foster, and Datar, 1999).

2.1.6 Objective/Purpose of Budget

The main and most important purpose of the budget is to achieve the planned profit of the business enterprise. Thus, it is considered as a main tool for planning and controlling the profits.(Horn green, 2000)

The main purposes of a budget can be summarized in the following points.

-) To provide a realistic estimate of income and expenses for a period and of the financial position at the close of the period, detailed by areas of management responsibility.
-) To provide a coordinated plan of action, this is designed to achieve the estimates reflected in the budget.
-) To provide a comparison of actual results with those budgeted and an analysis interpretation of deviations by areas of responsibility to includes courses of corrective action and to lead to improvement in produces in building future plans.
-) To provide a guide for management decision in adjusting plans and objectives as conditions change.
-) To provide a ready basis for making forecasts during the budget period to guide the management in making day-to-day decisions.

2.1.7 Types of Budget

Budget can be classified into various functional budgets with reference to planning and control. But in operations term, a comprehensive budget has several components. Normally it consists of three types of budgets. (Sharma and Gupta, 1995)

- a. Operational Budget
- b. Financial Budget
- c. Special Decision Budget

Operational Budget

Operating budgets are related to the physical activities/operation of a firm such as sales, production, purchasing, debtor's collecting and creditor's payment schedules. In specific terms an operating budget has the following components. (Sharma and Gupta, 1995)

- 1. Sales Plan**
 - a. Sales Plan
 - b. Selling and distribution cost plan
- 2. Production plan**
 - a. Raw material plan
 - b. Purchase plan
 - c. Labour hour and const plan
 - d. Inventory plan
 - e. Manufacturing overhead plan
- 3. Administrative overhead plan**

Financial Budget

Financial budget are concerned with expected cash receipt/ distribution, financial position and result of operations. A financial budget has the following components. (Sharma and Gupta, 1995)

1. Cash plan
2. Budgeted income statement
3. Budgeted statement of retained earning
4. Budgeted balance sheet, etc.

Special Decision Budget

Special decision budgets are related with the special and long-term decision, which may be controllable and uncontrollable of the firm. A special decision budget has the following components.

1. Capital expenditure plan
2. Research and development cost plan
3. Plant utilization plan etc.

2.1.8 Budgetary Control

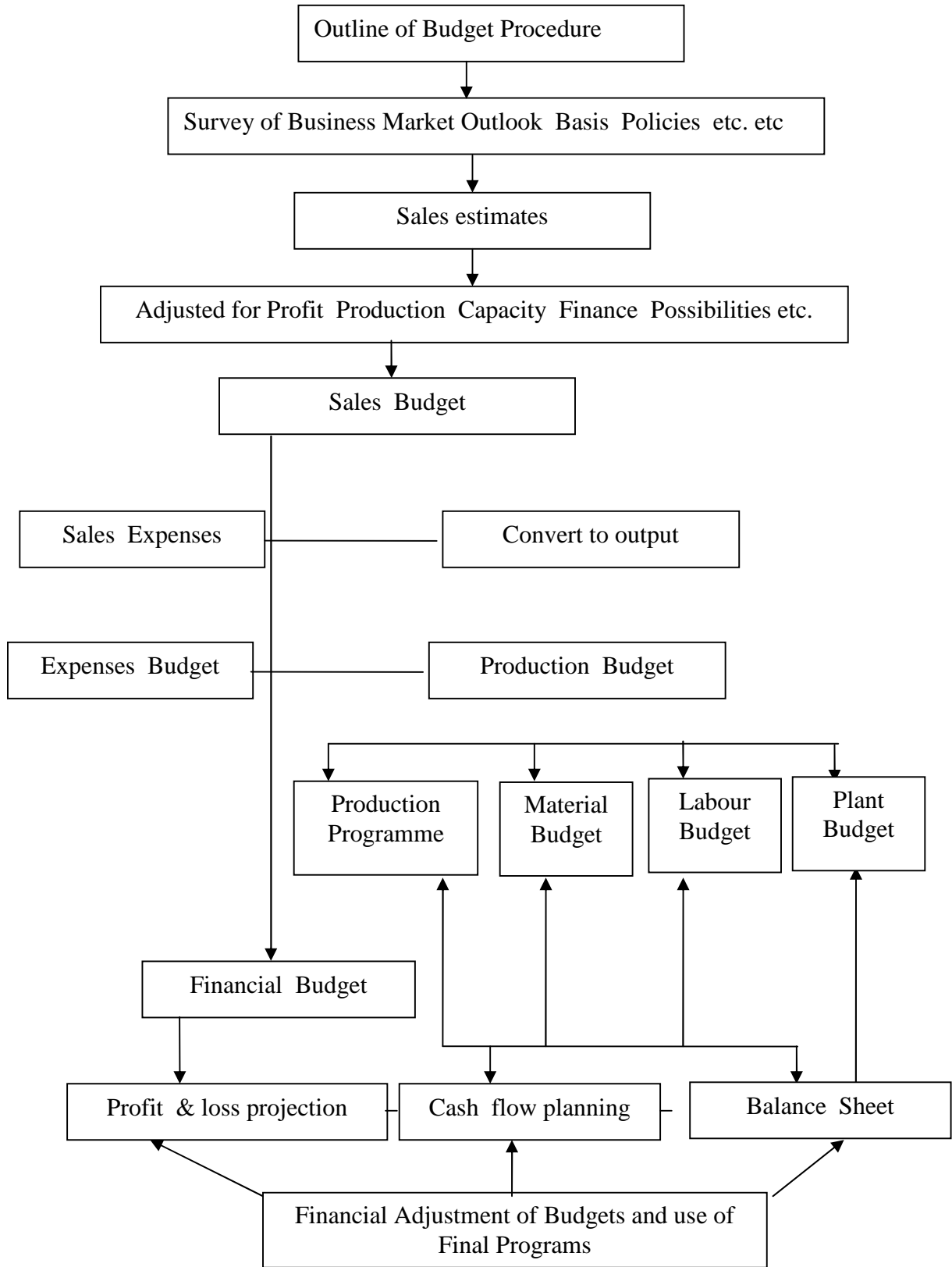
The term budgeting and budgetary controls are often used interchangeably to refer to a system of management control. Budgetary control implies the use of comprehensive system of budgeting to aid management in carrying out its function like planning; coordinating and control. The objective of the budgetary control and standard costing is to enable management to conduct business in the most efficient manner. For this purpose it must show where and to what extent profits or losses, and why not they are being realized they system should supply the answer to the 'why' and 'how' of management. (Sharma and Gupta, 1995)

Budgetary control is not possible only by the owner of the enterprise. There should be various personnel of different levels for budgetary control purpose. The information will be suitable analyzed or summarized according to the use of which it is to be put. Details of information required would be varying from one type and size of organizations to another. Budgetary control is system of controlling costs which includes the preparation of budgets coordinating the departments and establishing responsibilities, comparing actual performance with the budgeted and acting upon result to achieve maximum profitability. (Sharma and Gupta, 1995).

2.1.9 Budget Procedure

A graphic outline of a budget , given by wills "Business budget and budgetary control" indicates quite clearly the extent to which the various estimates interlock on forming the basis for the other and so on (Wills more, 1971

Table No. 2.1



2.1.10 Development of Profit Plan through Functional Budget

"A budget helps a firm to control its costs by setting guidelines for spending money for unneeded items because they know that all costs will be compared with the budget. If costs exceed the budgeted costs an explanation will be required. Frequently exceeding the budget may even be grounds for dismissal. A budget helps to motivate employees to do a good job. This is particularly true when employees help in setting of the budget, the complete budget for a firm is often called the master budget consists of many functional budgets" (Horn green, 2000:123).

Welsen, Hilton and Gordon presented the development of PPC plan on the graph as the following "(Welsen, Hilton and Gordon, 1992)

2.1.11 Development of Profit Planning

Development of profit plan includes the preparation of various financial budgets, analysis of the variance and presentation of projected income statement and balance sheet. Top management with the participation of lower management involves in the development of profit plan. Developing profit plan begins with preparation of master budgets. For the development of sound profit planning certain steps that an enterprise should take to established a sound foundation. These steps are as follows (Welsch, Hilton and Gordon, 1992:59)

Step 1: There must be commitment by the top management to the broad concept of profit planning and control and a sophisticated understanding of its implications and operations.

Step 2: The characteristics of the enterprise and the environment in which it operates-including the controllable and non-controllable variables must be identified and evaluated so that relevant decision may be made about the characteristics of a profit planning and control program that would be effective and practical.

Step 3: There should be an evaluation of the organizational structure and assignment of managerial responsibilities and implementation of changes deemed necessary for effective planning and control.

Step 4: There must be an evaluation and reorganization of the accounting system to ensure that it is tailored to the organizational responsibilities (responsibility accounting) so that it can provide data particularly useful for planning and control purpose.

Step 5: A policy determination must be made about the time dimensions to be used to profit planning and control process.

Step 6: A program of budget education should be developed to inform management at all levels about,

- a. The purpose of its program
- b. The manner in which it will operate, including the basic management policies and guidelines for its administration.
- c. The responsibility of each level of management in the program and
- d. The way in which the program can facilitate the performance of each manager's functions. (Welsch, Hilton and Gordon, 1992:59)

2.1.11.1 Sales Budget or Plan

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

Sales Planning and Sales Forecasting

) Although sales planning and sales forecasting are usually used synonymously, they have distinctly different purpose. A forecast is not a plan; rather it is a statement and or quantified assessment of future conditions about a particular subject based of one or more explicit assumptions. A forecast should always state the assumption upon which it is based. A forecast should be viewed as only one input for the development of sale plan. The management of the company may accept, modify or reject the forecast. In contrast, a sales plan incorporates the management decisions that are based on the forecast, other inputs, and management judgments about such related items as sales volume, prices, sales, efforts, production and financing. (Welsch, Hilton and Gordon, 1992).

Table No. 2.2
Components of a Comprehensive Sales Plan

Component	Strategic plan	Tactical Plan
Managerial Policies and assumptions	Broad and general	Detailed and specific for the year
Marketing plan (sales and service revenue)	Annual amounts; major groups	Detailed; by product, time and responsibility
Advertising and promotion plan	General; by year	Detailed and specific for the year
Distribution/selling expenses plan	Total fixed and total variable expenses; by year	Fixed and variable expenses; by month and by responsibility

A Specimen of Sales Budget

COMPANY LTD.

Sales budget

For

Months	Product A			Product B			Total
	Units	Price	Amount	Units	Price	Amount	
January							
February							
March							
Total							

2.1.11.2 Production Budget or Plan

After the sales budget has been prepared, the production requirements for the forth coming budget period can be determine and organized in the form of a production budget. Sufficient goods will have to be available to meet sales needs and for the desired ending inventory. A portion of these goods will have already exited in the firm of beginning inventory. The remainder will be produced. Thus, production needs can be determined by adding the budget sales units to the desired ending inventory and deducting the beginning inventory from the total (Horn gren, Datar and Foster, 1999)

The production plan involves determining the number of units of each product that must be manufactured to meet planned sales and maintain the planned inventory levels of finished goods. Planning production requirements necessitates another decisional input that is the management decision about investor levels of finished goods that are to be planned (Welsch, Hilton and Gordon, 1992)

The production budget can be presented in the following formula.
 Production requirements = Sales Volume { Finished goods inventory change

A Specimen of Production Budget

COMPANY LTD.

Production budgets in (units)

For.....

Particular	Sales units	Add: closing stock	Total	Less: opening stock	production
January					
February					
March					
Total					

2.1.11.3 Material Purchase and Usage Budget

A comprehensive budget includes planning and controlling of raw materials and components/parts used in the manufacturing of finished products. Planning and controlling purchases and materials usages is the plan to maintain coordination between (1) factory requirements for raw materials, (2) raw materials inventory levels, and (3) Purchases of raw materials. (Buell, 1976)

Sufficient raw materials will have to be available to meet production needs and to provide for the desired ending raw materials inventory. However, some quantity of material requirement will already exist in the form of beginning raw materials inventory. The remainder will have to be purchased from a supplier.

To assure that right amounts of raw materials will be on hand at the time required and to plan for the costs of such materials, it is essential that the tactical short-term profit plan include (1) detailed budget specifying quantity and cost of materials required and (2) a related budget for raw material purchases. (Buell, 1976)

a. Material Purchase Budget

Direct materials are essential for production and must be purchased in each period in sufficient quantities to meet production needs and to conform to the company's ending inventory policies. The materials budget specifies the quantities and timing of each raw material needed. The purchases budget specifies the estimated quantities to be purchased, and the estimated cost for each raw material and the required delivery dates. It is computed as:

$$\text{Planned purchase units} = \text{Planned material consumption} + \text{Desired ending inventory of raw material} - \text{Beginning inventory of raw materials}$$

However, before developing a purchase budget, firms must establish an appropriate material inventory policy.

A Specimen of Material Purchase Budget by material & Time

Material and Time	Material Consumption	Ending Inventory	Total Need	Beginning Investor	Planned Purchases		
Material :1							
January							
February							
March							
Total							
Material :2							
January							
February							
March							
Total							
Material : 1 & 2							
January							
February							
March							
Total							

b. Materials Inventory Budget

This budget specifies the planned levels of raw material inventory in terms of quantities and cost for each product and in total.

A Specimen of Material Inventory Budget by Material & Time

Particulars	Total Cost	Material -1			Material-2		
		Units	Unit cost	Total cost	Unit	Unit Cost	Total Cost
Ref.	1 = 4+7	2	3	4 = 2 3	5	6	7 = 5 6
January 1							
January 31							
February 28							
March 31							
End of Qtr 2							
End of Qtr 3							
End of Qtr 4							

2.1.11.4. Direct Labour Budget

The direct labour budget is also developed from the production budget. Firstly, direct labour requirements must be computed so that the company will know whether sufficient labour is available to meet production needs. By knowing in advance, the company can develop a plan to adjust the labour force as the situation may require. Direct labour requirements can be computed by multiplying product to be produced in each period by the number of direct labour-hours required to produce a unit. Many different types of labour may be involved. If so, then the computation should be made of the type of labour needed. The hours of direct labour resulting from these computations can then be multiplied by the direct labour cost per hour to obtain the budgeted total direct labour cost. (Kulkuni, 1985)

Components of Direct Labour Budget

Basically, there are three components of direct labour budget: (Kulkuni, 1985)

1. **Direct Labour Hour Budget:** Direct labour hour budget estimates the total direct labour hours required for each product by time and responsibility. It is computed as,

Total direct labour hours required = Planned production | Standard time required per unit of output

A Specimen of Direct Labour Hour Budget by Time, Product and Responsibility

Department Product and Time	Total Budgeted DLH	Budgeted Production	Department 1		Department 2	
			Standard DLH rate	Budgeted DLH	Standard DLH rate	Budgeted DLH
Ref	4+6=1	PB=2	Inp=3	2 3=4	Inp=5	2 5=6
Product X						
January						
February						
March						
Total						
Product Y:						
January						
February						
March						
Total						
Product X and Y:						
January						
February						
March						
Total						

2. Manpower Budget: Manpower budget estimates the number of each kind of manpower by department and time.

$$\begin{aligned} \text{Number of labors} &= \text{Total labour hours required} + \text{Working hours pers person per month} \\ \text{Working hours per person per month} &= \frac{\text{Normal working hours per person per day}}{\text{Working days in a month}} \end{aligned}$$

2.1.11.5 Overhead Budget

Three types of budgets come under overhead budget. They are: (Kotler, 2004)

- a) Manufacturing Overhead Budget.
- b) Office and Administrative Overhead Budget.
- c) Selling and distribution Overhead Budget.

a) **Manufacturing Overhead Budget**

This budget presents in estimation of indirect expenses which are related with production. It represents the forecast of all the production overheads which have to be incurred during the budgeted period. While forecasting manufacturing overhead, three types of costs have to be estimated. They are fixed, variable and semi-variable manufacturing overhead. Examples of such overheads are work manager's salary, factory rent, depreciation, insurance, light and fuel etc. (Kotler, 2004)

Manufacturing overhead budget serves the following purposes:

-) It provides information for working out the pre-determined overhead recovery rates.
-) It provides the behaviour of different types of costs required for preparation of overhead budget.
-) It serves the level of activity attained in future so that the expenses are estimated accurately.
-) Information needed to prepare a manufacturing overhead budget.
-) Behaviour for overhead costs.

-) Budgeted production units.
-) United variable manufacturing overhead rate and fixed manufacturing overhead for the budgeted period.

$$\begin{aligned} \text{Manufacturing overhead budget} &= \text{variable manufacturing overhead} + \text{Fixed manufacturing overhead} \\ &= \text{Production units} \mid \text{VMOH Rate} + \dots\dots\dots (\text{Given}) \end{aligned}$$

Manufacture overhead expenses budget for the 1st 3 months budgeted year

.....

Particular	Baishakh	Jestha	Ashad	Total
Production Units				
Variable manufacturing overhead:				
Indirect material @ Rs.
Indirect labour @ Rs.....
.....
Total variable manufacturing overhead I
Fixed manufacture overhead : I
Deprecation
Rent
Salaries
.....
Total fixed manufacturing overhead II
Manufacturing overhead budget I + II

b) Office and Administrative Overhead Budget

Office and administrative overhead represents forecast all administrative expenses. Administrative overheads are mostly fixed in nature, some of which are committed while others are discretionary in nature. This budget contains expenses like director's remuneration, legal chargers, audit fees, office lighting and heating, property taxes, postage etc. (Kotler, 2004)

Office and Administrative Expenses = Variable Office & Administrative expenses
+ fixed office & Administrative expenses
= Sales unit (or revenue) | Rate per unit (or....%) + (given).

Office and Administrative Budget for the first 3 months of budget year.....

Particular	Baishakh	Jestha	Ashad	Total
Sales Units or revenue				
Variable office and administrative @.....@.....
Variable office and administrative I
Fixed office & administrative expenses :
Fixed office & administrative expenses II
Fixed office & administrative expenses I +II

c) Selling and Distribution Overhead Budget

A separate cost is required for selling and distribution of finished the task of estimating such cost accomplished in this budget. This budget is closely concerned with sales budget and presents the forecast of all costs relating to selling and distribution of products. Selling and distribution costs can be dividend into following:
(Kotler, 2004)

- i) Direct selling expenses.
- ii) Distribution expenses.
- iii) Establishment expenses of various sales office.
- iv) Expenses of publicity and advertisement.

Selling & Distribution Expenses = Variable Selling & Distribution expenses + fixed Selling & Distribution expenses

= Sales unit (or revenue) × Rate per unit (or... %) + (given).

Selling & Distribution Budget for the first 3 months of budget year

Particular	Baishakh	Jestha	Ashad	Total
Sales Units or revenue				
Variable Selling & Distribution				
..... @
..... @
.....
Variable selling and distribution I
Fixed selling and distribution expenses :				
.....
.....
Fixed selling & distribution expenses II
Total selling & distribution expenses I +II

2.1.11.6 Capital Expenditure Budget

Capital budgeting in the generation of investment proposals; the estimate of cash flows for the proposals; the evaluation of cash flow, the selection of project based upon accepted criterion; and finally continual revaluation of investment project offer their acceptance (Vance Horn, 1976).

A capital expenditure is the use of funds to obtain operational assets that will a) helps earn future revenue or b) reduce future costs. Capital expenditure includes such fixed (i.e. operational) assets as property, plant, equipment, major renovations and patents. Taking capital expenditure projects involve large amount of cash, other resource and debt that are tied up for relatively long period of time. Capital expenditure is investment because they require commitment of resources today to receive higher economic benefits (i.e. profit) in the future. Capital expenditure become expenditures are investment because they require commitment of resources today to receive higher economic benefits (i.e. profit) in the future. Capital expenditure 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 savings (Welsch, Hiton and Gordon, 1992).

Capital expenditure are made in order to reduce cost, increase output, expand new products or market and meet government regulation. In general capital expenditure is made until the rate of return on the lost dollar investment equals the marginal cost of capital (Paternal and Lewis, 1995).

2.1.12 Complication of Profit Plan

"The development of an annual profit plan ends with the planned incomes statement, the planned balance sheet, and the planned statement of cash flows. These three statements summarize and integrate the detailed plans developed by management for the planning periods. They also report the primary impacts of the

detailed plans on the financial characteristics of the company. At this point in profit, planning the budget director has an important responsibility. Aside from designing and improving the overall system, the budget director has described as an advisor to the various managers to help develop plans for each responsibility center. Now, the plan assembled into a complete profit plan. This is the responsibility of the budget director. Other essential sub-budgets not already discussed are the following. (welsch , Hilton and Gordon, 5th edition, 2004)

- i. Planned statement of cost of goods sold planned statement of cost of goods manufacturing.
- ii. Planned income statements
- iii. Planned statement of cash flows
- iv. Planned balance sheet

The planning process involves a long-range profit plan and a short-range profit plan. In developing these plans, many budget schedules are prepaid to details plans for each phase of a company's operations. The final steps in the planning process are to complete the profit plan by combining the components schedules and preparing planned financial statements. Planned statements of financial positions, income, and cash flows are prepared in order to determine the implications of the company's plans for its future financial conditions. (welsch , Hilton and Gordon, 5th edition, 2004)

2.1.12.1 Cost of Goods Manufactured Budget

To develop the budgeted financial statements, the first logical step is the preparation of the budgeted cost of goods manufactured. Budgets for materials and parts, direct labour, factory overhead applied and production provide data that can be assembled in schedule for budgeted cost goods manufactured. The budgeted cost of goods manufactured is detailed by product and time. (welsch , Hilton and Gordon, 5th edition, 2004)

A Specification of Budgeted Cost of Manufactured, by Time and Product

Time Product	Ref.	Annual total	Quarter 1			Quarters			
			Jan	Feb	Mar	1	2	3	4
Product X : 1. Material used 2. Direct labour 3. Prime cost 4. Factory overhead applied 5. Cost of goods manufactured 6. Units produced 7. Unit cost	Cost of MUB DLC budget 1 +2 PCG mfg. budget 3 + 4 Product budget 5 } 4								
Product Y : 1. Material Used 2. Direct Labour 3. Prime cost 4. Factory overhead applied 5. Cost of goods manufactured 6. Units produced 7. Unit cost	Cost of MUB DLC budget 1 } 2 PCG mfg. budget 3 } 4 Production budget 5 } 6								
Product X and Y : 1. Material Used 2. Direct Labour 3. Prime cost 4. Factory overhead applied 5. Cost of goods manufactured	Cost of MUB DLC budget 1 } 2 PCG mfg. budget 3 } 4								

2.1.12.2 Cost of Goods Sold Budget

The cost-of-goods sold budget clearly distinguishes the total cost of total costs of goods manufactured should be expensed this year and how much cost should be carried to the next year with the inventory. The cost-of-goods-sold budget facilitates the making of the income statement and the balance sheet it is developed by product,

time period and sales district. A spreadsheet is used for this purpose. (Welsch, Hilton and Gordon, 5th edition, 2004)

A Specimen of Budgeted Spreadsheet-Cost of Goods Sold, by Product, Time & Responsibility.

	Total		Eastern		Western	
	Units	Cost	Units	Cost	Units	Cost
Product X :						
January						
Cost of goods manufactured						
Add: Beginning inventory						
Total						
Less: Ending inventory						
Sales at cost						
February :						
Product Y:						
January						
Cost goods manufactured						
Add: Beginning inventory						
Total						

2.1.12.3 Cash Budget

The cash budget is a plan of future cash receipt and payment. The statement showing the estimated cash income (cash inflow) and cash expenditure (cash outflow) over a projected time period is known as cash Budget. A very helpful tool in cash management is the cash budget. It helps management in planning to avoid unnecessary idle cash balance. In the same way it also helps to eliminate unneeded expensive borrowing. Thus, the cash budget helps management keep cash balance. In the same way it also helps to eliminate unneeded expensive borrowing. Thus, the cash budget helps management keep cash balances in reasonable relationship to its needs. (sharma and Gupta, 1995)

According to Sharma & Gupta a cash budget serves the following purposes:

- i) It indicates the effect on the cash position of seasonal requirements, large inventories, unseal.
- ii) It indicates cash requirement for a plan or equipment expansion programme.
- iii) It points to the need for additional funds from external sources such as bank loans, issue of securities.
- iv) It indicates the availability of cash for taking advantages of discount offered.
- v) It helps in planning redemption of preference share or redeemable debentures, payment pension etc.
- vi) It shows the availability of excess funds for short long term investment.

A cash budget includes no accrual items. For example, income earned or accrued but not received and expenses incurred or outstanding but not paid are not included in cash budget. Only the cash transactions are included in cash budget. The cash transactions for preparing this budget is obtained from various operating budget discussed above. For example, cash sale and collection from customers can be ascertained from sales budget. Monthly cash purchases cans payment to from labour budget, overhead cost from overhead budget, overhead Receipt and Payment method and its is a common method of proportion. (sharma and Gupta, 1995)

The cash budget consigs of following four major sections:

Section :1	Receipt Section
Section :2	Disbursement Section
Section :3	Cash Surplus or Deficit Section
Section :4	Financing Section

Cash budget serves the following purposes:

-) It provides instruments of cash planning and control.
-) It serves prior information regarding preserve liquidity.
-) It provides details of when and where additional cash borrowings necessary.
-) It assists in sound investment policy for both long-term and short-term by revealing excess of cash balances.

A Specimen of Cash Budget, by time Receipts and Disbursement Approach
For three months ending March

Items	January	February	March	Total
1. Beginning Balance				
2. Planned cash receipts :				
Cash sales				
Collection of account receivables				
Notes receivables				
Borrowings and issues of bonds				
Receipts from dividend, interests, royalties, commission, etc.				
Issue of share capital				
Disposal of assets				
Disposal of assets				
Any other likely cash inflows				
3. Total available cash (1+2)				
4. Planned cash disbursement				
Cash purchase				
Payments for accounts payable				
Payments for wages, salaries and commission, Royalties etc.				
Payments for dividends and interest.				
Purchase of new assets				
Loan redemption				
Other cash expenses and payments				
Total planned cash disbursement				
5. Minimum cash balance				
6. Total cash need				
7. Cash balance before financing				
8. Financing:				
Borrowing (short term loan)				
Repayment Principle				
Interest				
Total cash under financing				
9. Investment of excess				
10. Ending balance of cash after financing				

2.1.12.4 Planned Income statement

The planned income statement is one of the key schedules in the completion of the profit plan. It is the document that tells how profitable operations are anticipated to be in the forth-coming period. After it has been prepared, it stands as a benchmark against which subsequent company performance can be measured. The income statement will be complete after addition of the interest expenses, which is computed after the cash budget, has been prepared. It can be developed by time period, sales district and product by assembling appropriate budget amounts from schedules already developed. (sharma and Gupta, 1995)

A specimen of planned income statement Budgeted income statement (consolidated) for the 1st 3 months of budgeted year

Particulars	RS
Sales revenues
(-)cost of gold sold
Gross margin
(-) Selling, distribution & administrative expenses
Net profit before interest and tax
(-) interest (paid and outstanding)
Net profit before tax
(-) Income tax
Net income after tax
(-)Dividend
Retained earnings

2.1.12.5 Planned balance sheet

Beginning with the current balance sheet and adjusting it for the data contained in the other budgets, the planned balance sheet is developed .The balance sheet is the final document in the master budget and even in financial record keeping. The balance sheet shows the final or ending balances of all the account titles. So it can be said a list of the remainder balances of all assets, liabilities and equities. The budgeted balance sheet is developed by beginning with the current balance sheet and by adjusting it for the data contained in the other budgets. (sharma and Gupta, 1995)

A Specimen for Budgeted Balance Sheet at the End of 3rd month (last day of 3rd month) of budgeted year.....

Liabilities	Rs.	Assets	Rs.
<i>Ownership Capital :</i>	<i>Fixed Assets:</i>	
Share Capital		Plant & Machinery	
P & L a/c (Retained earnings)		Furniture & Fixture	
<i>Long Term Loan:</i>		(-) Depreciation (....)
Debenture		<i>Current assets:</i>	
Long term debt		Inventory	
<i>Current liabilities:</i>		Raw material	
Creditors, Account payable		Finished goods	
Outstanding wages, expenses etc.		Debtors, a/c receivable.....
Bank overdraft (Short term bank loan)		Cash at bank or in hand
		
Total	Total

2.1.13 Types of Ratio

Several ratios can be calculated from the accounting data contained in the financial statement. In general, following ratios are on practices: (Weston & Brigham, 1977)

- Liquidity Ratios
- Leverage Ratios
- Activity Ratios
- Profitability Ratios

A. Relation with Profit Planning

The ratio analysis can be of invaluable aid to management in the discharge of its basic function of forecasting, planning, Co-ordination, communications and control. By an analytical study of the past performance of the business, it helps in predicting and projecting the future. It assists of communication by conveying information, which is pertinent and purpose to those for whom it is meant. It promotes co-ordination by a study of the efficiency of the business and paves the way for effective control of business operations by undertaking and appraisal for both the physical and monetary targets. Hence, ratio analysis becomes an integral part of targets. Hence, ratio analysis becomes an integral part of profit planning system. (Schall & Haley, 1979)

2.1.13. 1 CVP Analysis

A. Concept of CVP Analysis

The relationship between cost, volume, and profit under constant underlying conditions is known as cost-volume profit analysis. It is an analytical tool for studying the relationship between volume, cost price and profit. CVP analysis is the extension of the built in relationship provided by variable costing. It assumes that under constant

underlying condition, CVP analysis can be used for the analysis of break-even volume analysis and contribution margin analysis for profit planning. CVP summarizes the effect of changes in an organization's volume of activity on its costs, revenue, and profit. The managers of profit seeking organization usually study the relationship of revenue, Expenses and net income. (Vinayakam & Sinha, 1996)

B. Role and Need of CVP Analysis in Profit Planning

Mostly, planning depends on past and present happening. So profit planning also depends on the past performance and existing present situation. Usually, profits do not happen, profit are managed and planned. Profit planning for future is possible if the selling price, unit variable cost, fixed cost, and sales volume of the required period can be estimated. For such estimation, CVP analysis is greatly helpful in management decision -making especially in cost control and profit planning. Therefore, CVP analysis provides a lot of information and alternative to have the strategies and utilization of resources. Because CVP analysis answers the following questions and it is very important in profit planning. (Schall & Haley, 1979)

C. Break Even Point Analysis (BEP Analysis)

The cost-volume profit (CVP) analysis is a management accounting tool to show the relationship between these ingredients (Price, Variable cost, fixed cost, Volume) of profit planning. It is the study of the effects of output volume on revenue (sales), expenses (cost) and net income (net Profit). A widely used technique to study CVP relationship is Break Even point analysis. (Schall & Haley, 1979)

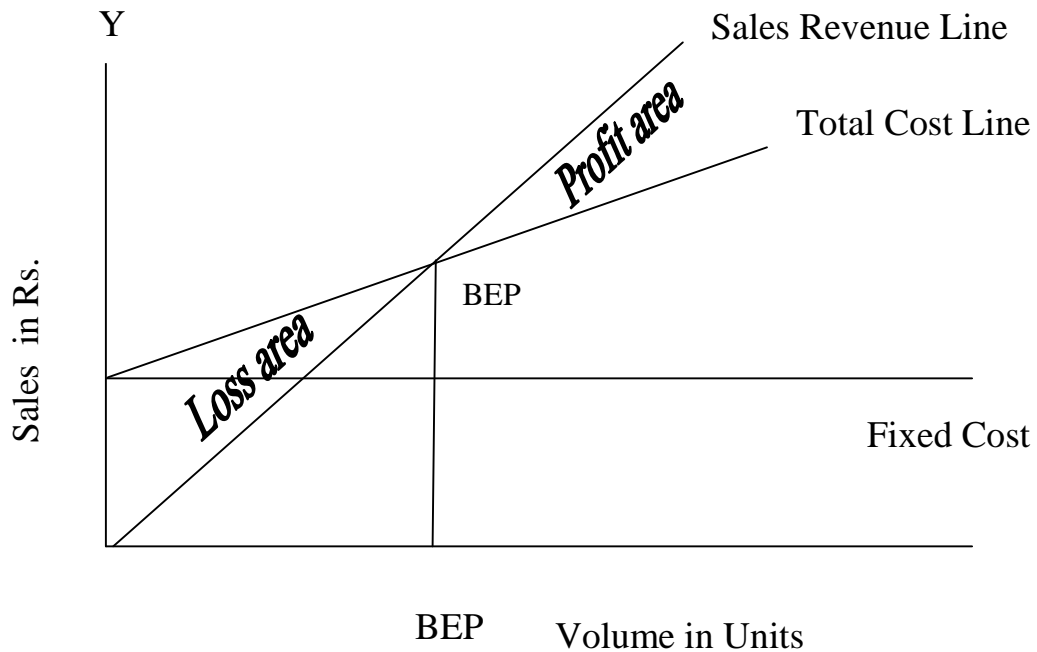
BEP can be computed into rupee value as well as in terms of unit. We can apply three techniques to determine the Break Even point they are as follow:

-) Graphic technique
-) Equation technique
-) Contribution margin technique

Whichever be the technique, all give sane information regarding the BEP. The graphic approach is more precise is pictorial forming whereas the equation techniques and contribution technique provide mathematically accurate information for managerial decision-making; however, the accuracy of cost and revenue information determines the reliability of BEP analysis. (Schall & Haley, 1979)

Break Even Point analysis shows the relationship between the cost and profit with sales volume. Under BEP analysis , we study Break Even Point, which is that point id sales at such total sales revenue generated is equal to total costs incurred for the particular products for a specific period. It indicates no profits no loss condition in sales range. In other way, the company break even sales at which sale revenue equals expense and it neither gains nor losses from sales of that production quantity. (Schall & Haley, 1979)

Graph No. 2.1



2.1.14 Analysis of Budget Variances

Variance analysis is an important tool that can increase the usefulness of performance reports. Rather than taking action only on the basis of difference between actual and planned or budgeted costs or sales, variance analysis enables management to decompose such differences into smaller sub-variance. Each of these variance relates to a particular type of cause for the overall variance. Variance decomposition helps management to better understand the cause variances from planned performance and take corrective active action through management by exception (Welsch, Hilton and Gordon, 1992)

In studying and evaluating a variance to determine the underlying causes, the following possibilities should be considered (Welsch, Hilton and Gordon, 1992)

-) The variance is immaterial
-) Reporting errors causes the variance
-) The variance is caused by specific management decision. To improve efficiency or to meet certain contingencies, management will often make decision that creates variance.
-) Many variances are explained in term of the effect of uncontrollable factors that are identifiable.
-) That variance for which the underlying causes are not-known should be of primary concern and should be carefully investigated.

Variances are analyzed in the following areas:

-) Sales variance
-) Production variance
-) Raw material variance
-) Labour variance
-) Overhead variance
-) Profit variance

For analysis the variance, following steps are followed:

-) Setting standards
-) Measurement of Performance
-) Analysis variance
-) Taking correcting action

2.2 Review of previous thesis

These are many research works made on the topics of profit planning and control or budgeting systems in manufacturing company private as well as public enterprise in the context of Nepal. Not all of those previous theses had emphasized the effect of planning in overall profitability. Those previous research have been made on both manufacturing a non-manufacturing concern. An attempt made here to review some of the researches, which have been submitted "Budgeting system, profit planning, and control in the context of Nepal.

Mr. Pradip Poudel (2000) has been conducted a research on the topic of profit planning in Nepalese manufacturing enterprise. He was done a case study of Royal Drugs Limited.” with main objectives as:

-) To examine the existing practice of profit planning.
-) To analysis the different functional budget adopted by RDL.
-) To evaluate the deviations between planned and actual.
-) To sketch the trend of profit and loss.

Major Findings

-) Authority, duty, responsibility and accountability are not identified between various levels of management.
-) Reward and punishment system is not systematic and employees of RDL are not careful of their duties and responsibilities.
-) Budgeted sales and actual sales have positive correlation.

-) The top level management does not involve lower level management in planning and decision making.
-) The actual production is high in two than target production, which indicates the unsound combinations of plan and actual.

Mr. Subedi (2002) has submitted a dissertation on the topic 'Profit Planning in manufacturing company', A case study of Hetauda Cement Industry Limited (HCIL), for the faculty of management , central Department, T.U. in the course of partial fulfillment of MBA. In this research, Mr. Poudel was mainly centered with current practice of profit planning and its effectiveness in HCIL.

Major findings pointed out by Mr. Poudel are as follows;

-) Authorities and responsibilities are not clear among the department managers and working managers.
-) There is under utilization of available capacity in HCIL.
-) There is no correlation between actual production and budgeted production and actual sales and budgeted sales.
-) The decision making power in the manufacturing PEs are concerned only in the top level of management.
-) Different statistical tools show the positive relationship between budgeted sales and actual sales.
-) The management of the enterprise has applied monthly and annual sales budget. There is substantial gap between sales target and achievement..

Mr. Khagandra Prasad Ojha (2004) has conducted a research, "Profit planning in manufacturing public enterprise, a case study of Royal Drug and Herbs production and processing company's limited", Submitted to faculty of management, center department of TU in particular fulfillment of master degree in management.

Mr. Ojha has tried to point out some objective and major findings to highlight the current practices of profit planning and its effectiveness in research. It was six year from FY 1997/98 to 2002/03 and nature of data used was primary as well as secondary sources.

Objective

-) To highlight the current practice of PPC and it's effectiveness in Nepalese public enterprises.
-) To analysis the various functional budgets adopted in these enterprises
-) To analysis the variance between target and actual figures on the enterprises.
-) To draw a picture of profit planning process adopted in these two enterprises.

Major findings

-) Inadequate planning of profit to lack of skilled expert planners.
-) Failure in achievement due to inadequate internal and external variables.
-) Failure due to inadequate forecasting system.
-) Lack of entrepreneurship and commercial concepts in overall operation of the enterprise.

Ms Indira Ghemire (2005) has made a research on the topic, "Profit Planning in a Manufacturing Company of Nepal a case study of NLL. She has pointed our some features and problems of profit planning, prevailing practices, and premise for implementing profit planning in NLL. Both primary as well a secondary data used the study covers only seven years period from 1997/098 to 2003/004. Ms Ghimire pointed out-some objective and major findings based upon her analysis. Some of them were as follows;

Objective

-) To analysis the various functional budget adopted by NLL.
-) To analysis the profit planning system applied in NLL.
-) To assess the financial performance analysis of NLL.

-) To analysis the variance between budgets and actual achievements of profit plans.
-) To examine the practice and effectiveness of profit plans.
-) To examine the practice and effectiveness of profit planning

Mr. Rajan Raj Ojha (2006) has conducted a research work in the topic, "Planning process and its impact on profitability" in manufacturing private company of Nepal, Roahin and Turpentine Limited. Mr. Ojha mainly centered with current practice of profit planning and its is effectiveness in GRIT. The study covers only five-year periods from FY 2058/059 to 2062/063. The data with other information's were taken from both primary and secondary sources. Finally, the objectives finding of that research work as follows,

Objectives

-) To analysis profit planning applied in GRIT.
-) To analysis the variance between budgeted and actual achievement of the authority.
-) To analysis the major functional and financial plan formulated and implemented in GRIT.
-) To give possible suggestion and recommendation to GRIT according to the study of it's planning system.

Major finding

Mr. Ojha has point out some major finding measures based on his study as follows;

-) The industry has not utilized full capacity.
-) Actual sales of rosin are more fluctuating than budgeted sales. In addition, budgeted production of rosin is more fluctuating than actual production.
-) GRIT has earned profit it from the starting FY.
-) GRIT has no practice of preparing but strategic and actual plan.
-) The net profit and gross profit are increasing trends in every year.
-) Net profit is very low than the gross profit.

-) GRIT was able to meet its BEP sales.
-) GRIT has no practice of cost segregation.
-) Investment in every current asset is being higher than necessary.

Mr, Bhushan Shakya (2007) has been conducted a research on the topic "profit planning and control in public utility enterprises in Nepal". He was done a case study of NTC. The main objective of the study was to examine the current practice of profit planning and control and its effectiveness in NTC. The study covers five year period of time form 2001 to 2006.

Other objectives area follows:

-) To examine the practice and effectiveness of budgeting and profitability of NTC.
-) To examine NTC's sales budgeting system and its relationship with production budget and expenses budget.

Major findings

-) NTC prepares only short range sales budget classifying the service type (consumer type). It does not prepare long term sales budget in detail.
-) The budgeted sales in not adequate.
-) Positive relationship between budgeted and actual achievement.
-) There is not any practice of preparing flexible budget.

Mr. Pitamber Pandey (2008) has conducted a research work in the topic “A study on profit planning of lumbini sugar mills pvt ltd.” He has pointed out some features and problem of profit planning and premises for implementing profit planning in LSM. Both primary and secondary data are used the study covers only five years period. Mr. pandey point out some objective and major finding based up on his analysis. Some of them were as follows.

Objective

-) To analysis the various functional budget that are prepared in LCM.

-) To examine the existing practices of profit planning and its effectiveness.
 -) To sketch the trend of profit and loss.
- He has point out following suggestion on the basis of his study.
-) There is no any system of developing tactical sales plan. So the planning department should develop tactical sales plan every year.
 -) There is no any systematic procedure in developing profit plans.
 -) There is another limitation of sugar mills which is delay payment to cane farmers. To attract them prompt payment should be done.
 -) There is no any research and development programmed. A separate research department should be established in LSM.

2.3 Research Gap

All the research studies mentioned above want to focus in overall profit planning of the organization and have pointed out that there is no proper planning system and has recommendation for effective implementation of profit planning system.

This study is different from previous studies. This study focused only one specific area of overall budgeting taking the special references of WIPL. This study is mainly focused on budgeting and actual achievement. It also tries to identify the cause of deviation in WIPL and role of budgeting in the effective formulation and implementation of profit planning system. Similarly, the study attempts to measure the effectiveness of budgeting and controlling the performance. Furthermore Most of the previous studies had emphasized to public or government owned enterprise but they had no attempted analysis the profit planning of partner or sole conducted industry therefore, this study designed to highlight the budgeting process of WIPL and its impact on profitability the study has been at more emphasizing the effects of planning on the profitability. This study is trying to do something new on the field of regular research related to profit planning and control.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research is systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well -thought – out activities of gathering, recording, analyzing and interpreting the data with the purpose of finding answers to the problem. Thus, Research methodology refers to the techniques that the researchers use in performing research program in the specific field. It should be properly and systematically use in order to achieve designed objectives of the study.

This case study concerned to the “Western International Pvt. Ltd.” and its profit planning and controlling system. To fulfill defined objectives of the study appropriate research methodology has to be followed .So this chapter is related with the research methodology applied in this study. It is the most important part of the study. Therefore, it helps us to find out accuracy, validity, & suitability. Research methodology covers research design, research variables, period covered, data collection procedures, sources of data, types of data used and data analysis tools systematically use in this study.

3.2 Research Design

Research design means an overall framework or plan for the activities to be undertaken during the course of research study.

This research design of this study is analytical as well as descriptive approach. The main objective of this study is an examination and evaluation of the budgeting procedure in the process of profit planning and controlling the activities of WIPL. This study is closely related with the various functional budget and other accounting

statement as well as actual results over budgeted. So analytical approach has been considerably adapted to present data properly and effectively. Similarly, the descriptive approach is used on effectiveness of profit planning & controlling system of WIPL, dealing with problems of formulating & implementing the profit plan and theoretical prescriptions etc.

3.3 Population and Sample

This research work is related with master budgeting and its impact on profitability of WIPL. There is much more private organization but various constrains like time, resources etc forces to select one private limited organization WIPL for the propose of this research work.

3.4 Nature and Sources of Data

Data and information is main sources of research. For this study different techniques and procedures have been used to collect necessary information and data. Mainly secondary data and information used for this study. The sources of secondary data are:

-) Published and unpublished relevant documents of WIPL.
-) Official records and publications of WIPL.
-) Publications of Ministry of industry, commerce and supplies.
-) Magazines and booklets published by WIPL on relevant matters.
-) Similar previous thesis / dissertations.
-) Other reports, journals, and periodicals related to this topic.

3.5 Research Variables

The research variables of the study are sales, production, purchase, labour expenses, profit & loss, total assets, total capital employed, cash flow that related to short-term as well as long-term period of WIPL.

3.6 Method of Data Analysis

Different financial, statistical, and managerial tools will be used for the analysis of data. Some inferences and generalizations might also be made in the course of preparation of report as demanded by the situation.

3.6.1 Financial Tools:

Financial tools are those instruments and techniques that help in analysis of financial position of the enterprise. Various financial tools have been used in the study, which helps to indicate the position of the company as targeted in the objective of the study.

Liquidity ratio

$$a) \quad \text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$b) \quad \text{Quick Ratio} = \frac{\text{Current Assets} - \text{inv. accruals}}{\text{Current Liabilities}}$$

Leverage ratio

$$\text{Total debt ratio} = \frac{\text{Total Debt}}{\text{Total capital}}$$

Assets Management Ratio

$$a) \quad \text{Inventory Turnover Ratio} = \frac{\text{Sales}}{\text{Inventory}}$$

$$b) \quad \text{Total Assets Turn-over Ratio} = \frac{\text{Sales}}{\text{T.A}}$$

$$c) \quad \text{Fixed Assets Turn-over Ratio} = \frac{\text{Sales}}{\text{F.A}}$$

Profitability Ratio

$$a) \quad \text{Net Profit Margin} = \frac{\text{NPAT}}{\text{Sales}} \mid 100$$

$$b) \quad \text{Gross Profit Margin} = \frac{\text{G.P}}{\text{Sales}} \mid 100$$

$$c) \quad \text{Return on Total Assets} = \frac{\text{NPAT}}{\text{T.A}} \mid 100$$

d) Return on Capital Employed = $\frac{\text{NPAT}}{\text{Capital Employed}} \times 100$

3.6.2 Statistical Tools

Arithmetic Mean

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

$$\bar{Y} = \frac{\sum y}{N}$$

Standard Deviation (s.d.)

$$\sigma_x = \sqrt{\frac{1}{N} \sum U^2}$$

$$\sigma_y = \sqrt{\frac{1}{N} \sum V^2}$$

Correlation Coefficient (r)

$$r_{xy} = \frac{\sum UV}{\sqrt{\sum U^2 \sum V^2}}$$

Coefficient of Variance.

$$\text{C.V. of } \bar{X} = \frac{\sigma_x}{\bar{X}}$$

$$\text{C.V. of } \bar{Y} = \frac{\sigma_y}{\bar{Y}}$$

Regression

$$f_x - \bar{X} = r_{xy} \left(\frac{\sigma_x}{\sigma_y} \right) (f_y - \bar{Y})$$

CHAPTER- FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

The basic objectives of the study are highlighted in the first chapter. To meet these basic objectives of the study the collected data should be presented and analyzed according to the research methodology as mentioned in the third chapter.

The data presentation and analysis is the most important chapter. This chapter deals with the presentation, analysis and interpretation of relevant data of 'Western International Pvt. Ltd.' to obtain the objective of the study. "A report can be worthless if interpretation is faulty, even if valid reliable data have been collected". The purpose of this chapter is to match data analysis and interpretation. After collection of data has to be processed and analyzed in accordance with the outline laid down for the purpose at the time of developing the research plan. The presentation, analysis and these interpretations of collected data of Western International Pvt. Ltd. are as follows:

4.2 Operating Budget

4.2.1 Sales Budget

Sales budget is the primary step in the budgeting process. It is also an input to developing other functional budgets.

The sales budget shows the quantities of each product that the company plans to sell and provides the prediction of total sales revenue. It also provides the basic data for constructing budgets for production budget, selling and distribution budget/expenses and administrative expenses. The sales budget is therefore the foundation of all other budgets, since all expenditure is ultimately dependent on the volume of sales. If the sales budget estimates will be unreliable.

Sales budget includes strategic (long-term) sales plan, which covers the periods of 5 or more year and tactical (Short-term) sales plan which covers the period of one fiscal year. To achieve defined objective, WIPL had prepared only sales plan, WIPL prepared budgeted sales budget for ten year.

Sales budget is prepared by products, by times and by sales territory in amount as well as in volume or quantity..

Sales budget in Rs = Sales units |SPPU

Table: No. 4.1

Sales Budget for the budgeted year 2007/08

Particular	1 st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Total
Sales (units)	12000	8500	9500	16000	46000
SPPU	110	110	110	110	110
Sales in Rs.	1320000	935000	1045000	1760000	5060000

Long term sales plan

The following table represents the budgeted and actual sales for the period covering of F.Y. 2004/05 to 2008/09.

Table No. 4.2

Sales budgeted and Actual Sales

Fiscal year	Budgeted sales in cartoons	Actual sales in cartoons	Achievement %
2004/05	32000	30000	93.75
2005/06	40000	35000	87.5
2006/07	50000	45000	90.00
2007/08	50000	46000	92.00
2008/09	58000	52000	89.65
Total	230000	208000	-

Source: Annual Report of WIPL

The table no. 4.2 shows the comparison between budgeted sales with actual sales of WIPL. It shows the satisfactory sales achievement of cartoon through the actual sales figures have not met the budgeted figures but the achievement is very near or average budgeted sales. The lowest achievement is in F.Y. 2005/06, which is 87.5 of budgeted sales and greatest achievement is in F.Y. 2004/05, which is very close to budgeted or 93.75% of budgeted sales.

To find out the nature of validity of actual and budgeted sales of different FY, it is necessary to find-out the different statistical calculation which are arithmetic mean standard deviation and co-efficient of variation of actual and budgeted sales figure of WIPL for the FY 2004/05 to 2008/09. The calculation of these statistical tools is presented in appendix-II.

Table no. 4.3

Tools	Budgeted sales in Cartoons (X)	Actual sales in Cartoons (Y)
Mean (\bar{X})	46000	41600
Standard deviation † _{xy}	286	252
Coefficient of variation (C.V)	.69%	.68%
Correlation r_{xy}	99.51%	

Sources: Appendix- II

The table no. 4.3 shows that the result of statistical calculation. Above table represent that the average budgeted sales is greater than the average actual sales. It also shows that the coefficients of variation of budgeted sales and actual sales are equal; it means the actual sales are more flexible to the budgeted sales. C.V. measures the level of risk. Lower the C.V. is said to more homogeneous or less variable than other. Therefore, the sales manager should be conscious about reducing budgeted sales fluctuation.

The correlation coefficient is used to analyze the relationship between budgeted and actual sales. For this purpose, Karl Pearson's correlation coefficient is used and it is denoted by (r). Correlation coefficient measures the degree of association between budgeted and actual sales figures. If budgeted sales and actual sales flows the same direction. There is positive correlation. But, it flows the opposite direction, there is negative correlation. To find out the correlation between budgeted and actual sales (r_{xy}), budgeted sales has assumed as independent variable (x), and actual sales as dependent variable (y). From the above the calculated value of correlation (r_{xy}) is 0.9916. It provides that the budgeted and actual sale flow in the same direction and there is very high positive correlation.

Another statistical tool is least square. Method or time series .It shows the relationship between actual sales and time factor of the relevant year, which is an important factor for the study of trend of actual sales. To fit straight line trend, the time factor should be considered as an important factor and actual sales is considered as independent factor.

The equation of straight line trend as follows:

$$Y_c = a + bx$$

Where, Y = Actual sales

X = Time

a = Fixed value

b = variable value

... $Y_c: 41600 + 5500x$ from (Appendix-II)

... $Y_c 41600 + 5500x$

The above equation shows that sales will increase by 5500 cartoons yearly. This is the past trend and continues in the future with the help of above equation, we estimate the actual sales for the fiscal year 2009/010.

... Actual sales for FY. 2064/065

$$\begin{aligned} Y_c \text{ 2009/010} &= 41600 + 5500 | 3 \\ &= 58100 \text{ Cartoons} \end{aligned}$$

The budgeted and actual sales have also shown on the following graphical form.

Graph no.4.1
 Budged and actual Sales from
 F.Y2004/05 to 2008/09

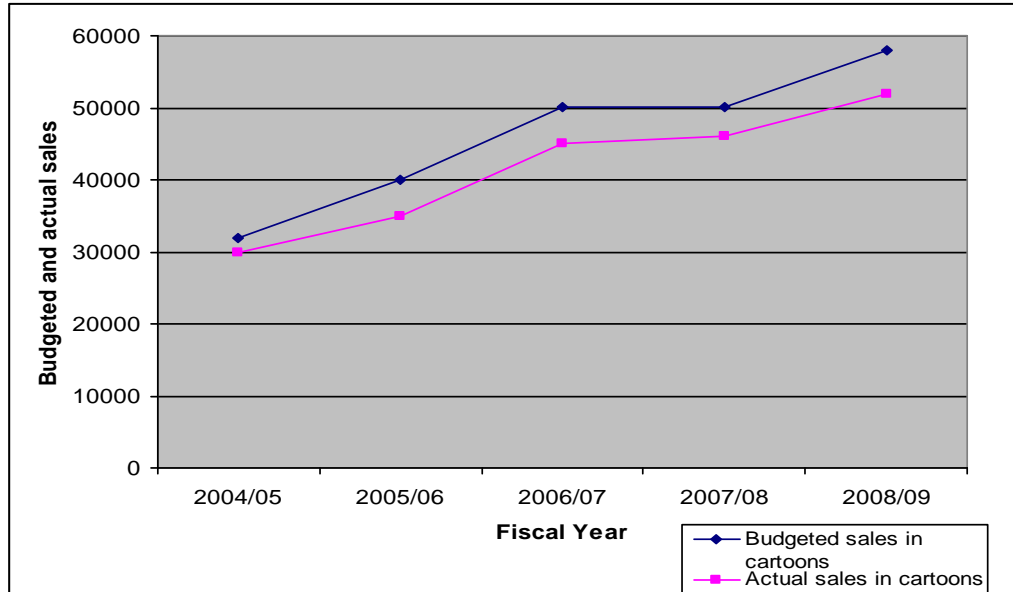
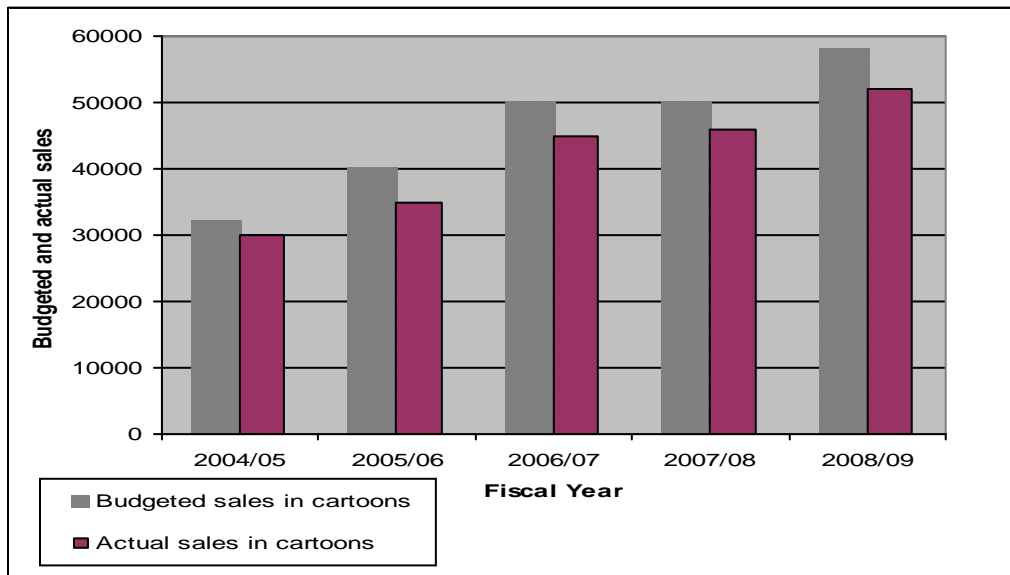


Diagram no.4.1
 Budged and actual Sales from
 F.Y2004/05 to 2008/09



The above graphical presentation shows that the actual sales do not meet the budgeted sales. However, both lines are in approximately parallel from FY 2004/05 to 2008/09.

4.2.2 Production Budget

Production budget is the second steps of profit planning or Budgeting system. Production budget is prepared based on sales budget. On the other hand, sales requirement is to be translated into production budget to fulfill the objective of the sales plan requirement. Production plan always depends upon the budget sales and desire inventory level. If sales volume and inventory level is high, production plan also be high. The responsibility of preparation and operation of production budget lies with production manager. Normally, production budget will be prepare long and short range periods. But in respect of WIPL only long range production plan is prepared but short-range production plan prepare only adhoc basis.

WIPL is a private manufacturing industry, which produce single product name Carolina Mineral Water. It is sales based organization mainly it produces goods to spread its market and also produces after demand from customer. Therefore, the finished goods inventory has no proper planning and it maintain stable inventory policy. The details production plan has shown in the following table.

The following table shows the actual and budgeted production budget from FY 2004/05 to 2008/09

Table no. 4.4

Budgeted and Actual production of WIPL

FY	Budgeted production in (Cartoons)	Actual production in (Cartoons)	Achievement in (%)
2004/05	35000	33500	95.71
2005/06	45000	42700	94.89
2006/07	60000	51200	85.33
2007/08	60000	51700	86.16
2008/09	65000	53900	82.92

Source: annual report of WIPL 2008/09.

The above table 4.4 shows that the production is fluctuating but the fluctuation ratio is not significant. To find out the nature of validity of budgeted and actual production of different years, we have to calculate the arithmetic mean, standard deviation, and coefficient of variation. The detail calculations of these variables have presented in appendix-III.

Table no. 4.5

Budgeted and Actual Production Relationship

Statistical Tools	Budgeted production in cartoons(X)	Actual production in Cartoons (Y)
Mean (\bar{X})	53000	46600
Standard deviation \dagger_{xy}	355	240
Coefficient of variation (C.V)	.67%	.51%
Correlation r_{xy}	99.31%	

Source: Appendix -III

The above table no. 4.5 shows that the validity of budgeted and actual sales. It shows that the average budgeted production is greater than that the average actual production. The coefficient of variation of budgeted production .67% and actual production is .51%. It means C.V of budgeted production is greater than C.V of actual production. That cause, the actual production is less variable than that of budgeted production.

The value of r is positive which 99.31%. It shows that the co-relation between budgeted and actual production is very high positive. It means, both of them flow in same direction.

Least square method can also be used to analyze the trend of actual production and to estimate the possible future production for a given period or year. A straight line trend will show the relationship between actual productions a period of the relevant year. To fit this straight line trend, the time factor has considered as an independent variable and production has considered as a dependent factor. So, the straight line of actual production (Y) is express as following way.

$$Y_c = a+bx$$

Where, Y_c = Straight line trend

X = Independent

Y = Dependent factor

a = Fixed value

b = variable value

$$\dots Y_c = 46600 + 4980x \text{ (from Appendix-III)}$$

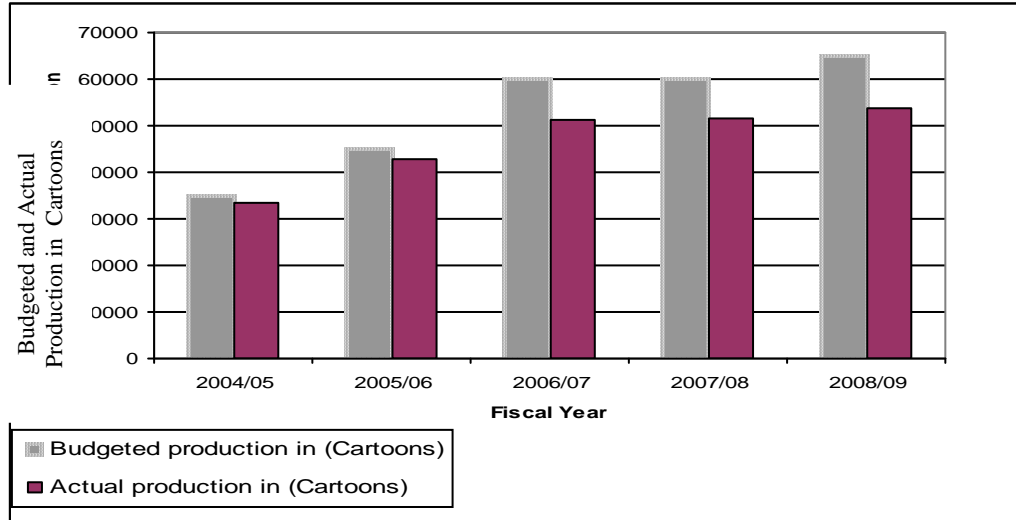
This above equation shows that the actual production will be increase by 5500 in every year. In addition, trend of the past years continuous in the future also other wise it is not possible. By the help of this equation, we estimate the value of actual expected production for fiscal year 2009/10.

$$\begin{aligned} Y_{2009/10} &= 46600 + 4980x \\ &= 46600 + 4980 \times 3 \end{aligned}$$

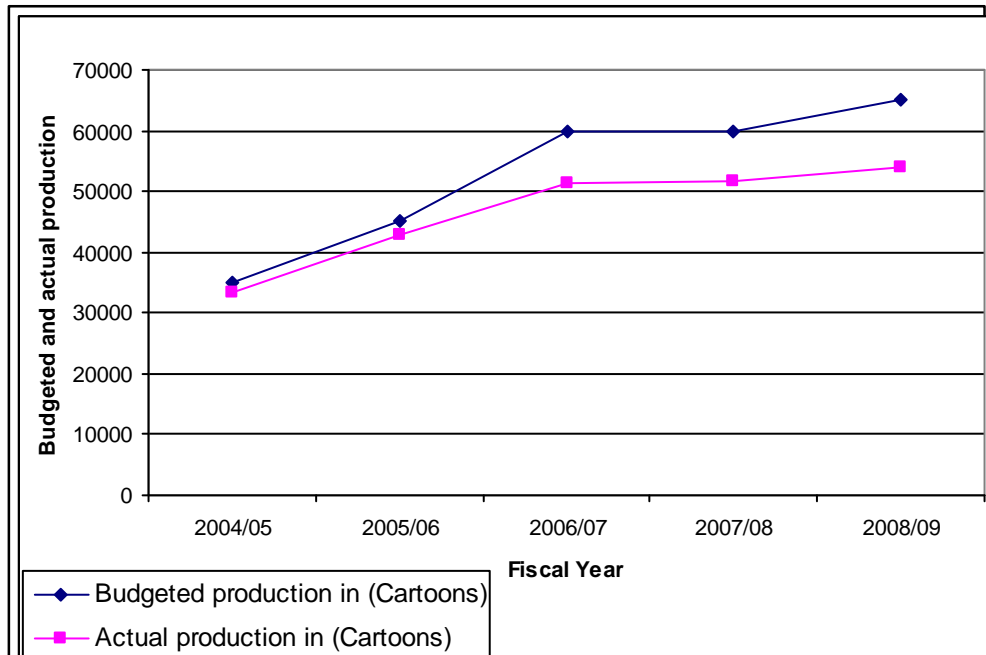
$$Y_{2009/10} = 61540 \text{ cartoons.}$$

If the trend does not change, the possible production for FY 2009/10 will be 58100 cartoons. The budgeted and actual production has shown by graphical presentation, which has presented below.

Diagram no. 4.2
 Budgeted and actual Production from
 F.Y 2004/05 to 2008/9



Graph no. 4.2
 Budgeted and actual Production from
 F.Y 2004/05 to 2008/9



The above graphical presentation shows that the actual and budgeted production flows same direction upto FY 2005/06. So the lines are parallel upto FY 2005/06. In FY 2006/07 production flows the same direction but actual production is greater than the budgeted production. Thus, budgeted and actual lines are crossing on this point.

The production budget always depends upon sales budget. production budget is prepared based on sales budget. So it is necessary to examine whether production meets sales or not. It is important to analysis the relationship between actual production and actual sales. The correlation between them should be analysis with the help of following table:

Table no. 4.6
Actual sales and Actual production of WIP
From FY 2004/05 to 2008/09

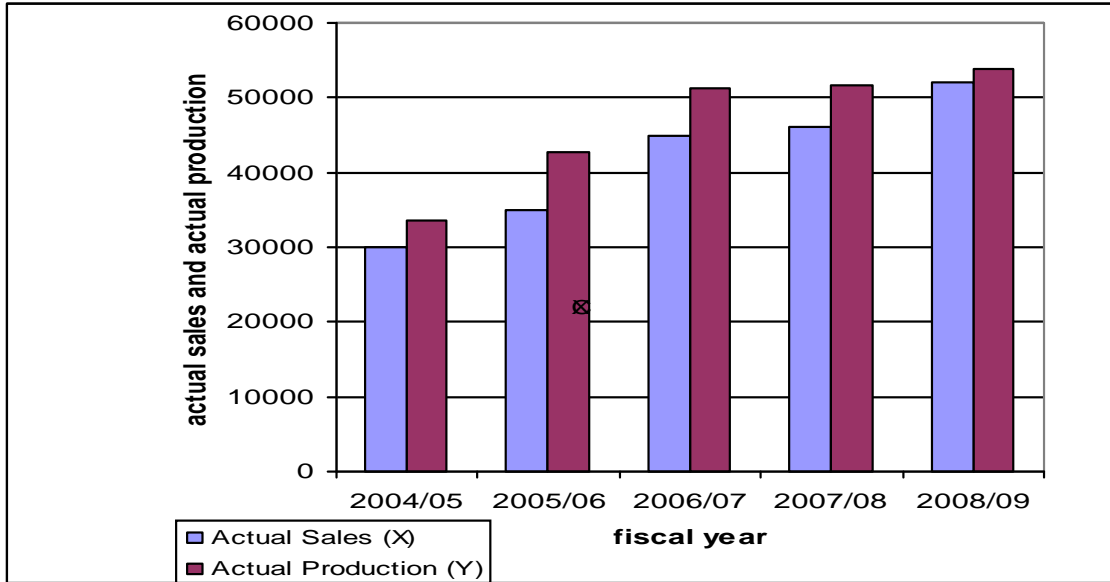
FY	Actual Sales (X)	Actual Production (Y)	Achievement (%)
2004/05	30000	33500	89.55
2005/06	35000	42700	81.97
2006/07	45000	51200	87.89
2007/08	46000	51700	88.97
2008/09	52000	53900	96.47

Source: annual report of WIPL

The above table no. 4.6 shows that the actual sales and actual production of WIPL. The actual sale is less than actual production from FY 2004/05 to 2008/09. The actual achievement of production on sales is higher than 100% in every year. It can be presented in the following diagram,

Diagram no. 4.3

Actual Sales and actual Production from
F.Y 2004/05 to 2008/09



The above diagram has also presented the relationship between actual sales and production of WIPL. To find-out the nature validity of actual sales and actual production, we have to calculate different statistical results. The detail calculation has presented in appendix-IV.

Table no. 4.7

Actual sales and actual production relationship

Statistical Tools	Actual Sales (X)	Actual Production (Y)
Mean (\bar{X})	41600	46600
Standard deviation \dagger_{xy}	252	240
Coefficient of variation (C.V)	.61%	.51%
Correlation r_{xy}	96.63%	

Sources: Appendix- IV

From the above table no. 4.7 average actual sales is less than average actual production $41600 < 46600$. It means deviation occurred on actual production is high than the deviation of actual sales. C.V. of actual sales .61% and C.V of actual production is .51% that why the actual production is more variable than that the actual sales.

The correlation between actual sales and actual production is 0.9663 or 96.63%. It denotes that there is very high positive correlation between actual sales and production.

Another statistical tools regression analysis also uses to measures the relationship between actual sales and production. It also helps to estimate the possible future figure .For this, we assumed actual sales is dependent and actual production is independent variables,

Actual sales (X) = dependent variable

Actual production (Y) = independent variable

The regression equation, X on Y is as follows;

$$\bar{X} - r_{xy} \frac{\sigma_x}{\sigma_y} (\bar{Y} - Y)$$

..X=1.015Y-5681 (From Appendix-IV)

From the above equation, we estimate the actual sales. For 2008/09

If actual production (Y) = 539000

$$X = 1.015 | 53900 - 5681$$

$$X = 49028 \text{ cartoons.}$$

4.2.3 Material purchase budget

After preparation of sales and production budget, we prepare purchase or material purchase budget. Material is essential for production of finished goods. Generally, purchase budget based on production budget. First, we calculate material consumption based on consumption rate than inventory level is determined with the help of inventory and consumption. We find-out every year material purchase in units and rupees.

Therefore, ending inventory and production level plays vital role for this budget. WIPL has no systematic purchase budget. WIPL has used different kinds of material use to produce its product. They purchase all raw materials from neplese suppliers at different price. WIPL uses only rupees basis purchase budget. The purchase budget of WIPL has presented as following table from FY 2004/05 to 2008/09.

Table no. 4.8

Budgeted and Actual purchase and Achievement

FY	Budgeted Purchase Rs. (X)	Actual Purchase Rs (Y)	Achievement in (%)
2004/05	2800000	2646500	94.52
2005/06	3000000	2765000	92.16
2006/07	4000000	4044800	101.12
2007/08	4200000	4084300	97.25
2008/09	4350000	4150700	95.41

Source: annual report of WIPL 2008/09.

We have;

Material consumption = Production | Standard rate

Material Purchase = consumption + ending inventory - beginning inventory
of Raw material

The above table no. 4.8 shows that the actual purchase and budgeted purchase of material. It indicates that there was satisfactory achievement of purchase. The highest achievement of purchase is 101.12% to FY 2006/07 and lowest achievement is 92.16% in FY 2005/06.

4.2.4 Actual Overhead Expenses

After preparation of material purchase of purchase budget, WIPL has prepaid overhead expenses budget. WIPL has included different expenses items under overhead. These are administrative expenses, selling expenses, interest and depreciation expenses. The main objective of this budget is to control over the administrative expenses. WIPL has no prepared systematic overhead plan. The trend of past FY overhead expenses shown as following table;

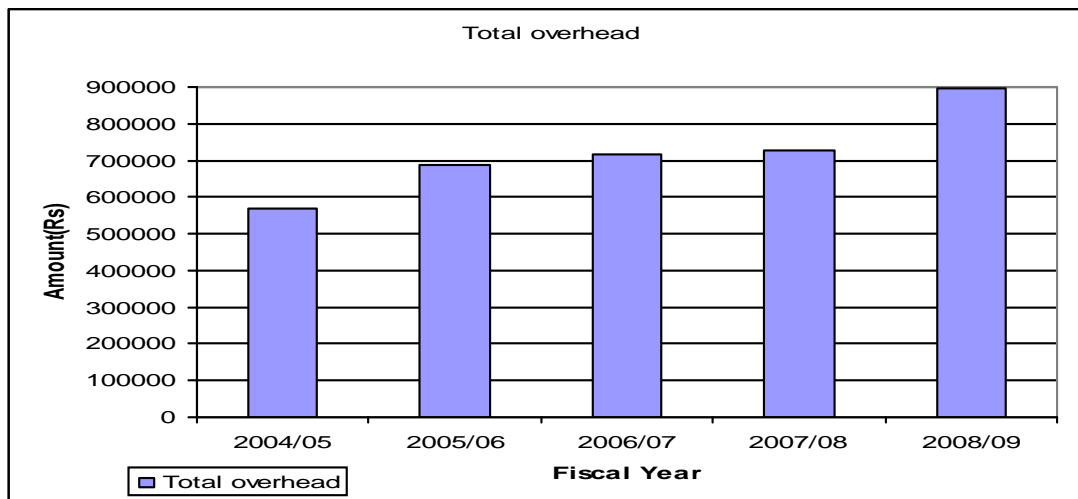
Table no. 4.9
Actual overhead budget of WIPL
From FY 2004/05 to 2008/09

FY	Administrative Expenses	Selling expenses	Interest on Loan	Depreciation of FA	Total overhead
2004/05	378782.15	17829.32	48000	122719.17	567330.64
2005/06	437117.07	21932	48000	180420.69	687470.39
2006/07	447918.02	33911	48000	187521	717350.02
2007/08	437427.81	34102	48000	209264.82	728794.63
2008/09	589602	35802	48000	222516.3	895920.30

Source: annual report of WIPL 2008/09

Above table no. 4.9, shows that the total overheads expenses of past fiscal year from FY 2004/05 to 2008/09. WIPL has paid continuous stable amount of interest for a long-term loan. Selling and administrative expenses has been increasing continuously. However the higher Selling and distribution expenses was Rs. 35802 in FY 2008/09, and the least was Rs. 17829.32 in FY 2004/05. and was Rs. 378782.15 in FY. 2004/05 for administration. It can be presented in the following diagram;

Diagram no. 4.5
 Total Overhead Expenses
 F.Y 2004/05 to 2008/09



The above diagram shows that the total overhead budget of WIPL. The diagram shows that total expenditure increasing continuously up to 2008/09. In conclusion, there was increasing overhead expenditure every year on the effect of high fluctuating in administrative expenses and the management has not adequate policy for overhead expenditure.

4.2.5 Labour Budget

After preparation of production budget, WIPL has prepared labour budget or labor budget. Labour budget always based upon production budget. Based on man-hour needed to produce 1 unit product, it determines total man-hour and total no of manpower to produce total requirement. WIPL has no systematic labor budget. Therefore, on the study we presented total actual labour expenses in an every FY. The actual labour expenses budget shows the following table.

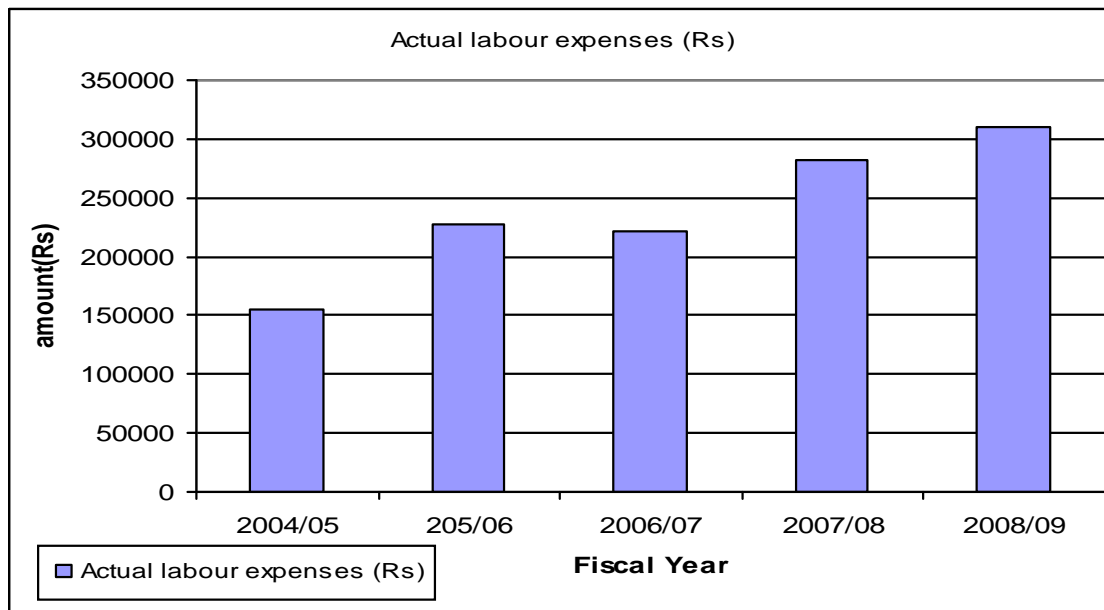
Table no. 4.10
Actual labour expenses budget
From FY 2004/05 to 2008/009

FY	Actual labour expenses (Rs)	Chage %
2004/05	154927	-
205/06	227894	47.09
2006/07	221746	(2.77)
2007/08	282116	21.40
2008/09	310812	9.23

Source: Annual Report of WIPL 2008/09

The table no. 4.10 shows that the labour expenses budget in rupees. In FY 2004/05, a labour expense was Rs 154927 that was increasing up to FY 2005/06. However, it means there was fluctuation into labour expenses because WIPL has not determined the labour to produce its product. The management has also not considered on proper planning of labour expenses. The above labour expenses budget can be shown by following diagram;

Diagram no. 4.6
Actual Labour Expenses F.Y 2004/05 to 2008/09



The above graphical presentation shows that the actual labour expenses have fluctuated from FY 2004/05 upto 2008/09. In FY 2008/09 labour expenses was comparatively high than other year. It represent that the management of WIPL has no conscious under labour plan. It is needed to improve it's planning in coming years due to lack of planning of required level of labour. The labour expenses have fluctuated in every year.

4.2.6 Capital Expenditure Budget of WIPL

Capital expenditure budget has also called capital budgeting. It is the process of planning and controlling of capital expenses. It deals with the fund to obtain operating assets, which will be help to increase future revenue and reduce future costs. It is the expenditure for land, building, equipment, and permanent additional working capital associated with sales growth. Mainly, Capital expenditure budget concern with cash outlay , net present value, IRR, ARR, PI, WIPL has also spent on capital expenditure i.e. plant and equipment or fixed assets.

4.3 Financial Budget

4.3.1 Cash Budget of WIPL

Cash budget shows the planned cash inflows, outflows and the ending position by interim period for a specific time span. Most company most develops both long term and short-term plans about their cash flows. A cash budget basically includes two parts

- i) The planned cash receipts
- ii) Planned cash payment

Planning of cash inflows and outflows gives the planned ending cash positions for the budget period and this will indicate

- a) The need for financing probable cash deficits.
- b) The need for investment planning to put excess cash to profitable use.

Cash budget shows the details of cash receipts cash disbursement and the balance cash. The cash budget is the composed of four sections:

1. The receipt section
2. The disbursement section
3. The cash excess or deficiency section
4. The financing section.

4.3.2 Budgeted Income Statement

The budgeted income statement is one of the key schedules in the budget generally prepared at consolidated form. A budgeted income statement shows the expected revenue and expenses for the budget period, assuming that document that tells how profitable operations are anticipated for the forth-coming period

Table 4.11
Income Statement of WIPL
For the year ending 2004/05

Particulars		Amount (Rs.)
Sales revenue		3300000
-Mfg. expenses		2646500
Gross Profit		653500
-Non-Mfg. expenses		
Administration	378782.15	
Selling and distribution	17829.32	
Interest	48000	
depreciation	122719.17	
		567330.64
		86169.36
Net profit before tax		
+Interest received		
Net profit		86169.36

The above table 4.11, shows the total Net profit of FY 2004/05 Rs.86169.36

Table 4.12
Income Statement of WIPL
For the year ending 2005/06

Particulars		Amount (Rs.)
Sales revenue		3850000
-Mfg. expenses		2765000
Gross Profit		1085000
-Non-Mfg. expenses		
Administration	437117.07	
Selling and distribution	21932	
Interest	48000	
depreciation	180420.69	687463.76
		397530.24
Net profit before tax		
+Interest received		
Net profit		397530.24

The above table 4.12, shows the total Net profit of FY 2005/06 Rs. 397530.24

Table 4.13
Income Statement of WIPL
For the year ending 2006/07

Particulars		Amount (Rs.)
Sales revenue		4950000
-Mfg. expenses		4044800
Gross Profit		905200
-Non-Mfg. expenses		
Administration	447918.02	
Selling and distribution	33911	
Interest	48000	
depreciation	187521	717350.02
		187849.98
Net profit before tax		
+Interest received		
Net profit		187849.98

The above table 4.13, shows the total Net profit of FY 2006/07 Rs. 187849.98

Table 4.14
Income Statement of WIPL
For the year ending 2007/08

Particulars		Amount (Rs.)
Sales revenue		5060000
-Mfg. expenses		4084300
Gross Profit		975700
-Non-Mfg. expenses		
Administration	473427.81	
Selling and distribution	34102	
Interest	48000	
depreciation	209264.82	764794.63
		210905.37
Net profit before tax		
+Interest received		
Net profit		210905.37

The above table 4.14, shows the total Net profit of FY 2007/08 Rs. 210905.37

Table 4.15
Income Statement of WIPL
For the year ending 2008/09

Particulars		Amount (Rs.)
Sales revenue		5510000
-Mfg. expenses		4227600
Gross Profit		1282400
-Non-Mfg. expenses		
Administration	589602	
Selling and distribution	35802	
Interest	48000	
depreciation	222156.30	895560.30
		386839.70
Net profit before tax		
+Interest received		
Net profit		386839.70

The above table 4.15, shows the total Net profit of FY 2008/09 Rs. 397530.24

4.4 Variance Analysis

The terms variance means, the deviation of the actual figure from the budgeted figure due to various causes. It is the process of calculating the deviation of actual figure from budgeted figure and interpreting the result. Variance analysis helps to ascertain the magnitude of each variance and cause of variance, So that corrective action can be taken. In the case of variance analysis when actual figure is greater than budgeted figure, variance was favorable. When actual result not better than budgeted figure. Unfavorable variances arises. Normally, we have been analyzed the following variance of WIPL for four fiscal year.

Table no. 4.16
Sales, Production variance of WIPL
From FY 2004/05 to 2008/09

FY	Budgeted	Actual	Variance	Remark
2004/05	32000	30000	2000	unfavorable
2005/06	40000	35000	5000	unfavorable
2006/07	50000	45000	5000	unfavorable
2007/08	50000	46000	4000	unfavorable
2008/09	58000	52000	6000	unfavorable
Production				
2004/05	35000	33500	1500	unfavorable
2005/06	45000	42700	2300	unfavorable
2006/07	60000	51200	8800	unfavorable
2007/08	60000	51700	8300	unfavorable
2008/09	65000	53900	11100	unfavorable

Source: Annual Report of WIPL 2008/009

Above table no. 4.12 shows that the sales, production variances of WIPL. The variance of sales and production in all fiscal year was unfavorable. Therefore, the responsibility department should be held accountable for this unfavorable sales and production variance and take corrective action. It is clear that the production manager cannot success to estimate rightly. So, the purchase manager should take corrective action to minimize the adverse impact of such unfavorable variances.

4.5 Introduction of cost Behavior

Identification of the validity of cost is necessary in planning and controlling of cost. Thus, the knowledge of cost behavior is very important. Generally, cost behaviors in two ways with relation to volume of output. Some cost does not change with output. But unlike that some changes proportionately with the change in output.

According to the behavior of the cost , cost can be classified in two categories:
 1) Fixed cost, it remains constant in total period of time and 2) Variable cost, It change in total directly with changes in output or volume of operation but remains constant in per unit basis.

Classification of costs into variable and fixed is very important to plan cost. It helps to determine the volume of operation desired to maintain the industry's profitability. However, WIPL has not made systematic classification of cost into fixed and variable. The classification of expenses in fixed and variable component of WIPL is presented below in table.

Table no. 4.17
 Cost classification of WIPL for FY 2008/09

Items	FC	Variable costs	Proportion	Total costs
a. Variable costs				
Selling expenses	-	35802	100	35802
b. Fixed costs				
interest on loan	48000	-	100	48000
depreciation	222516.30	-	100	222516.30
c. Semi- variable costs				
mfg. expenses	1268280	2959320	30:70	4227600
adm. expenses	147400.50	442201.50	25:75	589602
Total	1686196.80	3437323.50	-	5123520.30

The above table no. 4.17 shows the cost classification of WIPL. The cost is classified on the basis of variable, semi-variable and fixed cost. This table also showed that there is no clear-cut vision for classification of costs adopted by WIPL. The fixed cost expenses are less than variable cost. This costs classification is helpful for analyzing cost volume profit of WIPL. The classification of cost expenses of other fiscal years has been presented into appendix- V.

4.6 Cost Volume Profit analysis of WIPL

Cost volume profit analysis is an analytical technique used to study the relationship among cost (fixed and variable), volume and profit. It is the device used to determine the usefulness of the profit planning process of the firm. In fact, the entire field of profit planning has become associated with CVP interrelationship. So, cost volume-profit analysis is another name of profit planning. It helps to achieve the short term profit planning objectives. CVP analysis shows the level of activity to stay at break-even or gain a certain profit. Break even point is the point of sales volume at which sales revenue equals to total costs. CPU is the important tool for cost control, CVP helps to determine the minimum sales volume to avoid losses an sales volume at which the profit goal of the firm will be achieved. It helps management to seek the most profitable of WIPL. CVP helps the accountant to present facts, figures, and intelligible chart to management for action.

Table no. 4.18

Cost volume profit analysis
For the 2004/05 to 2008/009

FY	Total sales (Rs.)	TVC	TFC	MOS(Rs.)	PVR	BEP(Rs)	CM
2004/05	3300000	17829.32	170719.17	249712.9	.3473	3050287.1	1146074.07
2005/06	3850000	21932	228420.69	1017677.85	.4121	2832322.15	1586662.2
2006/07	4950000	33911	235521	531827.06	.3533	4418172.94	1748790.48
2007/08	5060000	34102	492785.82	589428.18	.3581	4470571.82	1811817.14
2008/09	551000	3582	270516.3	1026626.429	.3761	4483373.71	2072676.50

Source: Appendix (V)

4.6.1 Profit Volume Ratio (PVR)

A ratio between contribution margin and sales is known as profit volume ratio. It is also known as contribution margin ratio. Profit volume ratio can be computed by

$$\text{PVR} = \frac{\text{Sales Revenue} - \text{Variable Cost}}{\text{Sales Revenue}} \times \frac{\text{Contribution Margin}}{\text{Sales Revenue}}$$

On the basis of single unit

$$\text{PVR} = \frac{\text{SPPU} - \text{VCPU}}{\text{SPPU}} \times \frac{\text{CMPU}}{\text{SPPU}}$$

$$\text{or, } 1 - \frac{\text{VC}}{\text{SR}} \quad \text{or, } 1 - \frac{\text{V}}{\text{S}}$$

The PVR of WIPL for year 2004/05 to 2008/09 were 34.73%, 41.21%, 35.33%, 35.81% and 37.61% respectively. It shows maximum sales in year 2008/09 and minimum sales in year 2004/05. Maximum P/V ratio in year 2005/06 indicates that proportion of sales revenues was higher than the proportion of variable cost and vice-versa.

4.6.2 Break Even Analysis (BEP)

The break even analysis established a relationship between revenues and costs with respect to volume. It indicates the level of sales at which costs and revenues are in equilibrium. The equilibrium point commonly known as the break even point (BEP). BEP is that point of sales volume at which the total revenue equals to the total cost, can be expressed as follows:

$$\text{BEP (in units)} = \frac{\text{Total Fixed Cost}}{\text{SPPU} - \text{VCPU}}$$

$$\text{BEP (in Rs.)} = \frac{\text{Total Fixed Cost}}{\text{PVR}}$$

4.6.3 Margin of Safety (MOS)

Margin of safety (MOS) is the excess of budgeted (or actual) sales over the break even sales volume. It is different between the budgeted or actual sales revenue and the break even sales revenue. It is the position of break even point, the margin of safety can be expressed as units, rupees, and percentage. Margin of safety can be calculated by the following formula.

Margin of safety (MOS):

MOS in Rs. = Actual Sales in Rs. - Break even sales in Rs

MOS (in unit) = Actual sales in unit - Break even sales in unit

MOS in % = $\frac{\text{MOS in Rs or units}}{\text{Actual sales in Rs unit}}$

The amount of margin of safety in WIPL from FY 2004/05 to 2008/09 are mentioned in above table or Appendix VI. Here amount of MOS were positive. The higher MOS is the greater chance for the firm to earn profit or vice-versa..

4.6.4 Contribution Margin (CM)

The difference between sales revenue and variable cost is known as contribution margin. Conceptually this is a contribution made by the sales of any period, after coverage of all applicable variables. The contribution margin can be calculated by applying following formula:

Contribution Margin = Sales - Variable cost

or CM_{PU} = SPPU - VCPU.

Above table shows the CM was sufficient to cover all fixed costs and WIPL was on the profit position.

The above CVP analysis of WIPL based on following assumptions:

) CVP analysis is based on data from 2004/05 to 2008/09.

-) It is based only rupees but not units.
-) The proportion of semi-variable costs allocation is constant in each fiscal year.
-) A selling and distribution expenses assumed as variable.
-) An interest expenses assumed as fixed costs every FY.

4.7 Financial Analysis of WIPL

Financial analysis is the financial tools, which measures the financial strength and weakness of the firm. Ratio analysis is used to identify the strength and weakness of the industry which shows the arithmetic relationship between two figures. It measures one items divided by another concerned items. Ratio is calculated, based one balance sheet and profit and loss account. It shows the actual situation of the industry. Mainly, financial analysis can be undertaken by the internal concerned of the industry and external concerned parties in outside the industry (i.e. owners, creditors, investors and others). Mostly it measures liquidity, profitability, solvency and leverage or turn-over position of the industry. It also shows the present and future expectation of the industry.

Ratio analysis is one of the powerful tools of financial analysis. So, it is use as an index for evaluating the financial position and performance and predict future condition of the industry. The table below shows the financial ratio of WIPL of different FY. Details calculation of all ratios has presented in appendix- VI.

Table no. 4.19
Financial Ratios of WIPL
From FY 2004/05 to 2008/09

FY Ratio	2004/05	2005/06	2006/07	2007/08	2008/09
1.Liquidity ratio					
Current ratio	3.64:1	2.86:1	2.34:1	1.96:1	3.08:1
Quick ratio	2.67:1	1.62:1	1.39:1	1.1:1	1.3:1
2.Leverage ratio					
Total debt ratio	0.28:1	0.19:1	0.21:1	0.20:1	0.30:1
3. Assets management ratio					
Inv. turn-over ratio	11.93:1	6.33:1	10.11:1	11.24:1	10.9:1
Total assets turn-over ratio	1.54:1	1.27:1	1.72:1	1.73:1	1.86:1
Fixed assets turn-over ratio	2.99:1	2.37:1	2.93:1	2.69:1	3.19:1
4.Profitability ratio					
GPAT	19.8%	28.18%	18.29%	19.28%	23.27%
NPAT	1.76%	7.36%	2.52%	2.81%	5.639%
ROA	2.71%	9.38%	4.33%	4.87%	10.48%
ROCE	3.23%	12.59%	5.56%	5.69%	13.81%

Source: Appendix-VI

4.7.1 Liquidity ratio

Liquidity ratio measures the availability of the firm to show the current obligation. Liquidity ratio is establishing the relationship current assets to the current obligation. A firm should ensure that it does not suffer from the lack of liquidity and that it is not too much highly liquid. Most of the company is failure due to lack of sufficient liquidity.

Current ratio shows the relationship of current assets and current liability. Higher the current ratio is better. If the ratio is less than 2:1, sufficient cash sufficient cash may not be available to pay current liability. WIPL has minimum current ratio 1.96:1 in FY 2007/08. The current ratio from FY 2004/05 to 2006/07 and 2008/09 is greater than 2. It shows that there was sufficient liquidity to pay liability and WIPL can be success to maintain current ratio efficiency because the company current asset is greater than current liabilities.

Quick ratio is refined measurement of WIPL liquidity. This ratio establishes a relationship between quick assets and current liabilities. It is used to measure or test the short- term solvency position of the firm. So, it is more strength measure of liquidity than that of current ratio. Quick ratio is considered better. It is 1:1. WIPL has more than 1:1 in different years. It shows that better condition in every FY.

4.7.2 Debt ratio

The debt management ratio is analysis the long-term financial position of the firm. It is also called long-term solvency ratio. It implies that the ability of a company to meet the payment associated with its long-term debts.

Total debt ratio shows the relationship between total debt and total capital of WIPL. It is called debt-turnover ratio. Above table 4.19 shows that the debt ratio of WIPL. Debt ratio is satisfactory, if it is 2:3 levels. WIPL has satisfactory debt ratio in any fiscal year. All fiscal year can maintain its satisfactory ratio.

4.7.3 Assets Management Ratio

Assets management ratios are also called turn-over ratio. It evaluates the efficiency with the relation between sales and other various assets that exit an appropriate balance between sales and the various assets. Normally, WIPL has calculated inventory turn-over, total assets turn-over and fixed assets turn-over. High inventory turn-over is indicates of good inventory management. The inventory turn-

over was more than 6 times in every FY which indicates that very good inventory management of WIPL.

Total assets turnover ratio establishes the relationship between the amount of sales and total assets. This ratio indicates how well the WIPL's total assets are being used to generate its sales. Above table, no. 4.19 shows that total assets turnover ratio of WIPL. This ratio is significant ratio since it shows that WIPL's availability of generating sales from all the financial resources committed to firm. In every fiscal year total assets turn-over is more than 1 times. It's proved that WIPL's total assets are utilized properly increasing generated more revenue.

Higher the ratio of fixed assets turnover indicates the more efficient management on utilization of fixed assets. Fixed assets turnover ratio indicates the adequacy of sales in relation to the investment in fixed assets. It calculates sales divided by fixed assets.

In any organization, Profit is the life blood of the firm. It is necessary to survive and grow over a long period. Profitability measures or shows that the overall efficient of the firm. Therefore, each any every action initiated by management of a company should be aimed at maximizing profit. Generally, profitability ratio can be calculated in term of the company's sales. From the profitability ratio WIPL profit position can be found. The important profitability ratios has calculated and shown into the appendix -VI

$$\text{Net Profit Margin} = \frac{\text{NPAT}}{\text{Sales}}$$

Net profit margin shows the relationship between sales and net profit after tax. It shows this overall performance of the firm. It is measured by net profit after tax divided by sales. Net profit is calculated when operating expenses subtracted from the gross profit. The above table shows that net profit margin of WIPL from FY 2004/05 to 2008/09. In every fiscal year, net profit margin lies between 1.76% to 7.36% which

is not satisfactory. Therefore, WIPL will have to be reducing unnecessary expenses to increase its profit.

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

Gross profit margin is calculated, gross profit divided by sales. The gross profit margin is lies 18.29% to 28.18%, which is satisfactory than net profit margin.

$$\text{ROTA} = \frac{\text{NPAT}}{\text{Total Assets}}$$

The relation between net profit and total assets of the firm is known as return on assets. It calculated. NPAT divided by total assets. ROA determine how efficiently and effectively the fund supplied by the total asset have been used by the management. The above table no. 4.19 shows that ROA ratio of WIPL. The ratio between 2.71% to 10.48% from FY 2004/05 to 2008/09 that is satisfactory.

$$\text{ROCE} = \frac{\text{NPAT}}{\text{Total Capital}}$$

Return on capital employed shows that the relationship between capital and net profit after tax. It indicated that how well management has used the fund supplied by creditors and owners. Higher ROCE ratio indicates the efficient of fund utilization of the company. The above table no. 4.19 shows that the ROCE ratio of WIPL from FY 2004/05 to 2008/09. WIPL has used a small amount of current liabilities than long-term debt. Therefore, the profit margin is not satisfactory. WIPL capital employed is fluctuating and increasing every year. It means capital employed seems better. Capital employed ratio positive every year.

4.8 Major Finding

The various functional budgets of WIPL have been presented along with achievement by comparing budgeted and actual results. The analysis of various functional budgets and application of financial tools has been made as a basis to draw some internal and external problems that exist in the company's profit planning and controlling. The major findings after analysis of budgeting of WIPL are presented below;

-) The trend of budgeted and actual sales flows in the same direction. However, the fluctuation of budgeted sales is more than actual sales of WIPL.
-) Since budgeted and actual sales flows in the same direction, there is a very high positive correlation.
-) Actual production of WIPL is more fluctuating than budgeted production.
-) WIPL has the practice of preparing both strategic and tactical sales plans. Only the strategic plan was prepared systematically.
-) WIPL has earned profit from FY 2004/05 to 2008/09.
-) There is a high profit correlation between actual and budgeted production and sales.
-) There is a very positive correlation between budgeted and actual sales and production.
-) Actual material purchase budgets are more fluctuating than budgeted purchases of material.
-) Overhead expenses are not classified systematically, which creates difficulty in analyzing expenses effectively.
-) Actual labour expenses are increasing every FY.
-) WIPL has no practice of cost segregation and no proper allocation of manufacturing costs that creates difficulty in analyzing expenses effectively.
-) Actual production is always greater than actual sales.
-) Both net profit and gross profit of WIPL show increasing and decreasing trends every year.

-) WIPL was able to meet its BEP sales therefore it earns profit every year.
-) MOS all four years was positive which led the WIPL to maintain normal profit.
-) Profit volume ratio PVR or PIV ratio is satisfactory.
-) WIPL has sufficient contribution margin (CM) to cover all fixed costs.
-) WIPL has not maintained its periodic performance report systematically.
-) Financing in debt is being lower than necessary, which may reduce the profitability of industry in future.
-) WIPL, other ratio, liquidity assets, management ratios profitability etc. were satisfactory.
-) The company has not maintained the broad and long-rang objective and periodic report and objectives are limited to the high- ranking official only.

Variance analysis shows the variance between budgeted and actual sales and productions were unfavorable.

CHAPTER- FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATION

5.1. Summary

Industrialization is a comparatively new phenomenon in Nepal. The Biratnagar jute mills set up in 1936, marked the beginning of organized industry in the country. The industrial development strategy of the government however changed after the mid 1980s. The government then shifted its development strategy from state led development to market led open economy. As a result, many of the public sector industrial units were privatized.

Budgeting is a present planning to achieve future objective of an organization. The primary purpose of budgeting is profit planning and control. It is also said as the key to productive financial planning and control. Profit planning and control is one of the most important tools, which has used to plan and control business operations. Profit planning in short is the planning activities in such a way that helps in increasing the income at a minimum possible cost or optimum cost . It serves basically as a tool for management control. Therefore, the main objective of it is to increase the profit to the business organization. The effective operation of a business concern resulting into the excess of income over expenditure fully depends upon what extent the management follows proper planning effective co-ordination and dynamic control. PPC plays a vital role in measuring and controlling the performance of all organizations (manufacturing and non-manufacturing) without proper planning of profits and their implementation, no organization can achieve its goals and objectives effectively. Therefore, these days, profit planning and controlling or budgeting has become one of the most important management tools.

Western International Pvt. Ltd. Company is one of the private sector companies, which established on Jestha 2057 B.S. It was registered under private company act no 12829/056/057 on industry department. The head office of a company has located at Chidiya Khola, Butwal. It produces mineral water product with brand name of '**Carolina**'. Specially, WIPL sold its product to different customers of western region of the country.

The present study has examined the application of profit planning and control or budgeting system in Nepalese private manufacturing industry, Western International Pvt. Ltd. It analyzed and examined the practice of PPC of WIPL. It consists of five chapters consulting of introduction, literature review, research methodology, data presentation and analysis and summary, conclusion and recommendation.

The basic objective of the study is to examine the impact of budgeting system of Nepalese private manufacturing industry. In addition, sub budgets and laid down with consistent to the basic objective for the fulfillment of this objective various functional budgets are analyzed in details. For analyzing a short term, budget data of 2004/05 to 2008/09 has taken and only four years trend have analyzed with the help of various statistical and financial tools. Analytical as well as Description approaches have equally used to analyze the quantitative data wherever necessary.

Mainly secondary data used, statistical tools like mean, S.D. coefficient of variance, correlation, regression, trend line, diagram etc have been used to analyzed the data. Similarly, financial tools i.e. financial ratio has been used.

5.2 Conclusions

The data, which are provided by WIPL, the above analysis or major findings have been made. In addition, based upon this analysis, the following conclusion can be drawn:

-) The actual sales revenue is always minimum than budgeted sales but it is satisfactory in each fiscal year.
-) WIPL has prepared short-range profit plan rather than long -range profit plan. The period covered by the budget is only one year.
-) WIPL has gap between actual sales and actual production. It proves that WIPL has not success to sales all it is available production.
-) The using statistical tools represent that there is very high positive correlation between. Actual and budgeted sales, production as well as actual sales and production. But, low positive correlation in actual and budgeted material purchase.
-) The company is bearing a huge amount of FC and administrative costs. So, gross profit and net profit always positive but net profit is very low.
-) Analysis shows WIPL has not maintain inventory policy, budget shows stable inventory policy but in actual not so.
-) There is a not clear-cut boundary to separate cost into fixed and variable. The cost classification is not systematic.
-) The plan are prepared at top level; lower level participation in planning is not encouraged
-) There is no effective system in recording of essential documents and budget is preplanned just to fulfill the formalities.
-) CVP analysis has not considered while developing the sales plan and pricing strategic. WIPL can meet its break-even point sales in every FY.

-) The actual overhead expenses of WIPL have not maintained required or proper level. The increasing trend of overhead costs was very fast and in FY 2008/09, it is maximum high due to high level of FC.
-) The variance of WIPL is unfavorable condition.
-) WIPL has not prepared various functional budgets in systematic way budget. There is no system of taking corrective action for preplanning.
-) WIPL has not get complete success to analysis it's strength and weakness, opportunity and threat because it has earn profit and meet BEP every FY but not satisfactory level in current situation.

5.3 Recommendations

Based upon he above-mentioned issues, some recommendations have made. These recommendations are presented below:

-) WIPL must formulate clear cut goals, objectives policies, long-term plan or strategic program etc. and there should be continuous flow of information among various level of management and various group of employees.
-) WIPL should look for confident sources of material and focused on timely purchase.
-) All functional budgets should develop properly to meet short -term (tactical) as well as long-term (strategic) profit plan.
-) A systematic approach should be taken towards comprehensive profit planning; WIPL should focus on the relationship between revenues and expenditure. Performance measuring and controlling is necessary to obtain organization's goal. This can contribute to increase the profitability of WIPL.
-) Effective program such as motivation, participations, decision making right should be initiated to improve the productivity of labours, employees,

- Employees morale should be increased. Incentive plans should be started for rewarding and punishing purpose according to work performance.
-) WIPL should have an effective as well as scientific record system of performance for controlling purpose.
 -) WIPL should have in depth analysis of the industry's strength and weakness. It should try to overcome it's weakness by using the strength.
 -) It should reduce operating costs to increase net profit.
 -) Cost should be clearly classified into fixed and variable.
 -) CVP relationship should be considered while formulating profit plan and the industry should be accustomed with flexible budget system.
 -) System of periodical performance report should be strictly followed.
 -) The cost control program should be introduced to control the overhead costs.
 -) These should be the proper co-ordination the different types of personnel in regard of objectives, goals and strategic of the company.

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APPENDIX- I

a) Past Performance of WIPL.

FY	Actual Prod ⁿ cartoons (Y)	Actual Sales (X)	Total Sales in Rs.	Profit in Rs.
2004/05	33500	30000	3300000	58171.36
2005/06	42700	35000	3850000	283343.24
2006/07	51200	45000	4950000	125059.98
2007/08	51700	46000	5060000	142276.37
2008/09	53900	52000	5510000	310731.70

Sources:- Annual Report of WIPL 2008/2009.

APPENDIX- II

Calculation of Mean, Standard Deviation and Coefficient of Variation of Actual and budgeted sales (in cartoons)

FY	Budgeted sales in cartoons (X) '000'	Actual Sales (Y) '000'	U = X - \bar{X}	V = Y - \bar{Y}	U ²	V ²	UV
2004/05	32	30	-14	-11.6	196	134.56	162.4
2005/06	40	35	-6	-6.6	36	43.56	39.6
2006/07	50	45	4	3.4	16	11.56	13.6
2007/08	50	46	4	4.4	16	19.36	17.6
2008/09	58	52	12	10.4	144	108.16	124.8
Total	230	208	-	-	408	317.2	358

a) Calculation of Arithmetic Mean

$$\bar{X} = \frac{\sum x}{N} = \frac{230000}{5} = 46000 \text{ cartoons. And}$$

$$\bar{Y} = \frac{\sum y}{N} = \frac{208000}{5} = 41600 \text{ cartoons.}$$

b) Calculation of Standard Deviation (s.d.)

$$\sigma_x = \sqrt{\frac{1}{N} \sum U^2} = \sqrt{\frac{1}{5} \times 408000} = 286 \text{ cartoons}$$

$$\dagger_y \times \sqrt{\frac{1}{N} \sum V^2} \times \sqrt{\frac{1}{5} | 317200} \times 252 \text{ cartoons}$$

c) Calculation of correlation coefficient (r)

$$r_{xy} \times \frac{UV}{\sqrt{U^2} \sqrt{V^2}} \times \frac{358}{\sqrt{408} \sqrt{317.2}}$$

$$\times 0.9951 \text{ i.e. } 99.51\%$$

d) Calculation of C.V.

$$\text{C.V. of } \bar{X} \times \frac{\dagger_x}{\bar{X}} \times \frac{286}{46000} \times 0.0062 \text{ i.e. } 0.62\%$$

$$\text{C.V. of } \bar{Y} \times \frac{\dagger_y}{\bar{Y}} \times \frac{252}{41600} \times 0.0061 \text{ i.e. } 0.61\%$$

Where,

X = Budgeted sales

Y = Actual sales

U = X - \bar{X}

V = Y - \bar{Y}

\bar{X} = Average budgeted sales

\bar{Y} = Average actual sales

\dagger_x = Standard deviation of budgeted sales

\dagger_y = Standard deviation of Actual sales.

We assumed that the fiscal year 2006/07 as a base year. Therefore, the value of 'X' is Zero in this year. Than straight line trend,

$$Y_c = a + bx.$$

Where,

$$a = \frac{\sum xy}{M} \text{ or } \frac{208000}{5}$$

$$= 41600 \text{ cartoons}$$

And,

$$b = \frac{\sum xy}{\sum x^2} \text{ or } \frac{55000}{10}$$

$$= 5500 \text{ cartoons}$$

Putting the above value in above equation $Y_c = a + bx$

$$\dots Y_c = 41600 + 5500x$$

APPENDIX- III

Western International Pvt. Ltd., Butwal

Calculation of Mean, S.d. and coefficient of variation of budgeted and actual production (in Cartoons).

FY	Budgeted Production in Cartoons (X) '000'	Actual prod ⁿ (Y) '000'	U = X - \bar{X}	V = Y - \bar{Y}	U ²	V ²	UV
2004/05	35	33.5	-18	-13.1	324	171.61	235.8
2005/06	45	42.7	-8	-3.9	64	15.21	31.2
2006/07	60	51.2	7	4.6	49	21.16	32.2
2007/08	60	51.7	7	5.1	49	26.01	35.7
2008/09	65	53.9	12	7.3	144	53.29	87.6
Total	265	233	-	-	630	287.28	422.5

a) Calculation of Arithmetic Mean

$$\bar{X} = \frac{\sum x}{N} = \frac{265000}{5} = 53000 \text{ cartoons. And}$$

$$\bar{Y} = \frac{\sum y}{N} = \frac{233000}{5} = 46600 \text{ cartoons.}$$

b) Calculation of Standard Deviation (sd.)

$$t_x = \frac{U}{\sqrt{N}} = \frac{630000}{\sqrt{5}} = 355 \text{ cartoons}$$

$$t_y = \frac{V}{\sqrt{N}} = \frac{287280}{\sqrt{5}} = 240 \text{ cartoons}$$

c) Calculation of correlation coefficient (r)

$$r_{xy} = \frac{UV}{\sqrt{U^2} \sqrt{V^2}} = \frac{422500}{\sqrt{630000} \sqrt{287280}} = 0.9931 \text{ i.e. } 99.31\%$$

d) Calculation of C.V.

$$\text{C.V. of } \bar{X} = \frac{t_x}{\bar{X}} = \frac{355}{53000} = 0.0067 \text{ i.e. } 0.67\%$$

$$\text{C.V. of } \bar{Y} = \frac{t_y}{\bar{Y}} = \frac{235}{44775} = 0.0052 \text{ i.e. } 0.52\%$$

**Fitting straight line trend by least square from
FY. 2004/05 to 2008/09**

FY	Actual Production cartoons Y	X (mid-year)	X ²	XY
2004/05	33500	-2	4	-67000
2005/06	42700	-1	1	-42700
2006/07	51200	0	0	0
2007/08	51700	1	1	51700
2008/09	53900	2	4	107800
Total	Y = 233000	x = 0	x ² = 10	XY = 49800

Source: Annual Report of WIPL 2008/09

We assumed that the fiscal year 2006/07 as a base year. Therefore, the value of 'X' is Zero in this year. Than straight line trend,

$$Y_c = a + bx.$$

Where,

$$a = \frac{\sum y}{M} \text{ or } \frac{233000}{5}$$

$$= 46600 \text{ cartoons}$$

And,

$$b = \frac{\sum xy}{\sum x^2} \text{ or } \frac{49800}{10}$$

$$= 4980 \text{ cartoons}$$

Putting the above value in above equation $Y_c = a + bx$

$$\dots Y_c = 46600 + 4980x$$

Calculation of Regression

$$f_Y \sum Y \bar{X} = r_{xy} \left| \frac{\sum y}{\sum x} \right| f_X \sum X \bar{Y}$$

$$Y \sum 46600 \sum X 0.9931 \left| \frac{355}{240} \right| X \sum 53000$$

$$Y - 46600 = 1.47x - 77854$$

$$Y = 1.47x - 31254$$

APPENDIX- IV

Western International Pvt. Ltd., Butwal

Calculation of Arithmetic Mean, S.d. and correlation coefficient of actual Sales and
Actual Production (in Rs).

FY	Actual sales in '000' X	Actual Production in '000' Y	U = X - \bar{X}	V = Y - \bar{Y}	U ²	V ²	UV
2004/05	30	33.5	-11.6	-13.1	134.56	171.61	151.96
2005/06	35	42.7	-6.6	-3.9	43.56	15.21	25.74
2006/07	45	51.2	3.4	4.6	11.56	21.16	15.64
2007/08	46	51.7	4.4	5.1	19.36	26.01	22.44
2008/09	52	53.9	10.4	7.3	108.16	53.29	75.92
Total	208	233	-	-	317.2	287.28	291.7

a) Calculation of Arithmetic Mean

$$\bar{X} = \frac{\sum x}{N} = \frac{208000}{5} = 41600 \text{ cartoons. And}$$

$$\bar{Y} = \frac{\sum y}{N} = \frac{233000}{5} = 46600 \text{ cartoons.}$$

b) Calculation of Standard Deviation (sd.)

$$\dagger_x = \sqrt{\frac{1}{N} \sum U^2} = \sqrt{\frac{1}{5} \times 317200} = 252 \text{ cartoons}$$

$$\dagger_y = \sqrt{\frac{1}{N} \sum V^2} = \sqrt{\frac{1}{5} \times 287280} = 240 \text{ cartoons}$$

c) Calculation of correlation coefficient (r)

$$r_{xy} = \frac{\sum UV}{\sqrt{\sum U^2} \sqrt{\sum V^2}} = \frac{291700}{\sqrt{317200} \sqrt{287280}} = 0.9663 \text{ i.e. } 96.63\%$$

d) Calculation of C.V.

$$\text{C.V. of } \bar{X} = \frac{\dagger_x}{\bar{X}} = \frac{252}{41600} = 0.0061 \text{ i.e. } 0.61\%$$

$$\text{C.V. of } \bar{Y} = \frac{\sum y^2}{Y} - \frac{240}{46600} \times 0.0052 \text{ i.e. } 0.52\%$$

Calculation of Regression

$$f_x - \bar{X} = r_{xy} \left| \frac{\sum x}{\sum y} \right| (f_y - \bar{Y})$$

$$f_x - 41600 = 0.9663 \left| \frac{252}{240} \right| (f_y - 46600)$$

$$f_x - 41600 = 1.015 Y - 47281$$

$$X = 1.015 Y - 5681$$

APPENDIX- V

Cost classification of WIPL from FY 2004/05 to 2008/09

FY 2004/05

Items	FC	Variable costs	Proportion	Total costs
a. Variable costs				17829.32
Selling expenses	-	17829.32	100	
b. Fixed costs				
interest on loan	48000	-	100	48000
depreciation	122719.17	-	100	122719.17
c. Semi- variable costs				
mfg. expenses	793950	1852550	30:70	2646500
adm. expenses	94995.54	284086.61	25:75	378782.15
Total	1059364.71	2153925.93	-	3090571.49

a) Calculation of profit volume ratio (P/V ratio)

$$\text{P/V ratio} = \frac{S - V}{S} = \frac{3300000 - 2153925.93}{3300000} = 0.3473$$

i.e. 34.73%

V/V ratio = 1 - P/V ratio

$$= 0.6527 \text{ or } 65.27\%$$

- b)
$$\text{BEP (in Rs)} \times \frac{\text{FC}}{\text{P/V ratio}} \times \frac{1059364.71}{0.3473} \times 3050287.1$$
- c)
$$\text{MOS (in Rs)} = \text{Rs. Actual sales} - \text{BEP in RS}$$

$$= 3300000 - 3050287.1 = \text{Rs. } 249712.90$$

$$\text{MOS(in \%)} \times \frac{\text{MOS in Rs.}}{\text{Actual Sales}} \times \frac{249712.90}{3300000} \times 7.57$$
- d)
$$\text{CM} = \text{Actual sales} - \text{Variable Cost}$$

$$= 3300000 - 2153925.93$$

$$= \text{Rs. } 1146074.07$$

FY 2005/06

Items	FC	Variable costs	Proportion	Total costs
a. Variable costs				
Selling expenses	-	21932	100	21932
b. Fixed costs				
interest on loan	48000	-	100	48000
depreciation	180420.69	-	100	180420.69
c. Semi- variable costs				
mfg. expenses	829500	1935500	30:70	2765000
adm. expenses	109279.27	327837.80	25:75	437117.07
Total	1167199.96	2263337.80	-	3452468.76

- a) Calculation of profit volume ratio (P/V ratio)

$$\text{P/V ratio} \times \frac{\text{S} - \text{V}}{\text{S}} \times \frac{3850000 - 2263337.80}{3850000} \times 0.4121$$

i.e. 41.21%

$$\text{V/V ratio} = 1 - \text{P/V ratio}$$

$$= 0.5879 \text{ or } 58.79\%$$

- b)
$$\text{BEP (in Rs)} \times \frac{\text{FC}}{\text{P/V ratio}} \times \frac{1167199.96}{0.4121} \times 2832322.15$$
- c)
$$\text{MOS (in Rs)} = \text{Rs. Actual sales} - \text{BEP in RS}$$

$$= 3850000 - 3050287.1 = \text{Rs. } 1017677.85$$

$$\text{MOS(in \%)} \times \frac{\text{MOS in Rs.}}{\text{Actual Sales}} \times \frac{249712.90}{3850000} \times 26.43\%$$

d) $CM = \text{Actual sales} - \text{Variable Cost}$
 $= 3850000 - 2263337.80$
 $= \text{Rs. } 1586662.20$

FY 2006/07

Items	FC	Variable costs	Proportion	Total costs
a. Variable costs				
Selling expenses	-	33911	100	33911
b. Fixed costs				
interest on loan	48000	-	100	48000
depreciation	187521	-	100	187521
c. Semi- variable costs				
mfg. expenses	1213440	2831360	30:70	4044800
adm. expenses	111979.50	335938.52	25:75	447918.02
Total	1560940.5	3201209.52	-	4762150.02

a) Calculation of profit volume ratio (P/V ratio)

$$P/V \text{ ratio} = \frac{S - V}{S} = \frac{4950000 - 3201209.52}{4950000} = 0.3533$$

i.e. 35.33%

V/V ratio = 1 - P/V ratio

$$= 0.6467 \text{ or } 64.67\%$$

b) $BEP \text{ (in Rs)} = \frac{FC}{P/V \text{ ratio}} = \frac{1560940.5}{0.3533} = 4418172.94$

c) $MOS \text{ (in Rs)} = \text{Rs. Actual sales} - BEP \text{ in RS}$

$$= 4950000 - 4418172.94 = \text{Rs. } 531827.06$$

$$MOS \text{ (in \%)} = \frac{MOS \text{ in Rs.}}{\text{Actual Sales}} = \frac{531827.06}{4950000} = 10.74\%$$

d) $CM = \text{Actual sales} - \text{Variable Cost}$
 $= 4950000 - 3201209.52$
 $= \text{Rs. } 1748790.48$

FY 2007/08

Items	FC	Variable costs	Proportion	Total costs
a. Variable costs				
Selling expenses	-	34102	100	34102
b. Fixed costs				
interest on loan	48000	-	100	48000
depreciation	209264.82	-	100	209264.82
c. Semi- variable costs				
mfg. expenses	1225290	2859010	30:70	4084300
adm. expenses	118356.95	355070.86	25:75	473427.81
Total	1600911.77	3248182.86	-	4849094.63

a) Calculation of profit volume ratio (P/V ratio)

$$\text{P/V ratio} = \frac{S - V}{S} = \frac{5060000 - 3248182.86}{5060000} = 0.3581$$

i.e. 35.81%

$$\text{V/V ratio} = 1 - \text{P/V ratio}$$

$$= 0.6419 \text{ or } 64.19\%$$

b) $\text{BEP (in Rs)} = \frac{\text{FC}}{\text{P/V ratio}} = \frac{1600911.77}{0.3581} = 4470571.82$

c) $\text{MOS (in Rs)} = \text{Rs. Actual sales} - \text{BEP in Rs}$

$$= 5060000 - 4470571.82 = \text{Rs. } 589428.18$$

$$\text{MOS (in \%)} = \frac{\text{MOS in Rs.}}{\text{Actual Sales}} = \frac{589428.18}{5060000} = 11.65\%$$

d) $\text{CM} = \text{Actual sales} - \text{Variable Cost}$

$$= 5060000 - 3248182.86$$

$$= \text{Rs. } 1811817.14$$

FY 2008/09

Items	FC	Variable costs	Proportion	Total costs
a. Variable costs				
Selling expenses	-	35802	100	35802
b. Fixed costs				
interest on loan	48000	-	100	48000
depreciation	222516	-	100	222516
c. Semi- variable costs				
mfg. expenses	1268280	2959320	30:70	4227600
adm. Expenses	147400.5	442201.5	25:75	589602
Total	1686196.8	3437323.5	-	5123520

a) Calculation of profit volume ratio (P/V ratio)

$$\text{P/V ratio} = \frac{S - V}{S} = \frac{5510000 - 3437323.5}{5510000} = 0.3761$$

i.e. 37.61%

$$\text{V/V ratio} = 1 - \text{P/V ratio}$$

$$= 0.6239 \text{ or } 62.39\%$$

b) $\text{BEP (in Rs)} = \frac{\text{FC}}{\text{P/V ratio}} = \frac{1686196.8}{0.3761} = 4483373.71$

c) $\text{MOS (in Rs)} = \text{Rs. Actual sales} - \text{BEP in RS}$

$$= 5510000 - 4483373.71 = \text{Rs}1026626.429$$

$$\text{MOS(in \%)} = \frac{\text{MOS in Rs.}}{\text{Actual Sales}} = \frac{1026626.429}{5510000} = 18.63\%$$

d) $\text{CM} = \text{Actual sales} - \text{Variable Cost}$

$$= 5510000 - 3437323.5$$

$$= \text{Rs. } 2072676.5$$

APPENDIX- VI

Computation of Financial Ratio

1. Liquidity Ratio

a)
$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{FY 2004/05 X} \frac{1039429.47}{285729.11} \text{ X3.64 times}$$

$$\text{FY 2005/06 X} \frac{1397458.51}{487902.27} \text{ X2.86 times}$$

$$\text{FY 2006/07 X} \frac{1198480.15}{511109.17} \text{ X2.34 times}$$

$$\text{FY 2007/08 X} \frac{1037598.37}{528705} \text{ X1.96 times}$$

$$\text{FY 2008/09 X} \frac{1237807.48}{401850.78} \text{ X3.08 times}$$

b)
$$\text{Quick Ratio} = \frac{\text{Current Assets- inv. accruals}}{\text{Current Liabilities}}$$

$$\text{FY 2004/05 X} \frac{762929.47}{285729.11} \text{ X2.67 times}$$

$$\text{FY 2005/06 X} \frac{789158.51}{487902.27} \text{ X1.62 times}$$

$$\text{FY 2006/07 X} \frac{708680.15}{511109.17} \text{ X1.39 times}$$

$$\text{FY 2007/08 X} \frac{587298.37}{528705} \text{ X1.11 times}$$

$$\text{FY 2008/09 X} \frac{523298.48}{401850.78} \text{ X1.30 times}$$

2. Leverage Ratio

a) Total Debt Ratio

$$\text{Total debt ratio} = \frac{\text{Total Debt}}{\text{Total capital}}$$

$$\text{FY 2004/05 X} \frac{600000}{2150713.43} \text{ X0.28}$$

$$\text{FY 2005/06 X} \frac{600000}{3106402.51} \text{ X0.19}$$

$$\text{FY 2006/07 X} \frac{600000}{2911259.15} \text{ X0.21}$$

$$\text{FY 2007/08 X} \frac{600000}{2948658.37} \text{ X0.20}$$

$$\text{FY 2008/09 X} \frac{600000}{1960731.70} \text{ X0.30}$$

3. Assets Management Ratio

a)

$$\text{Inventory Turnover Ratio} = \frac{\text{Sales}}{\text{Inventory}}$$

$$\text{FY 2004/05 X} \frac{3300000}{276500} \text{ X 11.93 times}$$

$$\text{FY 2005/06 X} \frac{3850000}{608300} \text{ X 6.33 times}$$

$$\text{FY 2006/07 X} \frac{4950000}{489800} \text{ X 10.11 times}$$

$$\text{FY 2007/08 X} \frac{5060000}{450300} \text{ X 11.24 times}$$

$$\text{FY 2008/09 X} \frac{5510000}{503800} \text{ X 10.90 times}$$

b)

$$\text{Total Assets Turn-over Ratio} = \frac{\text{Sales}}{\text{T.A}}$$

$$\text{FY 2004/05 X} \frac{3300000}{2143902.47} \text{ X 1.54 times}$$

$$\text{FY 2005/06 X} \frac{3850000}{3021245.51} \text{ X 1.27 times}$$

$$\text{FY 2006/07 X } \frac{4950000}{2886169.15} \text{ X 1.72 times}$$

$$\text{FY 2007/08 X } \frac{5060000}{2920981.37} \text{ X 1.73 times}$$

$$\text{FY 2008/09 X } \frac{5510000}{2962582.48} \text{ X 1.86 times}$$

c) Fixed Assets Turn-over Ratio = $\frac{\text{Sales}}{\text{F.A}}$

$$\text{FY 2004/05 X } \frac{3300000}{1104473} \text{ X 2.99 times}$$

$$\text{FY 2005/06 X } \frac{3850000}{1623787} \text{ X 2.37 times}$$

$$\text{FY 2006/07 X } \frac{4950000}{1687689} \text{ X 2.93 times}$$

$$\text{FY 2007/08 X } \frac{5060000}{1883383} \text{ X 2.69 times}$$

$$\text{FY 2008/09 X } \frac{5510000}{1724775} \text{ X 3.19 times}$$

4. Profitability Ratio

a) Net Profit Margin = $\frac{\text{NPAT}}{\text{Sales}} \mid 100$

$$\text{FY 2004/05 X } \frac{58171.36}{3300000} \mid 100 \text{ X 1.76 \%}$$

$$\text{FY 2005/06 X } \frac{283343.21}{3850000} \mid 100 \text{ X 7.36\%}$$

$$\text{FY 2006/07 X } \frac{125059.98}{4950000} \mid 100 \text{ X 2.52\%}$$

$$\text{FY 2007/08 X } \frac{142276.37}{5060000} \mid 100 \text{ X 2.81\%}$$

$$\text{FY 2008/09 X } \frac{310731.70}{5510000} \mid 100 \text{ X 5.64\%}$$

$$b) \quad \text{Gross Profit Margin} = \frac{\text{G.P}}{\text{Sales}} \mid 100$$

$$\text{FY 2004/05 X} \frac{635500}{3300000} \mid 100 \text{ X } 19.80 \%$$

$$\text{FY 2005/06 X} \frac{1085000}{3850000} \mid 100 \text{ X } 28.18\%$$

$$\text{FY 2006/07 X} \frac{905200}{4950000} \mid 100 \text{ X } 18.29\%$$

$$\text{FY 2007/08 X} \frac{975700}{5060000} \mid 100 \text{ X } 19.28\%$$

$$\text{FY 2008/09 X} \frac{1282400}{5510000} \mid 100 \text{ X } 23.27\%$$

$$c) \quad \text{Return on Total Assets} = \frac{\text{NPAT}}{\text{T.A}} \mid 100$$

$$\text{FY 2004/05 X} \frac{58171.36}{2143902.47} \mid 100 \text{ X } 2.71 \%$$

$$\text{FY 2005/06 X} \frac{283343.21}{3021245.51} \mid 100 \text{ X } 9.38\%$$

$$\text{FY 2006/07 X} \frac{125059.98}{2886169.15} \mid 100 \text{ X } 4.33\%$$

$$\text{FY 2007/08 X} \frac{142276.37}{2920981.37} \mid 100 \text{ X } 4.87\%$$

$$\text{FY 2008/09 X} \frac{310731.70}{2962582.48} \mid 100 \text{ X } 10.49\%$$

$$d) \quad \text{Return on Capital Employed} = \frac{\text{NPAT}}{\text{Capital Employed}} \mid 100$$

$$\text{FY 2004/05 X} \frac{58171.36}{1800000} \mid 100 \text{ X } 3.23 \%$$

$$\text{FY 2005/06 X} \frac{283343.21}{2250000} \mid 100 \text{ X } 12.59\%$$

$$\text{FY 2006/07 X} \frac{125059.98}{2250000} \mid 100 \text{ X } 5.56\%$$

$$\text{FY 2007/08 X } \frac{142276.37}{2250000} \mid 100 \text{ X } 5.69\%$$

$$\text{FY 2008/09 X } \frac{310731.70}{2250000} \mid 100 \text{ X } 13.81\%$$

Capital Employed = Long term debt + Pref. stock + Shareholder's equity.

or

Capital Employed = Net fixed assets + Net working capital.

APPENDIX- VII

Western International Pvt. Ltd.

Butwal

Profit and Loss Account

Particular	Fiscal Year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Sales	3300000	3850000	4950000	5060000	5510000
Manufacturing expenses	2646500	2765000	4044800	4084300	4227600
Gross profit	653500	1085000	905200	975700	1282400
Administrative expenses	378782.15	437117.07	447918.02	473427.81	589602
Selling expenses	17829.32	21932	33911	34102	35802
Interest paid	48000	48000	48000	48000	48000
Depreciation	122719.17	180420.69	187521	209264.82	222156.30
Misc. expenses	7025	12030	17700	17332	18703
Prov. for income tax	20973	102157	45090	51297	57405
Net profit	58171.36	283343.24	125059.98	142276.37	310731.70
Profit transfer to balance sheet	58171.36	283343.24	125059.98	142276.37	310731.70

Western International Pvt. Ltd.
Butwal
Balance Sheet as on Ashad end

Particular	Fiscal Year				
	2004/05	2005/06	2006/07	2007/08	2008/09
Liabilities and Capital					
Capital					
Paid up Capital	1200000	1650000	1650000	1650000	1650000
Reserve and Surplus	58173.36	283343.24	125059.98	142276.37	310731.70
Long term loan	600000	600000	600000	600000	600000
1. Total	1858173.36	2533343.24	2375059.98	2392276.37	2560731.70
Current liabilities					
Business and other payable	285729.11	487902.27	511109.17	528705	401850.78
2. Total	285729.11	487902.27	511109.17	528705	401850.78
Total liabilities and capital (1+2)	2143902.47	3021245.51	2886169.15	2920981.37	2962582.48
Assets					
Fixed assets					
Investment	1104473	1623787	1687689	1183383	1724775
	-	-	-	-	
4.Total F.A	1104473	1623787	1687689	1183383	1724775
Current assets					
Inventory	276500	608300	489800	450300	503800
Business and other receivable	268075	426870	150000	301719	210709
Cash and bank balance	80002.47	119524.51	203771.15	134461.37	363518.48
Prepaid expenses and advances paid	414852	242764	354909	151118	159780
5.Total current assets	1039429.47	1397458.51	1198480.15	1037598.37	1237807.48
6Net Current assets	753700.36	909556.24	687370.98	508893.37	835956.70
7. Total Assets (4+6)	2143902.47	3021245.51	2886169.15	2920981.37	2962582.48

Curriculum Vitae

Personal Details:

Name : Susil Giri
Date of Birth : 26/03/1983
Father's Name : Dhaneshor Giri
Permanent Address : Swathi -5 Nawalparashi
Temporary Address : Swathi -5 Nawalparashi
Gender : Male
Marital Status : Single
Religion : Hindu
Nationality : Nepalese
Language : Nepali, English and Hindi

Academic Qualifications:

Level	University/Board	Year	Remarks
S.L.C	H.M.G Board of Nepal	2056	Jagannath Ma Vi
10+2	H.S.E.B	2059	Maha Kavi Devkota
B.B.S	T.U	2062	Divaya Jyoti Multipal
M.B.S	T.U	2065	Lumbini Banijya Campus

Training:

Proficiency in Windows Application
Accounting software busy

Experience:

1 years working experience as accountant in Gandaki Auto Trading, Butwal -12
1 years working experience as marketing officer in Blue Haven Pvt , Ktm – 10
1 years working experience in Ministry of India defense security force

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