PROFIT PLANNING AND CONTROL OF MANUFACTURING ENTERPRISES OF KAILALI DISTRICT "A CASE STUDY OF SHARADA RICE & OIL MILL"

BY

BHAWANA BINADI

KAILALI MULTIPLE CAMPUS

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DECLARATION

I hereby declare that the work reported in this thesis entitled profit planning and control of manufacturing enterprises of Kailali District "A case study of Sharada Rice and Oil Mill" is submitted to the office of the Dean, faculty of management, Tribhuvan University is my original work in the partial fulfillment of the requirement for master of business studies (MBS) conducted under the direct supervision and guidance of Mr. Govind Raj Joshi Lecturer of Kailali Multiple Campus, Tribhuvan University.

……..

Bhawana Binadi

(Researcher)

MBS student

Kailali Multiple Campus

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Researcher

Bhawana Binadi

Kailali Multiple Campus

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LIST OF ABBREVIATIONS

A.M.	=	Arithmetic Mean
ARR	=	Average Rate of Return
BEP	=	Break Even point
B.S.	=	Bikram Sambat
Co.	=	Company
C.V.	=	Coefficient of variation
CVP	=	Cost volume profit
CF	=	Cash Flow
FA	=	Fixed Assets
FY	=	Fiscal year
i.e.	=	That is
Ltd.	=	Limited
NPV	=	Net present value
PBP	=	Pay Back Period
%	=	Percent
PES	=	Public Enterprises
PI	=	Profitability Index
PP	=	Profit planning
PPC	=	Profit planning and control
PV	=	Profit Volume
Pvt.	=	Private Limited
r	=	Correlation Coefficient
S.D.	=	Standard Deviation
SROM	=	Sharada Rice and oil Mill
VC	=	Variable cost
&	=	And
$\bar{x}$	=	Mean
±	=	Standard Deviation
NLL	=	Nepal lever Limited

CHAPTER - ONE

INTRODUCTION

1.1 General background: -

Nepal, wedged strategically by the two economically giant countries India and China is a landlocked country. It is located on the southern flank of the Himalayan range. The country lies at the latitude of $26^0 22^0$ N to $30^0 27^0$ N and $80^0 4^0$ E to $88^0 12^0$ E in range of longitude. The altitude rises from 60meters above sea level in the south to highest point on earth Mt. Everest at 8848meters from the sea level in the north. Nepal covers an area of 1,47,181 sq. kilometers. It extends about 885 km from east to west in length and its north-south span varies from 145km to 241kmt. Within a short north south extension of less than 250kmts a great variation can be found in its biodiversity and climate. Due to its unique geographical position and latitudinal variation, it is one of the richest landlocked countries in the world in nature resources. At the same time, the terrain and the topography of Nepal have made it a country of many constraints.

Nepal contains more than a dozen ethnic groups originating from three major ethnic division; Indo-Aryan, Tibeto-Burman and Aborigine. They all live in harmony with their own culture and tradition respecting each other norms and values. Thus, due to this variation in its geography and ethnic diversity, Nepal has both opportunities and constraints side by side.

Ecologically Nepal is divided into Himalayan region, Hilly region and Terai region as three regions. The Himalayan region constitutes the highest Himalayan ranges in the world lying in the northern part of the country. The elevation of these mountain ranges varies from 3000 mts. to 8848mts. It covers about 25% of the total land of the country. It is covered by snow all round the year. Here only small herbs of medicinal values grew. Thus this region has high potentiality of medicinal plants. Similarly, below the Himalayan region lie hilly region. It covers about 50% of the total land of the country. The elevation ranges from 600 meters to 3,000 meters above the sea level. The width ranges from 80 to 125 meters. The southern belt of the country below the hilly region is a Terai region. It is a food bed of the country. It occupies 25%of the total land of the country. Of the total land area in terai, only 40%is suitable for cultivation. The elevation ranges from 60 to 300meters. Nepal is also rich in

natural resources. The evergreen forest, the non-stoppable flowing water and various kinds of flora and fauna have truly made this country rich in natural resources. Only the need is to identify them and utilize in a proper way. Mineral potential of the country is yet to be properly assessed. Due to lack of scientific and extensive geological survey of the country, the actual statistics of the mineral resources are not available yet.

1.2 Industrialisation in Nepal :-

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 an effective mobilization of resources of capital and skill, which might otherwise remain unutilized. Industrialization plays a crucial role in achieving high rate of economic growth in developing countries. Economic development of a country is contingent to the industrialization, which is conventionally measured by increment in the share of industry and a rise in per capita income. Industrial development a phenomenon more than what has been traditionally defined is a function of interaction among the set of parameters comprising resources, human capital and natural technology and management dynamism. In the history of industrialization, especially after the Second World War a very few developing countries in Asia witnessed especially newly industrialized economies. Nepal, a developing region in Asia, where development efforts have been thwarted by amazingly increasing population growth rate, acute disguised unemployment and object poverty, unstable politics and other many factors that have halted the aspirations of better future of this region.

Industrialization is the key factor in the process of economic development and its importance as means of achieving economic growth and prosperity. Industrialization offers the prospectus for the expansion of employment and income. Further, it generates innovations and technical changes that bring about the shifts in the production. Moreover, industrialization on in a long-term affair and the road to its attainment is not as smooth as expected. Nepal is the sphere of industrial development is still in an infant stage and just struggling to get matured. The contribution of manufacturing sector to gross domestic product (GDP) is estimated to be below 10 percent. Nepalese economy is still depended mainly upon agriculture.

The history of industrial development in Nepal is very short. But the pace at which its development is taking place is remarkably slow and inconsistent. The beginning of industrial

development in the country can be tracked back to the period of some 60 years ago during the regime of Juddha Samsher. The Nepal company act was enacted a long with the organization of development board in 1936. At the same time, the first industrial factory named the "Biratnagar Jute Mill Ltd" was also set up in that year 1936.It was the joint venture of Nepalese and Indian capitalists. Many organized industries were established at the time of Second World War.

Along with the execution of the first five-year plan in 1956, the climate of industrial development in Nepal went on becoming favorable thought the plan targets could not be realized, various industries were setup during different plan periods. In order to provide necessary capital and technical suggestions required by the industries, the Nepal Industrial Development Corporation (NIDC) was established in 1959. The government adopted and announced industrial policy in 1960 and modified the company and labour laws in 1961. As a result, these steps taken by the Nepal Governments, the atmosphere of industrial development went on becoming favorable. In addition, various public and private enterprises under foreign assistance were setup in diverse sectors of Nepal. Industrial policy 1992 has classified industries to various categories. According to this policy, the industries having fixed investment of Rs.10 millions to Rs.50 millions are taken as medium scale industries and industries having fixed investment above 50 millions have been classified as large-scale industries.

Kailali district is located in far western region of Nepal. There are some public and private enterprises established here together with democratic system. Some small sized and some medium sized industries are operated but some of them are closed due to political instability. Now days there are some small sized and medium sized private industries are being operated. About 10 percentage of total active population is estimated to be involved as productive labour economically. The contribution of manufacturing industries to GDP is 10.2% as maintained in economic survey (2009-10).

1.3 General Concept of PPC :-

Profit planning and control (PPC) is a newly developed concept as a crucial way in the business organization. It is recent phenomenon used expensively in the literature of business enterprise. It has not been familiarized only by simple budgeting but a way of managing mostly in the better-managed companies.

Profit planning and control is one of the best tools yet devised for advancing the affairs of company and the individuals in their various managerial activities. The profit planning and control can be adapted to all types of organization such as large and small manufacturing and non-manufacturing.

Profit planning is comprehensive and coordinating plan, which deals with overall planning picture of an enterprise and co-ordinate the various substantive plans: Short-term financial plans and strategic long-range plans. It is expressed in financial term for the firm's operations and resources for a specified of future plan.

A comprehensive profit planning and control is a systematic and formalized approach for stating and commuting the firm's expectation and control responsibilities for management in a such way as to maximize the use of given resources.

The following advantages can be drawn from profit planning and control:

- It provides estimation and predetermination of revenues and expertise that estimated how much income will be generated in order to meet the financial requirement.
- It provides opportunities analyzing incurred or anticipated expenses organizing future planning by fixing f responsibility.
- It provides a tool for more effective supervision of individual operations and practical administration of the business as a whole.
- It is a tool, which is used by the management in planning the future course of action and in controlling actual performance.
- It consists of the operation budget, the financial budget and master budget.

There are so many assumption of using profit planning and control. Firstly, the basic plans of business must be measured in terms of money, if there is to be any assurance that money will be available per the needs of business. Secondly, it is possible to plan per the future of a business in a comprehensive way coordinating every aspects of the business with every other aspect to establish optimum profit goals. Thirdly, control the over planning, Fourthly, profit planning is preplanning not merely, what to do it things workout as forecasted, but also what to do it things work out differently from the fore cast.

Profit planning and control is that factor adopted specially in the manufacturing company. Without the proper profit plan and control no organization can be successful, so this very strongly has been made to analyze the practice and effectiveness of profit plan in the companies established under domestic investment especially with " Sharada Rice & Oil Mill."

1.4 Profit planning in manufacturing concerns/enterprises:-

"In manufacturing enterprises, profit planning programme is most important for the utilization of scarce resources and effectively and efficiently achieve and accomplishing the goals and objectives in sales planning, production planning, planning of direct labour, material building, service inventory distribution and promotional expenses, factory overhead expenses, administrative expenses, capital budgeting cash flow, strategic tactical and manpower planning. However, Nepalese manufacturing enterprises have not formulated the above plans. It is because of confusion in goals and objectives. The studies so far made did not analyse it in due context of profit planning."1

Hence, can be argued that most of manufacturing enterprises in Nepal are not using the full concept of profit planning. That is why they are operating in loss.

1.5 Meaning of manufacturing concerns

In this era of globalization, treamendous conerns and industries were established with a motive of earning profit in both sectors i.e private and government. They produce both tangible and intangible products. Manufacturing means any industries that make product

1.Dazy tater "Thesis of profit planning in soft drink industry (A case study of Bottlers Nepal Ltd.)" faculty of management. T.U 2001.P62.

from raw by use of labour or machinery, which is usually carried out systematically with a division of labour. The industries which produce products such as beer, soft drinks, soap, sweet, noodles etc. are called manufacturing industries and the industries that produce service such as hotel, consultancy, Parlor etc. are service industries. For both type of industries profit maximization plays vital role.

1.6 Meaning of public enterprises

In general, public enterprises are the providers of government's service and facilities easily to people. "Public enterprises can be defined as an activity of the government. Whether central, state or local, involving manufacturing or production of goods including agriculture or making available a sender for a price such activity being managed either directly, that is departmentally, or through an autonomous body with the government having a majority ownership that is more than 50 perent of equity." 2 By the above definition, public enterprises are state owned organizations having more than 50 percent share of government.

"Public Enterprises in Nepal constitute a vital instrument for the socio-economic development for our country. It enjoys a strategic and crucial position in our mixed economy. They have been established in many sectors of the economy with a view to provide goods and services for the overall development of the country. Consequently, they are dominant in the production or supply of sugar, cement, cigarettes, leather, agriculture tools, petroleum products and all public utilizes."3

U. N has defined PE as "Those organizations, namely governmental enterprises and public corporations which are entirely or mainly owned and or/ controlled by the public authorities consisting of establishments which by virtue of their kind of activities, technology and mode of operation are classified as industries"4.

2. Laxmi Narayan Principle and practice of public enterprises Management S chand and company Ltd Ram Nagar New Delhi 1100055 page 3.

3. P shrestha, Public Enterprises in Nepal, first edition -1990 Bahukendra. Ofst Press. Thapathali Kathmandu Page 1.

4. Ibid page 3

1.7 Objectives of Public Enterprises :-

In a developing country like Nepal the Public enterprises have great importance for the country's socio economic development. Generally speaking, such enterprises make available goods and services at cheap price and convenient manner besides contributing to the revenue of the state. So such manufacturing concerns/public enterprises have established with following objectives.

- For developing the basic industries.
- For providing more facilities to the public.
- For economic development of the country.
- For providing employment to the people.
- For increasing government revenue.

1.8 Company profile

1.8.1 A Brief Introduction of Sharada Rice & Oil Mill:

Sharada Rice & Oil mill is one of the manufacturing Companies, which was established under domestic investment in. 2052B.S. as a manufacturing company. It is the one important manufacturing enterprise in Kailali district. It is private company so all investment was invested by the company's chairman/proprietors. It was established with an objective of earning profit by serving public by providing healthier and quality material: manufacturing flour, Suzi, choker and Maida. The company's registered office and factory are located in Geta V.D.C Rajpur. Sharada Rice & Oil mill is producing different customer goods in Kailali by using developed and advanced technology. It has earned the significant popularity in the short period because of its services towards the consumer and the contribution made for the economic development of the country.

a. Objectives of Sharada Rice and Oil mill

1. To supply quality products in the market

2. To establish Sharada product as the leading brand

3. To expand Sharada products throughout the country

4.To provide labor friendly working environment

b. Financial source and capital structure

Private investment- 35%

Private Borrowing- 15%

Corporate/Individual Debt-10%

Bank loan-40%

c) Personnel of Sharada Rice & Oil Mill

The company has been providing direct employment more than 100 Nepalese citizens and indirect employment for outer 10 times through its network of suppliers, distributes and ancillaries. The company could not get employment only Nepalese people other 50 Indian people are also working in factory. Sharada Rice & Oil Mill has always acceded high priority to employee training both in on- the job and of the job training. Trainings were also launched per leadership development, providing coaching performance and building competence per managers and officers.

d) Board of Directors.

The chairman and members of the board of directors of company are as follows:

Mrs. Sharada Devi Gupta	Proprietor
Mr.Rajesh Gupta	Chairman
Mr. Rakesh Gupta	Managing Director.
Mr. Radhye Shyam Gupta	Manager

e) Managers & Accountant

Mr. Rakesh Gupta is working as factory manager and Mr. Shyam agarwal is appointed as accountant and also given responsibility of company secretary.

f) Auditors

M/s K.F. Nahata & company, chartered Accountants are appointed for auditors.

1.8.2 Domestic Business & Marketing:

Sharada rice and oil mill is established in Kailali district. Its main market located in far western region. The domestic market share of Sharada Rice and oil Mill is about 80%. Sharada rice and oil mill has two products Rice and Oil. It covers all markets in far western region.

The Industry exports on its products, in far western region and other places of Nepal. Sharada Rice and Oil Mill export its product in India also. In Nepalese context 50% Rice and Oil export in Kathmandu, Nepalgunj, Dang, and most of far western region. This mill launched number of product and re-launched during the year, per maintaining the focus on domestic business and consumer related innovations, while the existing low unit packs.

The marketing channels of Sharada Rice and Oil mill also are competitive, many advertising focusing on increase market. F.M, radio, TV channels, newspaper, wall painting and other more channels are using for advertising.

1.8.3 Raw material

Out of the total raw material purchase, 40% are imported from India and 60% are obtained from the domestic market and country.

1.8.4 Product Line

Sharada Rice and Oil mill produced two products Rice, and Oil.

1.9 Statement of the problem

With the per capita income of about $269, Nepal is a developing country in the world. With a limited number of the industry and service-providing sector, where the industrialization and the service sector are not in full-fledged development, the country economy is moving in very slow pace. Limited natural resources, landlocked position, difficult topography and poor infrastructure are only some of the handicaps with which this economy struggles. The economy of the country has not kept pace with the country's high population growth thus depending most of the people in the agriculture sector. Agriculture has been the major earning for the most of the Nepalese people for the long period in the history of Nepal

The economy of Nepal is based on agriculture. Most than 80% of people are depended on agriculture to fulfill their needs as mentioned in "economy survey" (2009-2010) Nepal. So, Nepalese manufacturing enterprises are established in order to develop infrastructure service needed for national development to fulfill the demands of the people to create employment opportunity, to increase government revenue to improve balance of trade situation. However, the domestic investments are found to be operating unsatisfactory and their financial position is far from satisfactory. There are various and different reasons for the poor performance of manufacturing industries. Among them profit planning control is one of the most important tools for the measuring performance of any company. Such reasons should be investigated for taking corrective measures for the improvement of their performance.

The industrialization process in Nepal is developing very slowly in spite of being various attractive policies of government in respect of industrialization. New investment made in industrial sector is not also satisfactory. The financial performance of established industry is also not good. There may be different reasons for the poor performance of established industries. Such reasons should be investigated and taken corrective measures for the improvement of their performance. Several enterprises were established to accelerate the industrialization process in the country. However, the poor performance of many of the industries did not help to meet their objectives. It is argued that many enterprises are failed to achieve their pre-established objectives and goals due to the lack of delegation of authority and communication of objectives and goals from top to lower level management and lack of PPC system.

Therefore, the government of Nepal came up with policy to improve efficiency and performance by introducing competitiveness and entrepreneurship.

In the context of Kailali, some companies and firms are making profit but not able to make sufficient and effective profit. Therefore, adoption of systematic profit planning is essential to improve financial performance and run profitability.

Profit planning and control is one of the effective managerial tools for business operation. If the business enterprise is suffering from loss or inefficient profit than profit planning & control of that business operation should be reviewed. The analysis of different types of budgets adopted by "Sharada Rice and Oil mill" helps to identify the major problems so that remedial measures for the improvement of operation.

The success of an organization depends upon the profit planning system. Profit planning system requires budgets such as sales budget, production budget, material budget etc. Sharada Rice and Oil mill is one of the most important industrial private enterprises in our district. The present study analyzed and reviewed the profit planning & control of Sharada Rice and oil mill. This study tried to find our main reason for inefficient performance and low profit. Therefore, this study attempted to focus also on the operational aspects of profit planning & control.

1.10 Objective of the study

Every study has objective. The basic objectives of the study are to identify profit planning and control at Sharada Rice and Oil mill. The objective of the study is to examine the practice and effectiveness of budgeting in 'Sharada Rice and Oil Mill. Thus, the objectives are mentioned as follows:

- To analyze the profit planning system of the SROM.
- To highlight the company.
- To evaluate the variables in the budgeted and actual results.
- To point out variations in the budgets and give valuable suggestions and recommendations.

1.11 Focus of the study

This study is focused on evaluating the use of different types of financial budgets, financial ratios and corporate planning system for the effective implementation of overall profit planning and control. This study intends to describe the purpose of the different kinds of budgets and plans used. Generally, two types of profit plan are in practice. Those are strategic long-range profit plan and tactical short-rang profit plan. Both of these plans are equally important for the successful operation of an enterprise. Therefore, the following studies were made to appraise the strength and weakness of the enterprise.

- Sales plan
- Production plan
- Capital expenditure plan
- Cash plan

- Overhead plan
- Break-even analysis etc
- Adjusted profit and loss
- Balance sheet

1.12 Significance of the study

The main aim of profit planning and control is to forecast about future events and to overcome the risk associated with uncertainties. The study will be very useful to entrepreneur's decision makers and researchers. It deals with the aspects of budgeting or profit planning which is an important tool in the field of managerial decision-making in the organization.

The research has significance in the sense, that it has analyzed whether the company is using standard budgeting system or not. For this purpose, the budgeting system which provides useful technique for overall managerial planning, is remedial and recovers basic remedied measurers to improve the profit planning and control system of the company. This research work guideline to develop a standard budgeting system to the company, which would certainly increase the efficiency and performance of the organization.

The need of the study is to examine whether the Sharada Rice and Oil Mill is applying a PPC system properly or not. The profit planning process significantly contributes to improving the profitability as well as the overall financial performance of an organization by helping to optimize resources. An accomplishment of objectives in every enterprise depends upon the efficient utilization of scarce resources. In addition, the financial performance of an organization depends purely based on its use of resources. Budget is the key for profit planning. Most of enterprises run commercial principles. If the planning process of an enterprise is made effective, the result and pace of development naturally steps forwards. Profit planning is the best management. Profit is the most important indicator of judging managerial efficiency and performance of enterprises, so there is a need for study to examine to what extent. Sharada Rice and Oil Mill are successful to improve performance in terms of profit planning practices and to know whether the company is fully applying PPC concepts or not.

Among various manufacturing companies with domestic investment Sharada rice and oil mill is one of the companies, which proved to be important company for the development of country. Employment of huge amount of money, advanced technology and concept, generation of employment opportunity is the main characteristics of the company. Therefore, it is more significant to analyze Sharada rice and oil mill's profit planning & control.

1.13 Limitation of the study

Maximum efforts were given for not deviating from the facts and truth while presenting and analyzing the information. However, certain limitations existed which were difficult to eliminate.

Following are its limitations of this study;

- The proposed study is based on the data of five fiscal years covering 2063/064 to 2067/068.
- The whole study is based on true response and the data provided by the SROM management.
- The study is based on secondary data but for the primary data, general discussions with the management were also done.
- The study was focused on the application of PPC in SROM.
- This analysis is concerned in some managerial, financial and accounting aspects and it will not cover other areas of company.
- Time and resources constraints are another limitation of this study. Therefore, this study does not have the situation of similarity to other company.
- The study is based upon the planning documents, published books, booklet and magazine that are available in market and related field.

1.14 Scheme of the study

For every research or study, it is necessary to organize the study work. It helps researcher by providing for making analysis and preparing report. The study is divided into five chapters.

Prior of the body of thesis, several pages of preliminary materials such as retile page, viva-voce sheet recommendation, declaration of the researcher, acknowledgement, table of contents, list of tables, list of figures and abbreviation used have been included. The entire study has been organized into five main chapters as.

Chapter I: Introduction

The first chapter is introduction, which includes general background of the study, statement of the problem, objective of the study, focus of the study, significance of the study, limitation of the study and scheme of the study.

Chapter II: Conceptual framework:

This chapter includes detail concept of PPC and its components, development of various budgets and measurement of performance analyzing the various budgets.

Chapter III: Review of Literature:

The second chapter is the review of related literature, which included review of major studies i-e. Review of books, review of journals and periodicals unpublished master degree thesis on the subject.

Chapter IV: Research Methodology

Fourth chapter is research methodology; it includes introduction, research design, source of data, procedure of research methodology, population and sample method used for financial analysis and statistical analysis.

Chapter V: Analysis and presentation of data

The fifth chapter comprises data presentation and analysis of data. In this chapter primary and secondary data collected from various sources have been presented in systematic permit such as table, chart, figures, These collected data have been analyzed by using different mathematical, statistical and analytical tools. In addition to that the major finding of the study has been presented.

Chapter VI: Finding, summary, Conclusion and recommendations

The sixth chapter and last chapter is concerned with the output of the study from of summary, conclusion and recommendation. The chapter consists of summary of the major findings of the study, concluding it with major recommendation and suggestions for future improvement of profit planning and control of the company.

CHAPTER TWO

CONCEPTUAL FRAMEWORK

2.1 General view of profit and planning

The two-term profit and planning are the basic aspects of profit planning and control. Thus before entering into the depth of profit planning and control this two terms need to be defined. The dictionary meaning of the term "profit" is "money" which is earned in trade through production and selling goods and services. Profit generally means a difference between revenue generation and the cost incurred or it can also be expressed as the excess of income over expenditure during a particular period. Profit in business refers to the monetary difference between the cost of producing and marketing goods or services and the price subsequently received for those goods or services. In economics, profit may be defined as the net income of a business after all other costs have been deducted. As for entrepreneurship, profit is a reward for risk taking. According to a labor leader; “profit is a measure of how efficiently labor has produced and that it provides a base or negotiating a wage increase.” Investors will view it as a gauge of the return on his/her money.

“Profit is the primary measure of business success in any economy. Profit do not just happen it is managed. It is the ultimate objectives of management to maximize profits over the long term consistent with its social responsibilities.”(Lynch and Williamson, 1984:99)

“No company can survive long without profit. Profit is the ultimate measure of its effectiveness, and in a capitalist society, there is no future for public enterprise that always incurs losses. Profit is a signal for the allocation of resources and a yardstick for judging managerial efficiencies.”(Kulkarni; 1992:100)

Profit just does not happen profits are managed. Profit is the primarily measure of business in any economy. It is therefore very important to understand the concept of profit. The great Greek philosopher Aristotle (384 B.C- 322B.C) once says, “Watch the costs and the profit will take care of themselves.”

F.B Hawley says, "Profit is reward for risk taking in business. Schumpeter opines that an entrepreneur earns profit as reward for introducing innovation. J.M Keynes holds the view

that profit results from the favorable movement of general price levels. In view of Mrs. John Robinson and chamberlain, the greater the degree of monopoly power the greater will be profits made by the entrepreneur (Joshi, 2052: 170).

The term planning means deciding in advance what is to be done in future. Planning starts from forecasting and predetermination of future events. Planning is the first function of management. It is the process of developing enterprises objectives and selecting future courses of action to accomplish them. It is performed continuously because the passage of time demands both replanning and making new plans. Moreover, current feedback often necessities newly planned actions to a) correct performances deficiencies b) cope with unanticipated events that are unfavorable and c) taking advantages of new developments.

It is a decision in advance what to do, when to do, how to do and who will do a particular task hence planning is thinking before doing. It involves selecting of objectives and strategies, policies, programme and produce for achieving them."(Shrestha; 1996:315)

Planning is the first essence of management and all other functions are performed within the framework of planning. Planning means deciding in advance what is to be done in future. The primary purpose of planning in the business is to increase the chance of making profit. The budget is the primary operation-planning document. Committed performance budgets are called profit plan. Each manager and sub-ordinates has the authority in varying degrees to make the decisions the result of which will nearly accomplish of better his budgetary targets."(Kenneth et al; p27)

Planning is defining goals, establishing strategy for achieving these goals and developing a comprehensive hierarchy of plans (sub plans) to integrate and co-ordinate activities. It is concerned with both ends (what is to be done) and means (how is to be done). (Robins and coulter; 1998; 9)

Planning is the specific process of setting goals and developing ways to reach them. Stated another way planning represents the firm effort to predict future events and be prepared to deal with them. (J Hampton; 2001: 133)

Planning is the process of developing enterprise objectives and selecting a future course of action to accomplish them. It includes (a) establishing enterprise objectives, (b) developing premises about the environment in which they are to be accomplished, (c) selecting a course

of action for accomplishing the objectives, (d) initiating activities necessary to translate plans into action and (e) current replanning to correct deficiencies. (Welsch, Hilton and Gordon; 2000: 3)

2.2 Fundamental concept of profit planning and control

“The foundation for profit planning and control them is that management must have confidence in its ability to establish realistic objectives and to devise efficient strategies to attain these objectives. The market theory argues very little for the concept of profit planning and control (PPC). There are conceptual or philosophical disagreement s to the real role of management in both business and non-business entities. A brief look at the extreme positions in this conceptual disagreement many add to our insights. One extreme pole has been labeled the market theory at the opposite end of the spectrum is the planning and control theory”. (Welsch, 1999: 7)

“Profit planning and control rests upon the conviction that management can plan and control the long-range destiny of the enterprise by making a continuing stream of well-conceived decisions". The concept speaks to plan prosperity as opposed to unplanned happenstance. For long-range success, the stream of managerial decisions must generate plans and actions to provide the essential inflows that are necessary to support the planned outflows of the enterprise so that reasonable levels of profit and return on investment are earned. Continuing generation of profit by managerial manipulation of the inflows and outflows provides the substance of profit planning and control”. (Fayol, 1949:19).

Profit planning and control is a process designed to help management effectively in performing significant phase of planning and control function. Management process collectively constitutes with the functions of management (i.e. planning, organizing, staffing, leading and controlling). The management process usage sequential linkage form planning to control function and continuous feedback from all other functions to planning function. Out of the management functions, planning and controlling functions basically constitute the main focus of a comprehensive profit planning and control system. Planning and controlling are closely related because control is not possible without plans and planning has no meaning if controlling is not done. The essence of planning and control depends on some fundamental or philosophical views of the real role of management in an endeavor. In harmony with these views, profit planning and control depends on the sincere belief of management that can plan

and control long-term destiny of the enterprises by making a continuing stream of well-conceived decisions.

In modern-day businesses except in very small companies, it is virtually impossible for the top manager to have firsthand knowledge of all the relevant factors operating throughout a business. Nor can a single lower-level manager be expected to have the range of knowledge, experience and competence to make all the decisions for the large segments of a company, either as a source of reliable information or as a participant in decision-making. The quality of the judgments of the total management effort will continue to distinguish the better-managed and more successful companies. Profit planning and control is the tool that is used to increase significantly the effectiveness of a management and to place managerial judgments on a more objective and informed foundation.

Managing in fact implies co-ordination and control of the total enterprise efforts to achieve the organizational objectives. The process of managing is facilitated when management charts its course of action in advance. The function of management includes decision-making facilitated by various managerial techniques, procedures and by utilizing the individual and group efforts in a co-coordinated and rational way. Profit planning is one of the systematic approaches for attaining effective management performance.

Profit planning is a predetermined detailed plan of action developed and distributed as a guide to current operations and as a partial basis for the subsequent evaluation of performance. The profit planning control means the development and acceptance of objectives and goals and moving an organization efficiently to achieve the objectives and goals. It is a tool that may be used by the management in planning the future course of action and in controlling the actual performance.

Profit planning is merely a tool of management; it is not an end of management or substitute of management. It is strictly an internal affair; it should not be made public. Profit planning and control provide guidelines to management and it acts as signal light for the management and enables the management to correct its policy.

Koontz and O' Donnel have given emphasis on planning and control function of management. The role of management on profit planning and control has been defined and the assumption that management can plan and control long-term destiny of an organization through perfect decision-making process. In favor of planning and control economist and the

management experts have said that planning means prosperity and unplanned means happenstance. So, a modern management expert has given more importance to profit planning and control. Profit planning and control has been regarded as a basis for perfect decision-making.

Profit planning and control also known as comprehensive profit planning and control is a new term in the literature of business though it is a new term but it is not a new concept in the management. Comprehensive profit planning and control or PPC on other terms are business budgeting, managerial budgeting and budgeting. It is an integral part of management.

Profit plan is a financial and narrative expression of the expected results from the planning decisions. It is called the profit plan (or the budget) because it explicitly states the goals in terms of time expectations and expected financial results (return on investment, profit, and cost) for each major segments of the entity. Typical profit plans establish the content and format of the internal –control reports with respect to operations, inputs, outputs and financial position developed by the entity for monthly performance reporting to the various levels of management. (Welsch, Hilton and Gordon; 2000:34)

Profit planning in fact is a managerial technique and is such a written plan in which all aspects of business organization with respect to definite future period are included. It is a formal statement of policy; plan objective and goal established by the top management in respect of some future period. Profit plan is a pre-determined detailed of plan action developed and distributed as guide to current operation and as a partial basis for the subsequent evaluation of performance. Thus, we can say that profit plan is a tool, which may be used by management in planning the future course action and in controlling the actual performance. (Gupta; 1992:522)

The fundamental concept of PPC includes the underlying activities of tasks that must generally be carried out to attain maximum usefulness from PPC.

- A management process that includes planning, organizing, staffing, leading and controlling.
- A managerial commitment to effective management participation by all level 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 control process.
- A continuous and consistent coordination of all the management functions.
- Continuous feed forward, feedback, follow-up and replanning through defined communication channels (both downward and upward).
- A strategic profit plan.
- A tactical plan.
- A responsibility accounting system.
- A continuous use of the exception principle.
- A behavioral management program.

2.3 Basic elements of profit planning and control

The basic elements of profit planning are as follows:

- Comprehensive and co-ordinate plan: The profit planning considers all activities and operations of an organization. The budgets prepared by different departments inside an organization are compiled. So, before preparing a profit planning firstly all the budgets prepared by departments have to be compiled to form comprehensive profit planning.

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

- Plan for firm's operating and resources of budget: It is a mechanization to plan for the firm's all operations or activities. The two aspects of every operation are revenue and expenses. The budgets must plan for quantity, revenue and expenses related to specific operations. Planning should not be done for revenue and expenses only. The plan should be made to carry out the operations. The planning for resources will include planning assets and sources of funds.

- Plan for specific periods: Time dimension must be added in a budget. A budget is meaningful only when it is related to a specific time. The budget estimates will be relevant only for some specific period.

2.4 Foundation for PPC

An enterprise has to take some major steps to establish a sound foundation for initiating a profit planning and control program. These steps are as follows ;(Welsch, Gordon and Hilton; 2000:59)

Step1: there must be strong commitments by the top management to the broad concept of profit planning and control and a sophisticated understanding of its implications and operations.

Step2: 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 decisions may be made about the characteristics of a profit planning and control program that would be effective and practical.

Step3: 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.

Step4: there must be an evaluation and reorganization of the accounting system to ensure that it is tailored to the organizational responsibilities so that it can provide data particularly useful for planning and control purposes.

Step5: a policy determination must be made about the time dimensions to be used for profit planning and control purposes. (i.e. long range, medium range and short range)

Step6 : a program of budget education should be developed to inform management at all levels about (a) the purposes of the program; (b) the manner in which it will operates, including the basic management policies and guidelines for its administration; (c) the responsibility of each level of a management in the program; and (d) the ways in which the program can facilitate the performance of each manager's functions.

2.5 Activities Involved in PPC

Profit planning has the ultimate objectives of attaining the optimum profit as indicated by many successful applications. The most reasonable approach to attain the optimum profit is to plan as a percentage of capital employed to produce them and to manage the enterprise with the objective of achieving the planned percentage. It is the heart of management with proper planning. Profits will not just happen thus every enterprise should be systematically planned for profit and control over them. Profit planning in fact is management technique and a profit plan is such a written plan in which objectives and goal established by the top management in respect of some future period plan of action development and distributed as a guide to current operations and as a partial basis for the subsequent evaluation. (Gupta; 1992:521)

The following are the activities involved in PPC;

i. Development and applications of broad and long-range objectives of the enterprise.

ii. Specification of enterprise goals.

iii. Development of a storage long- range profit plan in broad terms.

iv. Specification of a tactical short- range profit plan detailed by assigned responsibilities (division, department and project).

v. Establishment of a system of periodic performance reports detailed by assigned responsibilities.

vi. Development of follow up procedures

2.6 Application of PPC

Some people say that comprehensive profit planning and control is applicable only to large and complex organizations. Comments like “comprehensive budgeting is a fine idea for must businesses, but ours is different,” or “it is impossible to project our revenues and expenses,” and so on. Such type of comments are common regarding non-manufacturing enterprises, service companies, financial institutions, hospitals certain retail business, construction companies, and real estate enterprises. To the contrary, profit planning and control can be adapted to any organization (profit or non-profit, service or manufacturing), regardless of

size, special circumstances, or conditions. The fact that a company has peculiar circumstances or critical problems is frequently a good reason for the adoption of certain profit planning and control procedures. In respect to size, when operations are extensive enough to require more than one or two supervisory personnel, there is a need of profit planning and control applications. The smallest company certainly has different needs in this respect than a large one. As with accounting, a single profit planning and control system that is appropriate for all enterprise cannot be designed. A profit planning and control system must be tailored to fit the particular enterprise, and it must be continually adapted ad the enterprise and its environment change.

2.7 A behavioral problem in PPC

Realistic expectations are the major behavior problem in profit planning and control. In profit planning and control, management must be realistic and avoid being either unduly conservative or irrationally optimistic. For profit planning and control purposes, enterprise objectives and specific budgets goals should represent realistic expectations. To be realistic, expectations is related 1) to their specific time dimension and 2) to a projected external and internal environment that will prevail during that time span. Goals that are set so high, which are practically impossible to attain will discourage serious efforts to reach them. On the next hand, the goals set so low that need no efforts will provide no motivation. In order to constitute realistic expectations enterprise objectives and specific goals must represent a challenge to managers and to operational units. The top management of the enterprise has the direct responsibility for defining the level of challenge that is represented by realistic expectations.

The development of realistic budgets goals, and the efforts required to attain them, entail significant behavioral implications. The budget goals should be established on a participative basis and implemented in ways that provide positive reinforcements rather than negative reinforcements. The attitudes like “can’t do” and “won’t do” have to consider by the management. “Can’t do,” means more attention needs to be given to employee training and facilities. “Won’t do,” means the consequences of “doing it” should be reevaluated (positive rewards, challenges, pride, status etc.). The definitions of realistic expectations in a given enterprise are related to many variables, such as size of the enterprise, characteristics, maturity of the enterprise, sophistication of the management, nature of operations and behavioral management.

A particularly damaging effect of budgetary pressure results people to feel as though they have failed in meeting the budgetary goals. Such perceived failure result in loss of interest in work, lower personal standards for achievements, loss of confidence, fear of new tasks, lack of co-operation, and development of a critical attitude toward others.

In a study of sixteen manufacturing companies, Kenis reported that budgets goals that are "too tight" have negative effects on managers job satisfaction, budgetary performance and cost efficiency as compared with managers who reported having "tight but attainable" budgetary standards. Moreover, "too tight" budgets caused significant job tension. (Welsch, Hilton and Gordon; 2000:55)

The management should always be sensitive to the behavioral implications of budgetary pressure when implementing a PPC program.

2.8 Importance of PPC

A profit planning and control program helps the management perform its planning function by developing a strategic and tactical profit plan. It helps management perform its control function by providing realistic goals and standards. It emphasized on developing positive reinforcement, improving motivation, developing goals, coping with the effects of budgetary pressure, resolving budget padding problems and using budgets for control.

The following points show the importance of PPC;

1. It forces early consideration of basic policies.
2. It requires adequate and sound organization structure; that is, there must be a definite assignment of responsibility for each function of the enterprise.
3. It compels all members of management, from the top down, to participate in the establishment of goals and plans.
4. It compels departmental managers to make plans in harmony with the plans of other departments and of the entire enterprise.
5. It requires adequate and appropriate historical accounting data.
6. It requires that management put down in figures what is necessary for satisfactory performance.
7. It compels management to plan for the most economical use of labor, material and capital.

8. It instills at all level of management the habit of timely, careful, and adequate consideration of the relevant factors before reaching important decisions.

9. It reduces cost by increasing the span of control because fewer supervisors are needed.

10. It frees executives from many day-to-day internal problems through predetermined policies and clear- cut authority relationships. It thereby provides more executive time for planning and creative thinking.

11. It tends to remove the cloud of uncertainty that exists in many organizations, especially among the lower levels of management, relative to basic policies and enterprise objectives.

12. It pinpoints efficiency and inefficiency.

13. It promotes understanding among members of management of their co-workers' problems.

14. It forces a periodic self-analysis of the company.

15. It forces management to give adequate attention to the effect of general business conditions.

16. It aids in obtaining bank credit; banks commonly require projections of future operations and cash flows to support large loans.

17. It checks progress or lack of progress toward the objectives of the enterprise.

18. It forces recognition and corrective action (including rewards).

19. It rewards high performance and seeks to correct unfavorable performance.

20. It forces management to consider expected future trends and conditions.

2.9 Problems of PPC:

Although PPC has lot of importance and usefulness it is not a full proof concept. It has some problems. The following are the major problems of PPC;

1. It is difficult, if not impossible, to estimate revenues and expenses realistically.

2. Management has no interest in all the estimates and schedules.

3. It is not realistic to write out the distribution of the goals, policies, and guidelines to all the supervisors.

4. Budgeting places too great a demand on management time, especially to revise budgets constantly. Too much paper work is required.
5. It takes away management flexibility.
6. It creates all kinds of behavioral problems.
7. It places the management in a straitjacket.
8. It adds a level of complexity that is not needed.
9. It is too costly, aside from management time.
10. The managers, supervisors and other employees hate budgets.

2.10 Critical features or limitations of PPC:

Apart from its importance and problems of PPC, it has certain limitations that should be taken into consideration by the management.

The followings are the critical features of PPC;

1. *The profit plan is based on estimates*: The advantage and disadvantages of a profit-planning program depend to a large extent on the realism with which the basic estimates are made. Estimates must be based on all available facts and sound managerial judgment. Estimating sales and expenses cannot be and exact science; however, numerous mathematical, statistical and other techniques can be applied to these problems to produce realistic results.

2. *A profit planning and control program must be continually adapted to fit changing circumstances*: A comprehensive budget program cannot be started and perfected in a short time. Profit planning and control techniques must continually be adapted, not only for each particular enterprise but for changing conditions within the enterprise. Continuous budget education is necessary, especially during the formative period.

3. *Execution of a profit plan will not occur automatically*: Profit plan will be effective only if all responsible executives exert continuous and aggressive efforts toward their accomplishment. All levels of management must understand the program, must be convinced of its relevance to their function, and must participate in its implementation in an appropriate way.

4. *The profit plan is not a substitute for management:* Profit planning cannot substitute for enlightened management. A system can aid in performing the management process. The profit plan should be regarded not as a master, but as a servant. It is one of the best tools yet devised for advancing the affairs of a company and the individuals in their various spheres of managerial activity.

2.11 Profit planning and control process

A PPC program includes more than the traditional idea of a periodic or master budget. Rather, it encompasses the application of a number of related management concepts through a variety of approaches, techniques sand sequential steps. It necessarily integrates the planning, leading and control functions of management. The term comprehensive means 1) the application of the broad concept of profit planning and control to all phases of operation in an enterprise and 2) the application of a total systems approach.

The sequential phases of PPC are as follows ;(Welsch, Hilton and Gordon; 2000:73)

1. Identification and evaluation of external relevant variables.
2. Developing and revising of broad objectives of the business.
3. Developing specific enterprise goals.
4. Specifying major enterprise strategy to attain the objectives and goals.
5. Specifying planning premises for managers.
6. Development and evaluation of project plans.
7. Developing strategic profit plan for 3, 5 or 10 years.
8. Developing tactical profit plan for upcoming year.
9. Implementing profit plan throughout the budget year.
10. Preparing monthly performance reports by responsibility and
11. Providing feedback, taking corrective action, and replanning.

From serial numbers 1 to 8 it is related to the planning function of management. The serial number 9 is related to the leading and 10 and 11 is controlling function of management. Executive management level is responsible for carrying out the activities of serial numbers 1 to 5. The activities from serial numbers 6 to 8 are carried by middle management level. The activities of serial numbers 9 to 11 are responsible for all management levels. This PPC

process is repeated each budget year. All the basic steps in the planning phase should be reviewed and evaluated annually.

2.12 Components of PPC

A PPC program should have all its components that are required to fulfill the objectives, which are supposed to be fulfilled by the PPC program.

The following are the components of PPC program ;(Welsch, Hilton and Gordon; 74:2000)

A. The substantive plan:

   i. Broad objectives of the enterprise

   ii. Specific enterprise goals

   iii. Enterprise strategies

   iv. Executive management planning instruction (planning premises)

B. The financial plan:

I. Strategic long-range profit plan

a. Sales, cost and profit projections

b. Major projects and capital additions

c. Cash flow and financing

d. Personnel requirements

II. Tactical short – range (annual) profit plan:

a. Operating plan:

Planned income statement

Sales plan

Production (or merchandise purchases) plan

Administration expense budget

Distribution expense budget

Appropriation – type budgets (e.g., research and development, promotion, advertising)

b. Financial position plan

Planned balance sheet

Assets

Liabilities

Owners' equity

c. Cash flow plan

C. Variable expenses budgets:

Output – expense formulas

D. Supplementary Data:

(e.g., cost- volume profit analysis, Ratio analyses)

E. Performance Reports (including any special reports)- each month – end and as needed.

F. Follow – up, corrective action and replanning reports

The substantive plan is represented by the broad objectives, strategies, specific plans, and programs of the organization, and by the concurrent commitment of management to long – range accomplishment of these objectives and plans. The substantive plan may be characterized as the "prose part" of the plan rather than the "numbers part" of the plan. It gives the foundation for the financial plan.

In contrast, the financial plan quantifies the planned financial results of implementing managerial objectives, planned strategies, plans and policies. The financial plan then represents a translation into financial terms of objectives, goals, and strategies of management for specific periods.

2.13 Development of specific goals for the enterprise

The purpose of the "goals phase" of the PPC process is to bring the statement of broad objectives into sharper focus and to move from the realm of general information to more specific planning information. It provides both narrative and quantitative goals that are definite and measurable. These specific goals relate to the enterprise as a whole and to the major responsibility centers. Executive management as the second component of the substantive plan for the upcoming budget year should develop these goals. Executive management should exercise leadership in this planning phase so that there will be a realistic

and clearly articulated framework within which operations will be conducted toward common goals. Moreover, the specific goals provide a basis for performance measurement. These broad, but specific, goals must be developed for both the strategic long- range plans and the tactical short – range plans.

2.14 Development and evaluation of company strategies

Company strategies are the basic thrusts, ways, and the tactics that will be used to attain planned objectives and goals. A particular strategy may be short- term or long- term. The purpose of developing and disseminating enterprise strategies is to find the best alternatives for attaining the planned broad objectives and specific goals. Executive management must be creative and directly involved in the development of new strategies and in the adaptation of currently ongoing strategies in harmony with the relevant variables with which management must cope. In the development of basic strategies for the enterprise, executive management must focus on identification of the critical areas that influence the long- range success of the enterprise. Critical areas should be pinpointed through evaluation of relevant variables. Although strategy formulation is of continual concern to executive management, periodic reassessment of the strategies is essential in light of a careful analysis of all relevant variables and their probable future impact on the enterprise.

2.15 Strategic and tactical profit planning:

Planning horizon refers to the period into the future for which the management should plan. It refers to life span of the plan. For all enterprise many planning horizon are needed to maintain the continuity of planning activities. For effective implementation of planning, management of an enterprise must establish a definite time dimension types of activities.

Long term planning is, of course, different from short term planning. Any goal that is to be achieved will require at least a couple of steps to accomplish the objective are to figure out how to make those steps? Long term and short term are relative, just like hot and cold. Just is has to be remembered that the long-term part covers a greater time span than the short-term parts. Generally, short term planning is tactical planning while long term planning is strategic planning.

Companies, large and small, need strategic and tactical plans to accomplish their goals. Without goals and strategy and planning, no company can grow in a meaningful way, profit-

planning application differs with the types and sizes of organizations and time period. While preparing a systematic and comprehensive profit plan, two dimensions are considered.

2.15.1 Strategic (long range) profit plan:

The name itself suggests that strategic profit plan is usually for longer period of time. It takes the time horizon of three or more years. When a company plans strategically, it is focusing on identifying the most effective and profitable way to run the business in the long- term. These include deciding on the number of collections that the company can profitably run in a year, the sort of production capacity that will be required, the most profitable way to source materials, whether own production or sub contract production should be used, and the most effective distribution policy. The long- range plan covers all the key areas anticipated activity; sales expenses, research and development, capital expenditure, cash, profit and return on investment. The purpose of the long – range plan forecast is to evaluate and determine what the future financial needs will be for an individual product or an entire program for the next three to five years. Based on information from product management, the forecast projects a products anticipated financial performance and the impact it will have on existing corporate resources.

To be successful, a long – range plan must have the following objectives:

Incorporate the department's development and support expense for new products, features and cost reduction plans.

Reviewing of plant capacity, personnel requirement in light of start – up products, and existing plant capitalization.

Identifying future capital requirement for development departments, the manufacturing process, and support departments such as MIS and the building structure.

Reflecting changes in cash requirements for salaries, material, capital, e.t.c.

Strategic planning involves :

- Assessing the current business environment.
- Defining your company's purpose mission.
- Deciding what you want the business to look like in three to five years.

- Recognizing your company's
  - Strength
  - Opportunities
  - Threats

Mapping out a course to take the company from its current to its desired position.

Strategic planning is necessary for those companies where only if companies want to stay in business and prosper. Good financial control alone is not enough to ensure business success. In addition to a budget, there need long-term goals to determine the future direction of the company.

2.15.2 Tactical (short range) profit plan:

Tactical profit plan are prepared for short period of time usually for one year. The short – range plan shows the primarily annual results, the details by months, responsibility and products. At the end of the month or quarter through out the year, the sales plan is studied and revised by adding a period in the future and by dropping the period just ended thus, tactical sales plan are usually subject to review and revision on a quarterly basis. The short – term sales plan includes a detail plan for each major products and grouping of minor products.

In contrast, tactical planning focuses on the medium term, which can be anything from six months to 18 months depending upon the type of company concerned and takes as its starting point an outline demand plan. This is a plan that includes a high – level estimate of demand by market, as well as the number of collections and\or styles that the company wishes to produce over a particular time period. When planning tactically, companies are typically deciding which raw materials suppliers to use, which styles to produce in which production units, which goods to sub – contract and which goods to stock in which distribution centers.

The objectives of tactical plan are as follows;

- Establishing overhead rates based on fixed and variable type of expenses to be applied to various types of labor and material categories.

- To determine transfer prices for equipment and services. Equipment is transferred to the books of the marketing organization that is responsible for marketing the product.

- To issue budgets for operating departments.
- To identify specific standard cost variances for material prices, material usage, labor efficiency and utilization, and time standard changes.
- To detail manpower by activity.
- To calculate inventory levels and objectives.
- To identify specific capital requirements and associated expense.
- To prepare detailed plans for products introductions, cost profiles, and phase – out of replaced products.

2.16 Implementation of Profit Plans

"Implementation of management plans that have been developed and approved in the planning process involves the management function of leading subordinates in attaining enterprise objectives and goals. Thus effective management at all levels requires that enterprise objectives, goals, strategies and policies be communicated and understood by subordinates. There are many facts involved in management leadership. However, a comprehensive profit planning and control program may aid substantially in performing this function. Plans, strategies and policies developed through significant participation establish the foundation for effective communication. The plans should have been developed with the managerial conviction that they are going to be met or exceeded in all major respects. If these principles are effective in the development process, the various executive and supervisors will have a clear understanding of their responsibility and expected level of performance. Profit plans cannot manage the business, and they must not constrain management in taking advantage of opportunities, even those not anticipated in the profit plans."(Welsch; 2000:84)

2.17 Use of Periodic Performance Reports

As profit plans are being implemented during the period specified in the tactical plan, periodic performance reports are needed. Performance reports are prepared by the accounting department on a monthly basis. Some special performance reports are prepared more often on an "as needed" basis. These performance reports a) compare actual performance with planned

performance and b) show each difference as a favorable or unfavorable performance variation.

A clear distinction must be made between external and internal financial reports. Internal reports can be further classified as a) statistical reports that give the basic quantitative internal statistics about the operations of the enterprise; b) special management reports about nonrecurring and special problems; and c) periodic performances reports. The periodic performance reports focus on dynamic and continuous control tailored to the assigned managerial responsibilities. These reports are primarily repetitive, short – term reports developed for each of the responsibility centers. Short –term performance reporting is essential for effective control. On the other hand, daily, weekly, or even monthly sales reports may serve as a basis for effective and timely action. Actual performance statistics alone do not indicate high or low performance. Actual performance must be compared with realistic goals or standards in order to evaluate performance.

2.18 Implementation of Follow- Up

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

In the case of favorable performance variances, the underlying causes should also be identified. Favorable performance reports seldom require corrective action. Rather, the underlying causes of favorable variances often provide valuable information for improving efficiency and for developing positive reinforcement to the less- successful operations and employees. Finally, there should be a special “follow – up of the prior follow- up actions”.

2.19 Line and Staff Responsibilities Related to PPC

The chief executive has ultimate responsibility for profit planning and control. However, there must be a concomitant assignment of responsibilities to line and staff executives. Each line executive must be assigned center responsibility for 1) operational decision inputs into the plan, (2) implementation, and 3) control. The profit planning and control program must be established upon a firm foundation of line responsibility and commitment to develop, implement, and attain the role of each center in the enterprise objectives and goals. In contrast, the staff responsibilities for a PPC program include (1) designing and improving the system, (2) supervising and coordinating the operation of the system, (3) providing expert technical assistance, analyses, and advice to the line managers, and (4) developing and distributing performance reports.

The chief financial officer should be assigned overall staff responsibility for the profit planning and control program. In view of the importance of an effective profit planning and control program, the position on the staff of the individual responsible for the program should be such that it will command attention and respect throughout the firm. Staff executives should not be assigned the responsibility for "enforcing the budget".

2.20 PPC Policies Manual

A profit planning and control manual is normally desirable to enhance communication, specify procedures, and provide reasonable stability in the operation of the system.

A profit planning and control manual should include the following: (Welsch; 2000:92-93)

1. A statement of objectives of the PPC program.
2. Procedures to be followed in developing profit plans:
    a. Instructions and forms to be used
    b. Procedures for making planning decisions:
    i. Operating executives
    ii. Staff executives
    iii. Top – management budget committee

3. A profit planning and control calendar that specifies completion dates for each part of the profit plan and for the submission of reports.

4. Distribution instructions for profit plan schedules.

5. Instructions and procedures with respect to performance reports

a. Responsibility and procedures for preparation of reports:

i. Actual results

ii. Budgeted data and variations

iii. Analysis of variances

b. Form, content of and procedures for performance reports

c. Distribution instructions for performance reports

6. Procedures for taking corrective action on variances:

a. Unfavorable variances

b. Favorable variances

7. Follow – up and replanning procedures.

2.21. Budgeting a Tool of Profit Planning and Control

Profit planning is accomplished through the preparation of various budgets and by the subsequent evaluation of how actual operating and other results compare with planned results.

"A budget is a comprehensive and coordinated plan, expressed in financial terms, for the operations and resources of an enterprise for some specific period in the future."(Pandey; 1992 240-241)

"A budget is a detailed, quantitative plan to guide its operation in the near future. The concept of a comprehensive budget covers its use in planning, organizing and controlling all the financial and operating activities of the firm in the forthcoming period."(Lynch and Williamson; 1991:142). A budget is the plan of the firm's expectations in the future. Planning involves the control and manipulation of relevant variables- controllable and non-controllable, and reduces the impact of uncertainty. A budget expresses the plan in formal terms and helps to realize the firm's expectations. It is a comprehensive plan in the sense that

all activities and operation are considered when it is prepared. It is a budget of the enterprise as a whole.

For the operational purposes, a budget is always quantified in financial terms. They are expressed in the money unit like rupees, dolor, or pound e.t.c. A budget is a mechanism to plan for the firms all operations or activities. The two aspects of every operation are: revenues and expenses. In a business organization, a budget represents an estimate of future costs and revenues. Budget is a plan that outlines an organization's financial and operational goals. So, a budget may be thought of as an action plan; planning a budget helps a business allocate resources, evaluate performance, and formulate plans. In other words a budget is a systematic plan for the utilization of manpower and material resources. While planning, a budget can occur at any time, for many businesses, planning a budget is an annual task, where the past year's budget is reviewed and budget projections are made for the next three or even five years.

The dictionary of small business defines "budget" as "a document that lists planned income and expense items along with the dollar value for each. A budget is most useful when, at a later date, actual transactions are compared to the budget for analysis and control of future decisions. (Hawthorne; n.p: n.d)

Budgets not only allow governments to plan spending, but also allow taxpayers to see exactly where and how their money is being spent. Governments and government's agencies use budgets only as a means of limiting spending. In contrast, most business organizations use budgets to focus attention on company operations and finances, not just to limit spending. Budgets highlight potential problems and advantages early, allowing management to take steps to avoid these problems or use the advantages wisely. Thus a budget is a tool that helps managers in both their planning and control functions. Budgets help managers with their control function not only by looking forward but also by looking backwards. Budgeting forces managers to think ahead to anticipate and prepare for changing conditions. The budgeting process makes planning and explicit management responsibility. Budgeted goals and performance are generally a better basis for judging actual results than its past performance. A budget provides a good way of directing business towards goals in terms of both expenses and revenues. It gives a constant overview of costs incurred and revenues raised which then allows for the micro control of both of those elements.

A budget is a quantitative statement of an expected level of future performance against which actual performance is measured. The difference between expected performance and actual performance is known as variance. If variance is unfavorable, particularly if it is part of a growing trend, remedial action must be taken before the business is compromised. One of the main reason that business fail is that management is either unaware of growing financial problems or if appropriate remedial action is not taken.

2.22 Purpose of Budgeting

Simply stated, the process of preparing and using budgets to achieve management objectives is called budgeting. It is a management technique or, in fact it is a way of managing.

The major purposes of budgets or budgeting are: (Pandey; 1992:257)

a. To state the firm's expectations in clear; formal terms to avoid confusion and to facilitate their attainability.

b. To communicate expectations to al concerned with the management of the firm so that they are understood, supported and implemented.

c. To provide a detailed plan of action for reducing uncertainty and for the proper direction of individual and group efforts to achieve goals.

d. To coordinate the activities and efforts in such a way that the use of resources is maximized.

e. To provide a means of measuring and controlling the performance of individuals and units and to supply information on the basis of which the necessary corrective action can be taken.

2.23 Problems and Limitations of Budgeting

Budgeting is not fast proof; it can suffer from certain problems and limitations.

The major problems of budgeting system are as follows: -

a. Developing meaning forecast and plant especially the sales plan.

b. Seeking the support and involvement of all levels of management.

c. Establishing realistic objectives, policies, procedures and standards of desired performance.

d. Maintaining effective follow up procedures and adapting the budgeting system wherever the circumstances changes.

e. Applying the budgeting system in a flexible manner.

Educating, all individuals to be involved in the budgeting process and joining their full participation (Sharma and Gupta 1982: : 56)

The following are the limitations of budgeting system:-

Budgeting is not exact science. It success lings upon the precision of estimates.

- The installation of a perfect system of budgeting is not possible in a short period. Budgeting has to be a continuous exercise. It is a dynamic process.
- The success of the budgetary programmed is to understand by all and that manager and subordinates put concerned effort for accomplishing the budget goals.
- Budgeting will be ineffective and expensive, if it is unnecessary detailed and complicated. It should be flexible and rigid in application.
- The presence of a budgeting system should not make management complacent. To get the best results of management, management should use budgeting with intelligence and foresight. It can not replace management.
- The purpose of budgeting will be defeated if carelessly budget goals conflict with enterprise objectives.
- Budgeting will hide inefficiencies through a proper evaluation system.
- Budgeting will lower moral and productivity if unrealistic targets are set and if it is used as a pressure tactic.

2.24 Advantages of Budgeting

To reiterate, budgeting is a management tool; it is a way of managing. Many benefits are derived from budgeting, although it is a means not an end in itself. Budgeting is a feed – forward process; it makes an evaluation of the variables likely to affect future operations of the enterprise. It predicts future with reasonable precision and removes uncertainty to a greater extent. The following are some of the more significant advantages of budgeting: (Pandey; 1992: 259)

a. Budgeting compels management to plan for future. The budgeting process forces management to look ahead and become more effective and efficient in administering

the business operations. It instills into managers the habit of evaluating carefully their problems and related variables before making any decisions.

b. Budgeting helps to coordinate, integrate and balance the efforts of various departments in the light of the overall objectives of the enterprise. This results in goal congruency and harmony among the departments.

c. Budgeting facilitates control by providing definite expectations in the planning phase that can be used as a frame of references for judging the subsequent performance.

d. Budgeting improves the quality of communication. The enterprise objectives, budget goals, plans, authority, responsibility, and procedures to implement plans are clearly written and communicated through budgets to all individuals in the enterprise.

e. Budgeting helps to optimize the use of the firm's resources- capital and human; it aids in directing the total efforts of the firm into the most profitable channels.

f. Budgeting increases the morale and thus, the productivity of the employees by seeking their meaningful participation in the formulation of plans and policies, bringing a harmony between individual goals and the enterprise objectives and by providing incentives to perform more effectively.

g. Budgeting develops an atmosphere of profit – mindedness and cost –consciousness.

h. Budgeting permits to focus management attention on significant matters through budgetary reports; thus, it facilitates management by exception and thereby saves management time and energy considerably.

i. Budgeting measures efficiency, permits management self – evaluation and indicates the progress in attaining the enterprise objectives.

2.25 Essentials of Budgeting

A successful and sound budgeting system is based upon certain prerequisites. These prerequisites represent management attitude, organization structure and managerial approaches necessary for the effective and efficient application of the budgeting system. The following are some of the important essentials or fundamentals of a successful budgeting: (Pandey; 2000:244-245)

a. Top management support: A budgeting system will be an utter failure if it is not initiated and supported by top management. Top management must realize that budgeting is not merely an accounting device, but as an important management tool. Top management must: I) understand the nature and characteristics of budgeting; ii) be convinced that this particular approach to managing is preferable for their situation; iii) be willing to devote the effort required to make it operative; iv) support the programme in all its ramification; v) view the results of the planning process as performance commitments.

b. Clear and realistic goals: Budgeting is a means to achieve goals and objectives. Budgeting will not succeed if the goals to be achieved ore not clear; budget implementation will not be systematic. In the absence of goal clarity, employees will lack a proper direction; the efforts of management will be wasted. The enterprise objectives and budgets goals to be accomplished through budgeting should be reasonable and realistic; they should be capable of attainment. Budget goals should not be set at too high or too low a level.

c. Assignment of authority and responsibility: A sound organizational structure is essential for the success of the budgetary system. Authorities and responsibilities of each manager should be clearly identified and established. A sound organizational structure and a clear- cut assignment of authorities and responsibilities provide an effective means to achieve the enterprise objectives and budget goals in a coordinated and efficient manner. The budgetary system should be established in terms of the assigned authorities and responsibilities; the performance of each manager should be evaluated in terms of the assigned authorities and responsibilities.

d. Creation of responsibility centers: A small firm can possibly be managed by an individual or a small group of individual but a large firm cannot be supervised by an individual. For effective control a large firm is divided into managerial segments, departments or divisions. Each sub units has a certain activities to perform and its manager is assigned to specific authority and responsibility to carry out. Such sub-units are called responsibility centers.

e. Adaptations of the accounting system: The accounting system should be suitably adapted to facilitate the planning and control process; it should be structured around

the areas of responsibility. A sound budgetary system needs the creation of a responsibility accounting system. A responsibility accounting system is primarily oriented towards the organizational responsibilities and is a means to achieve effective control. A cost accounting system has two primary aims; I) to measure the cost of production and ii) to furnish data for planning and control.

f. Full participation: Full participation of managers and their subordinates at all levels should be sought in developing the budgeting system. The participation should be meaningful and real. A meaningful participation creates a positive motivation. "Participation tends to increase commitment; commitment tends to heighten motivation; motivation which is job-oriented tends to make managers work harder and more and more productivity; and harder and more productive work by managers tends to enhance the company's prosperity; therefore, participation, is good."

g. Effective communication: Communication is the process of transmitting thought or information from on person to another. The basic purpose of communication is to bring mutual understanding between two or more persons. It is a device to bring people together in an enterprise. A sound budgeting system requires effective communication of enterprise objectives and budget goals and means of implementing budgets through the organization so that a unified effort may be directed to accomplish those objectives and goals. A comprehensive system of budgeting is not only based on a sound communication system, but also helps to improve the effectiveness of communication within as budget goals to various responsibility centers.

h. Budget education: For the success of budgeting, everyone in the enterprise should have the knowledge of budgeting, confidence in the budgeting system and should be committed and involved to it. The employees of the enterprise must be educated about the nature, characteristics, value, and methods of budgeting.

i. Flexibility: The budgeting system should be flexible enough to take advantage of all opportunities that arise from time to time and are not covered by the budget. A rigidly administered budgeting programme dominates the business and imposes "strait jackets" in implementing the budget plans.

2.26 Characteristics of budget

The main characteristics of a budget are:

a. It is prepared in advance and is derived from the long- term strategy of the organization.

b. It relates to future period for which objectives or goals have already been laid down.

c. It is expressed in quantitative form, physical or monetary units, or both. Detailed plan in quantitative terms: a budget is a detailed plan, expressed in quantitative terms, that specifies how resources will be acquired and used during a given period. A budget is written plan for a specific period of time, typically a year. It is a quantitative expression for a set time period of a proposed future plan of action by management. A financial plan of the resources needed to carry out tasks and meet financial goals is the budget.

d. Serves as a benchmark: A budget is a tool used in planning, communicating and coordinating the plans and views of various managers within an organization, allocating limited resources among various programs and projects, controlling operations by serving as a standard against which actual results can be compared and evaluating performance.

Different types of budgets are prepared for different purposed e.g. sales budget, production budget, administrative expense budget, raw material budget etc. All these sectional budgets are afterwards integrated into a master budget, which represents an overall plan of the organization.

2.27. Classification of Budgets

Budgets can be classified into different categories on the basis of time, function, or flexibility. The different budgets covered under each category are shown as follows:

2.27.1 On the basis of time factor:

a. Short term Budget: This budget is usually for a period of a year or two, or less than a year such as half yearly or quarterly. Tactical planning focuses on the medium term,

which can be anything from 6 to 18 months depending upon the type of company concerned and takes as its starting point an outline demand plan.

b. Long term Budget: It is usually for five to ten years. Strategic budget is long-term budget that are usually focused for long-term perspectives.

2.27.2 On the basis of flexibility:

a. Fixed Budget: Fixed budget targets are rigidly fixed and usually prepared for 1 to 3 months period. A fixed budget is based on a fixed volume of activity. It may lose its effectiveness in planning and controlling if the actual capacity utilization is different from what was planned for any particular unit of time e.g., month or a quarter.

b. Flexible Budget: In this, type of budget are figured in the form of cost and expense budget acceptable to any given set of operating condition with in any month of a fiscal year. The flexible budget is more useful for changing levels of activity as it considers fixed and variable costs separately. Fixed costs remain unchanged over a certain range of output. Such costs change when there is a change in capacity level. It portrays costs, revenues, and profits at the various level of budgeted activity. The flexible budget is also referred to as the variable budget, sliding scale budget, expense control budget, and formula budget. It is completely separate from the profit plan but it is used to complement it. Flexible budget give realistic information about expenses that make it possible to compute budget amounts for various output volumes or rates of activity in each responsibility center. The variable costs vary directly in proportion with change in output.

2.27.3 On the basis of Functions:

On the basis of functions budgets are classified into different functional budgets, which are integrated with master budget. These budgets are interdependent.

They are as follows:

a. Sales budget: Nearly all other parts of master budget are dependent in some way on the sales budget. It is the foundation on which all other budgets are built. The budget is based on projected sales to be achieved in a budget period. A sales budget is the projection of what the company can sell, upon which all other planning is based.

b. Selling and Distribution Cost Budget: This budget includes all the expenses relating to selling, advertising, delivery of goods to customers etc. It is better if such costs are analyzed according to products, types of customers, territories and the sales departments. The preparation of the budget would depend on analysis of the market situation by the management, advertising policies, research programmes and the fixed and variable elements.

c. Production Budget: A production budget is prepared in relation to sales budget. This budget is expressed in quantities only and is the responsibility of the production manager. The objective is to ensure that production is sufficient to meet sales demand and that economic stock levels are maintained.

d. Production cost Budget: There are three elements of costs, namely direct material, direct labor, and overheads. Separate budgets for each of three elements have to be prepared. The direct materials budget has two components, a) Materials requirement budget, b) Materials procurement or purchase budget. The former deals with the total quantity of material required during the budget period, while the latter deals with the materials to be acquired from the market during the budget period.

e. Purchase Budget: This type of budget deals with the materials to be acquired from the market during budget period. The direct materials purchase budget is the responsibility of the purchasing manager. The objective is to purchase these materials at the right time at the planned purchase price. In addition, it is necessary to take into account the planned raw materials stock level.

f. Personnel Budget: It refers to maximum utilization of manpower in productive activities. Once production needs are known, the direct labor budget must be prepared. The direct labor budget is the responsibility of the respective managers of departments. The direct labor budget is typically expressed in both direct labor hours and in amount.

g. Research Budget: It is relation with new product and improvement of quality and quantity of the products. Research and development costs are to be incurred so that the products or the methods of the concern do not become out of date. The research and development budget is a forecast of all such expenses.

h. Overhead Budget/ Office and Administration Budget: This budget mentions all administration and staffing cost. This budget covers the administrative expenses including the salaries of administrative and managerial staff. The overhead must also be analyzed according to whether they are controllable or non- controllable for the purpose of cost control.

i. Cash Budget: The objectives of the cash budget is to ensure that sufficient cash is available at all times to meet the level of operations that are outlined in various budgets. 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. Cash budgets can help a firm to avoid cash balances that are surpluses to its requirements or cash deficiencies can be identified in advance.

j. Capital Budget: Capital budget is for the acquisition of long-term assets. This budget provides guidance as to the amount of capital that may be needed for procurement of capital assets during the budget period. It helps in the process of planning and controlling of the long-term and short-term expenditure for expansion, replacement and contraction of fixed assets. Capital budgeting is useful to earn future profit and reduce future costs.

k. Master Budget: The master budget is a summary of all phases of a company's plans and goals for the future. It sets specific targets for sales, production, distribution, and financing activities. The master budget quantifies targets for sales, cost-driver activity, purchases, production, net income, cash position and any other activities that management specifies.

2.28 Master Budget – Budgeting for Short Range

Although the smallest of small business may be able to compile a budget for the business in one document but other business commonly split up the budget into areas so that it is more manageable. Such areas will include sales, production, marketing and so on. These all areas compiled in a single to create the master budget. Thus, the master budget is a network consisting of many separate budgets that are interdependent.

Short range budgeting provides managers with a means for comparing actual operational with budgeted figures and reporting the result of these comparisons to higher-level managers. Master Budget in simple terms is the financial plan for the coming year or other planning period. It is a comprehensive profit plan that covers all phases of an organizations operation. The master budget is the most detailed budget that is coordinated across the whole organization to meet operating and financial goals. The master budget interrelationships can be studied in following figure:

2.29 Constituents of PPC

2.29.1 The Sales Budget

Sales budget is the corner stone of profit planning. It is the starting point in preparing the comprehensive profit planning. All the other components of PPC like production, purchases, inventories, and expenses depend on it. It is a forecasting of total sales divided into groups of products, salesperson and geographical location. A comprehensive sales budget, sometimes referred to as a market penetration plan, comprises all sales activities. Generally, the sales budget is accompanied by a 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 collections on sales made in the current budget period. The sales budget shows the quantities of each product that the company plans to sell and the intended selling price. It provides the predictions of total revenue from which cash receipts from customers will be estimated. If the sales budget is not accurate, the other budget estimates will be unreliable. Thus, sales budget is the corner stone of PPC. Sales budget is both ends and means of PPC.

2.29.1.1 Purpose of Sales Planning:

The primary purposes of sales plan are as follows :(Welsch, Gordon and Hilton; 2000: 172)

- To reduce uncertainty about future revenues.
- To incorporate management judgments and decisions into the planning process.
- To provide necessary information for developing other elements of a comprehensive plan.
- To facilitate management’s control of sales activities.

2.29.1.2 Factors Consideration in Sales Planning:

Generally there are two factors to be taken into consideration while making sales plan a) external and b) internal factor. (Welsch, Gordon and Hilton; 2000: 188)

1. *External environment*

a. General business conditions that may affect the company during the coming period.

b. Local business conditions expected to prevail.

c. The trend of population in the marketing area.

d. Probable inflation of deflation.

e. Expected changes in the competitive situation.

f. Fashion of technological movements expected.

2. *Internal environment*

a. Changes in promotional policies.

b. Changes in location and space.

c. Changes in personnel policies.

d. Changes in physical arrangement and merchandise layout.

e. Changes in price policy.

f. Changes in credit policy.

2.29.1.3 Components of Comprehensive Sales Plan

Components	Strategic plan	Tactical plan
Management policies and assumptions	Broad and general	Detailed and specific for the year
Marketing plan (sales and services revenues)	Annual amounts; Major groups	Detailed by product and responsi-bility.
Advertising and promotion plan	General; by year	Detailed and specific for the year
Distribution (selling) expense plan	Total fixed and total Variable expenses; by year	Fixed and variable expenses; by Month and by responsibility.

2.29.1.4 Development of Sales Budget or Sales Plan

While developing sales budget different steps should be taken into consideration. These steps are as follows:

Setting up of foundation:

- Setting up of objectives
- Preparation of strategic or lay term plan
- Development of strategies

Sales forecast:

Evaluation of relevant variable or alternative factors:

- Capacity of firm
- Raw material market
- Labor market
- Capital addition
- Nature of market
- Alternative sources of supply

Evaluation of alternatives:

- Price consideration
  - Increase in price
  - Decrease in price
  - Maintain status quo
- Product line consideration
  - Pull out the product
  - Push in the product
  - Maintain the product

Develop the strategic and tactical sales plan.

2.29.1.5 Sales planning vs. Sales forecasting

Sales planning and sales forecasting are different. They have distinctly different purposes. A forecast is not a plan; rather it is a statement and or quantified assessment of future conditions about a particular subject (e.g. Sales revenues) based on one or more explicit assumptions. A forecast should always state the assumptions upon which it is based. It may be accepted or rejected or modified by management. Therefore it is viewed as only one input into the development of a sales plan. A sales forecast is a technical projection of the potential customers demand for a specified time horizon and with specified underlying assumptions. A sales forecast is converted to a sales plan when management has brought to bear management judgment, planned strategies, commitments of resources, and the managerial commitment to aggressive actions to attain the sales goals. Forecasting may be short-term, intermediate term and long term.

Whereas sales plan incorporates management decisions that are based on the forecast, other inputs, and management judgments about such related items such as sales volume, prices, sales efforts, production, and financing. Sales plan is not conditional but sales forecast is conditional. Sales forecast is also a technical staff function.

The factors needed to be considered while forecasting sales are as follows:

Historical sales data analysis

Analysis of international socio-economic factors

Analysis of national socio-economic factors.

The difference between sales budget and sales forecast can be explained as follows: (Fago; 2004: 7)

Forecasts are merely well educated estimate or inference about future probable events whereas a budget relates to planned events and is the quantitative expression of business plan and policies to be pursued in future.

Budgeting begins where forecasting ends. In fact, forecasting provides the logical basis for preparing the budgets.

A budget provides standard for comparison with the results actually achieved, thus, it is an important control device of management, whereas forecasting represents merely a probable event over which no control can be exercised

2.29.1.6 Strategic Vs Tactical Sales Plan

Long-range sales plan is known as strategic sales plan. Usually it is of 5 to 10 years. Long-term sales plan are developed in broad and general management policies and assumption by year and annual amount. Usually it is prepared by considering future market potentials, population changes, state of economy, industry projections, company objectives and long term strategies because they affect in such area as pricing, development of new product line, innovation of product, expansion of distribution channel, cost patterns.

Tactical sales plan is also called short-range sales plan. It is used for short time horizon generally for twelve months detailing the plan initially by quarters and by months for the first quarter. At the end of each month or quarter throughout the year, the sales plan is restudied and revised by adding a period in the future and by dropping the period just ended. Thus, tactical sales plan are usually subject to review and revision on a quarterly basis. Tactical sales plan includes detailed plan for each major products and for grouping of minor products. Short-term sales plans are usually developed in terms of physical units or jobs and in sales or dollars.

2.29.1.7 Methods of Sales Projection

A. Non mathematical method or personal judgment method (rule of thumb)

Sales force composite: This approach emphasizes the judgments and expertise of the sales force because it provides a series of evaluation and approvals. A high level of participation, from the bottom up, is emphasized.

Sales departments composite: this approach emphasizes the responsibility of the district or product sales manager rather than the individual sales person. This group collects ongoing information on socio-economic trend from sales territories and based on information gathered and historical data, prepares sales budget.

Chief executive Decision: Based upon historical data and other information submitted by sales department, the chief executive determines the sales figure.

B. Mathematical or Statistical Methods

Economic Rhythm Method

Co-relation coefficient Analysis or Cyclical Sequence Methods

Historical Analogical Method

C. Specific Purpose Method

Industry analysis method

Product line analysis method

End use method

2.29.2 The Production Budget

Just after making the sales budget, another budget that has to be made is production budget. The production budget refers to the development of policies about optimum production level, use of production facilities and inventory levels. It is the second step of profit planning and control. Just as the sales budget provides plans for how much company can sell, the production budget accounts for how much it will cost to produce it- including the cost of raw materials, tools, labor, and overhead. It gives an answer to question like what is to be produced? When is to be produced? How is to be produced? Where is to be produced?

"Production means creation of utility on goods and services, which can be used to fulfill or to satisfy the demand or desire of the customer against some financial payment." Production budget means co-ordination process between sales, inventory and production. The main purpose of this budget is to maintain optimum balance between sales, production and inventory position of the firm.

Production unit is determined by using the following equation:

Production unit = planned sales +final inventory – initial inventory

2.29.2.1 Responsibility for Production Planning

1) Chief Executive: the responsibility of chief executive is to formulate objectives and policies of organization. Chief executive is responsible for translating completed marketing plan into a production program consistent with managerial policies and subject to certain constraints.

2) Sales manager: Production plan is based on the sales budget. The accuracy of production budget depends on the accuracy of sales plan. The sales manager is responsible to provide accurate sales budget in time.

3) Production manager: The production manager is responsible to prepare production plan for the company. Production planning, scheduling, dispatching of goods in time are the functions of the production manager. Therefore, production manager prepares the production budget considering availability of personnel, plant capacity, raw materials and parts and technology.

4) Production supervisor: Production supervisors make a tactical production plan. He/she must know the standard rate of direct material and direct labor, production hours, strike, seasonal variation and other areas of tactical plan.

5) Administrative Manager: Administrative manager must appoint the required number of labor and personnel. He/She provides information on manpower planning.

6) Financial Manager: The financial manager provides historical data, standard rates and information on capital additional plan.

2.29.2.2 General Consideration in Production Planning

The production plan does not aim to set the precise amounts and timing of actual production during the budget period. Rather, the production budget represents the conversion of planned sales volume to planned production volume as a basis for planning the various aspects of the manufacturing function- plant capacity requirements, raw materials requirements, timing of purchases, labor requirements and costs, and factory overhead. In developing the production plan, the manufacturing executives are faced with the problem of balancing sales, inventories, and production so that the lowest possible overall cost results. Careful considerations of a number of subsidiary, yet significant, matters are essential.

Following consideration should be taken while developing the production budget: (Welsch; 1992:185)

Total production requirements (by products) for the budget period.

Inventory policies relative to levels of finished goods and work in process.

Plant capacity policies such as the limits of permissible departures from a stable production level throughout the year.

Adequacy of manufacturing facilities (expansion or contraction of plant capacity).

Availability of raw materials, purchased components, and labor.

The effect of the length of the processing time.

Economical lot size.

Timing of production throughout the budget period.

2.29.2.3 Production Policies

With respect to production planning, the planners must determine an optimum balance between sales, inventory, and production levels. The problem is complex; because of the three variables. If optimum balance is not achieved in planning many other aspects of the profit plan will be adversely affected. Therefore, there must be coordination between sales plans, production plans and inventory policies.

The production budget is an estimate of the quantity of goods to be manufactured during the budget period. In developing the production budget, the first step is to establish policies relative to inventory levels. In most businesses, inventory represents a highly relative investment and may have a significant impact on the major functions of the enterprise and its profit. The production budget and the inventory policies provide the basis for obtaining the coordination between sales plan, production plans and inventory policies. The objectives of inventory policies are a) to plan the optimal level of inventory investment and b) through control, to reasonably maintain the optimal levels. Inventory levels should be maintained between two extremes: an excessive level causing excessive carrying costs, risks, and investment, and an inadequate level to meet sales and production demands promptly. Therefore, one must be careful while considering inventory policies. There are three types of production policy related with inventory policy.

Stable Production Vs Unstable Inventory Policy: In this policy, fixed units are to be produced equally in every month or specified period; while the final or closing inventory of finished goods are to be unstable. Therefore, budgeted sales of that period are unequal.

Unstable Production Vs Stable Inventory Policy: In this policy units of final inventory are to be stable at the end of each period and production units are to be fluctuated in each budget period. The numbers of units produced and budgeted sales are directly related.

Flexible in Both Production and Inventory Policy: In this policy production units and inventory level differ from time to time in the specified budget period.

2.29.2.4 Methods of Inventory Computation

There are different methods for computing inventory depending upon the given data. Some important methods are as follows:

A. Average Sales Method

Simple average method: Under this method stable inventory level will be maintained. This method can be used to compute inventory when total sales for budgeted period, total budgeted period and required stock of inventory of each period are given.

$$\text{Simple average} = \text{total sales} \times n / N$$

Moving average method: This is the method which will be used by company having highly fluctuating sales due to competitions or seasonal demand or by company selling product with highly seasonal sales. When the historical data of sales plan are given, moving average method can be used to compute inventory level. Moving average method is based on uneven number of period.

B. Sales to Turnover Ratio

H.S.T.R method: This is the method, which can be used by company with highly seasonal sales and have the policy of fluctuating production and inventory level.

$$\text{Inventory for the month} = \text{sales for the month} \mid \text{H.S.T.R (multiplier)}$$

Turnover Times Method: Under this method inventory will be computed on the basis of turnover ratio or turnover time. It refers the relationship between sales and inventory. It is useful for stable inventory policy.

$$\text{Turnover time} = \frac{\text{Sales}}{}$$

Average inventory

C. Proportional Sales Method

Under this method inventory is computed on the basis of sales ratio or on the basis of proportion to sales. Under this method, the inventory level will remain low, so for big company with highly seasonal sales or with large competitive market therefore will not be suitable to big companies. This method will be useful for the small company with limited but assured market or company dealing with basic commodities.

Inventory for the month = sales | ratio

2.29.2.5 Just - In – Time (JIT) Production

The just in time (JIT) approach to production planning is a recent trend in manufacturing. The main characteristics of JIT are as follows:

It is inefficient and costly to hold large inventories of safety stock for raw materials, subassemblies, or finished products. Therefore, these safety stocks should be minimized.

Setup times for production can be minimized through the use of robotics and process improvement studies. Therefore, frequent production setups may not be inefficient.

Very high quality of subassemblies and final products must be achieved in order to reduce the need for safety stocks.

In the light of these considerations, many companies have adopted an approach to manufacturing called just-in-time production. JIT is a production concept in which virtually nothing is purchased or manufactured until before it is needed. The concepts were originally made famous by Toyota and have resulted in huge cost savings for a variety of companies, such as Honeywell, Ingersoll Rand, and A.P. parts.

2.29.2.6 Simple Format of Production Budget

Budgeted sales	…….
Add planned ending inventory	……
Total required	…….
Less beginning inventory of finished goods	…….
Planned production for year	…….

2.29.3 Purchase and Materials Budget

Once the production needs have been determined, the purchase and material budget is prepared. Material budget coordinates raw materials and parts required for production, inventory level of raw material and parts and raw materials and parts that must be purchased. Material budget ensure that the appropriate amounts of raw materials and components parts will be on hand at the time required. To plan for the costs of such materials and parts, the tactical plan should include 1) a detailed budget that specifies the quantity and cost of such materials and parts, and 2) a related budget of materials and parts purchases. Materials and purchase budget includes four sub budgets which are as follows:

2.29.3.1 Materials and parts budget: This budget includes only the budgeting of direct materials only. Parts are usually classified only as direct. Direct material is generally defined to include all materials and parts that are an integral part of the finished product and can be directly identified with the unit costs of the finished products. It helps to determine the quantities of raw materials and parts needed for production. The budgeted quantities of each raw materials and parts needed for each finished product is specified in the materials and parts budget by interim period (months and quarters) and by the responsibility centers. The basic inputs required to develop the direct materials and parts budget are 1) volume of output planned (from the production plan) and 2) standard usage rates by type of raw materials and part for each finished product.

Material budget = Production Budget | standard Usage Rate

2.29.3.2 Material and Parts Purchase Budget: Purchase manager is responsible for preparing detailed plan of purchase. The purchase budget specifies the quantities of each type of material and part to be purchased, the timing of those purchases and the estimated cost of material and part purchases. The purchase budget is directly concerned with the timing of actual receipt of materials and parts rather than with timing of purchase orders and usage. Material purchase budget is prepared with considering inventory policy of material and parts. While preparing purchase and material budget two basic timing factors should be taken into consideration, a) how much to purchase at a time and b) when to purchase.

Material Purchase = Material Usage + Closing Stock – Opening Stock

2.29.3.3 Materials and Parts Inventory Budget: As with the finished – goods inventory budget, with respect to sales and production, the materials and parts inventory budget provides a cushion between material and parts requirements and purchases. The timing of purchases will depend on inventory policies. The raw material and parts inventory policies are intended to minimize the sum of two classes of costs: the cost of carrying the inventory and the cost of not carrying enough. The primary consideration in setting inventory policies for materials and parts are: (Welsch, Gordon and Hilton; 2000:244)

Timing and quantity of manufacturing needs.

Economies in purchasing through quantity discounts.

Availability of materials and parts.

Lead time (order and delivery)

Perishability of materials and parts.

Storage facilities needed.

Capital requirements to finance inventory.

Costs of storage.

Expected changes in the cost of materials and parts.

Protection against shortages.

Risks involved in inventories.

Opportunity costs.

Closing Stock of Raw material= opening stock +purchase of raw material-material usage

2.29.3.4 The Cost of Material and Parts Budget: Cost of material and parts budget is planned cost of the materials and parts used in production process. The purchasing manager is responsible for estimating the unit cost of each raw material and part.

Material cost = material usage | material cost per unit

2.29.4 Direct Labor Budget

Planning and controlling direct labor refers the areas of personnel needs, recruitment, training, job description and evaluation, performance evaluation, performance measurement,

union negotiations and wage and salary administration. Labor cost includes all expenditure for employees: top executives, middle management personnel, staff officers, supervisors, and skilled and unskilled employees. Labor generally is classified as direct or indirect. Direct labor costs are those cost that can be directly traced to specific production. The direct labor budget includes the planned direct labor requirements necessary to produce the types and quantities of outputs planned in the production budget. Once the production needs are known, the direct labor budget is prepared. The primary reasons for using a separate direct labor budget are to provide planning data about the amount of direct labor required, number of direct labor employees needed, labor cost of each product unit, and cash flow requirements. Another purpose of the direct labor budget is to establish a basis for control of direct labor. The direct labor budget is typically expressed in both direct labor hours and in amounts. The direct labor hours is computed b y the following methods: a) time and motion study, b) standard costing rates, c) research works, d) engineering studies, and e) direct estimation from executives

2.29.4.1 Advantages of the Direct Labor Budget

Effective planning of direct labor hours and costs has great advantages for a company. Following are the advantages of the direct labor budget: (Welsch, Gordon and Hilton; 2000:287)

The personnel function can be more efficiently performed because a basis is provided for effective planning, recruitment, training and use of personnel.

The finance function can be more effectively performed because labor is often one of the largest demands on cash during the year.

The budgeted cost of manufacturing each product (unit costs and total cost) is an important factor in several areas of decision making, such as pricing policy and union negotiations.

The control of direct labor costs is significantly enhanced.

2.29.4.2 Approaches Used in Developing Direct Labor Budget

For the annual profit plan, the direct labor budget is developed by responsibility centers, interim periods, and products. Following approaches is used to develop the direct labor budget: (Welsch, Gordon and Hilton; 2000:281)

Methods of wage payment

Type of production processes involved

Availability of standard labor times

Adequacy of the cost accounting records related to direct labor costs.

2.29.5 Overhead Budget

All the expenses that are related to the manufacturing, distribution and general administration are included in the overhead budget. Expense plays a crucial role in profit planning and control. Therefore expense planning is viewed as necessary to maintain reasonable expense levels to support the objectives and planned programs of the enterprise. Expense planning should not focus on decreasing expenses, but rather on better utilization of limited resources. There are two types of expenses as by responsibility controllable and non-controllable. Those expenses that are subject to the authority and responsibility of a specific manager are controllable expense. Those expenses that are not ordinarily controllable within the responsibility center, but rather at higher levels of management such as supervisory salaries are non-controllable expense. When expenses are viewed in relation to changes in output three distinct expense categories emerge;

1) Fixed expenses: Those expenses that is constant in total from month to month within relevant range of output and given set of conditions. They accrue with the passage of time, that is, they are time expenses. They are also called capacity costs. For example, salaries, property taxes, insurance, depreciation etc.

2) Variable expenses: Those expenses that change in total directly with changes in output or volume of work done. Variable expenses are activity based because they are incurred as a direct result of output, productive activity or work done. Variable expenses increase or decrease with change in output that is if output is doubled variable expense is doubled and if output is decreased then variable expense is decreased. For example, direct materials, direct labor etc.

3) Semi – variables expenses: Those variables that are neither fixed nor variable but are partly fixed and partly variable are semi – variable. As output changes, semi variable expenses change in the same direction but not in proportion to the change in output.

With respect to formal development of the tactical short-term profit plan, a separate overhead budget for each responsibility center is to be developed. These overhead budgets are 1) manufacturing or factory overhead budget, 2) selling and distribution overhead budget and 3) administrative overhead budget.

2.29.5.1 Manufacturing or Factory Overhead Budget

Manufacturing overhead is a part of all production cost. It includes all production cost other than direct materials and direct labor. It is not directly identifiable with specific products or jobs. Manufacturing overhead budget consists of indirect material, indirect labor and all other miscellaneous factory expenses; such as taxes, insurance, depreciation, supplies and repairs. Manufacturing overhead includes many dissimilar expenses therefore overhead costs are broken down by cost behavior for budgeting such as fixed, variable, and semi variable.

There are two distinct types of responsibility centers in manufacturing companies producing and service. Producing centers are those manufacturing departments that work directly on the products manufactured. Service departments do not work directly on the products but rather they furnish service to the producing departments and to other service departments such as maintenance and repair department, power department, purchase department, and time and motion study department etc.

2.29.5.2 Selling and Distribution Overhead Budget

A selling and distribution expense includes all costs related to selling, distribution and delivery of products to customers. The top marketing executive has the overall responsibility for developing the distribution and selling overhead budgets. While preparing the budget marketing executive should analyze the market situation, advertising policies, research programmes and fixed and variable elements. The two primary aspects of planning distribution expenses are as follows;

a. Planning and co-ordination

b. Control of distribution expenses.

2.29.5.3 Administrative Overhead Budget

Administrative overhead includes those expenses other than manufacturing and distribution. This includes the administrative expenses including the salaries of the managerial staff. They are incurred in the responsibility centers that provide supervision and service to all function of the enterprise rather than in the performance of any one function. Large portions of administrative expenses are fixed rather than variable. Therefore these expenses cannot be controlled. General administrative expenses are close to top management therefore the magnitude and effects of these expenses in profit should be overlooked strongly. The overall administrative budget includes several departmental budgets such as central administration, the controllers department, the treasurer's department, the personnel department, and central staff. The administrative expense budget should be based on specific plans and programs. The historical record such, as past experience, management policy, and general economic condition is helpful in developing administrative expense budget.

2.29.6 Flexible Budget

The budget in which the costs are specified according to the nature such as fixed, variable and semi-variable is called flexible expense budget. This is a tool by which and overhead costs are controlled. Flexible budget is not based on only one level of activity instead it covers a range of activity within which the firm may operate. The flexible budget concept is complementary to the tactical profit plan. The flexible budget have two functions: 1) to provide expense plans for the tactical profit plan and 2) to provide expense plans adjusted to actual output. It is directly relate only to expense or costs. It is also called variable, dynamic, activity, and output-adjusted expense budget. The concept of flexible budget is that all expenses are incurred because of passage of time, output or productivity activity, or combination of time and output or activity.

2.29.6.1 Features of Flexible Budget

Expenses or costs must be identified into fixed and variable expense or costs.

Expenses must be related to output or productive activity.

Output or productive activity must be reliably measurable.

Flexible budget formulas for each expense must be for a specified time period and for a specified relevant range of output or productive activity.

For planning and controlling purpose, flexible budget formula must be developed for each expense in each responsibility center. (Welsch, Hilton and Gordon; 2000: 343)

2.29.6.2 Flexible Budget Format

There are three types of format for preparing flexible budget. They are:

1. Table Format: This format is used for introduction purpose to express flexible budget for different level of activity or output within the relevant range. It does not indicate the fixed and variable cost rate. Large company which has special manpower to prepare budget and where the cost structure is complicated uses this method.

2) Formula Format: This format provides a formula for each expense account in each responsibility center. The formula gives the fixed amount and the variable rate. This method is based upon average so; this method is useful for small business or department where the precision on computation is vital.

Formula format: $Y= a + bx$

3) Graphic Format: This format is useful when step or non-linear expenses are not to be used on a straight-line relationship. The budget amounts can be directly read from the graph in this format.

2.29.6.3 Uses of Flexible Budget

Flexible budget can be applied in all the functions in a company – manufacturing, selling, and administrative- but they are more frequently used in the responsibility center of manufacturing function. (Welsch, Hilton and Gordon; 370:2000)

1. To facilitate preparation of the expense budgets for the responsibility centers for inclusion in the tactical profit plan.

2. To provide expense goals for the managers of responsibility centers during the period covered by profit plan.

3. To provide budget expense amounts adjusted to actual activity for comparison purposes in the monthly performance reports

2.29.7 Capital Expenditures Budget

A capital budgeting decision may be defined as the firm's decision to invest its current funds most efficiently in long term assets in anticipation of an expected flow of benefits over a series of years. (Pandey; 1992:343)

A capital budgeting is the marketing of long-term planning decisions for investment and their financial budgeting then consists in planning the deployment of available capital for the purpose of maximizing the long-term profitability of the firm. (Horngren; 452)

A capital expenditure is the use of funds to obtain operational assets that will help earn future revenues or reduce costs. Capital expenditures include such fixed assets as property, plant, equipment, major renovations, and patents. Therefore capital expenditure budget is the process of planning and controlling of the long–term and short-term expenditure for expansion, replacement, and contraction of fixed assets. Capital expenditures are investments, as they require commitments of resources today to receive higher economic benefits in the future. Cash outflow and cash inflows are the major elements of capital budgeting. The capital budgeting is essential for planning and controlling purpose. Top executive and departmental managers are responsible for capital budgeting decision. The importance of capital budgeting is a) to avoid idle operating capacity, b) to avoid excess capacity, c) to avoid investment in capacity that will earn less than an adequate return on the investment, and d) to evaluate alternative capital expenditure.

2.29.7.1 Methods of Measuring the Economic Value of Capital Expenditure

While measuring the economic value of capital expenditure there are two most widely used methods: 1) Discounted cash flow methods (DCF) and 2) Shortcut and Simple Methods.

2.29.7.1.1 Discounted cash flow methods: The time value of money is considered in this method. It takes the time value of money into account with using discounting rate. The following discounted methods are used in capital expenditure decision.

2.29.7.1.1.1 Net Present Value (NPV): In this method, the discounting rate is used to discount the cash flow. The present value of cash inflow is determined and then initial cash outflow is deducted from the discounted cash flow to compute the net present value.

NPV = TPV – Investment

Where, NPV = Net present value

TPV = Total Present Value

2.29.7.1.1.2 Internal Rate of Return: Internal rate of return is an important method of calculating capital expenditure decision. Internal rate of return is that cost of capital, which is applied to assess a series of future cash inflows that origins the sum of their present values to the same level as the original investment. Or the discount rate that makes net present value equal to zero is called Internal Rate of Return. IRR is also called yield rate or marginal efficiency.

$$IRR = LR + \frac{PV \text{ at } LR - I}{XI} * (HR - LR)$$

$$PVLR - PVHR$$

Where, IRR = Internal Rate of Return

LR = Lower Rate

HR = Higher Rate

I = Investment

2.29.7.1.2 Simple Method or Traditional Method

This method does not consider the time value of money. There are two major methods of simple method to determine the capital expenditure.

2.29.7.1.2.1 Payback Period Method: Payback period method is the simplest and frequently used method for evaluating capital expenditure. Payback period is the minimum time required to recover the initial cash outlay from the annual cash inflows. The payback period is computed by the initial cash outflows by the annual return. Payback period is computed in two situations.

In case of even earning; $PBP = \frac{I}{Ec}$

Where, PBP = Payback Period

I = Investment

Ec = economic cash flow or annual cash inflow (CFAT)

In case of uneven earning,

$$PBP = N + \frac{I - \text{Cumulative Ec at N}}{\text{Ec of (N+1) year}}$$

Where, N = Minimum No. of year when cumulative Ec is very near to investment.

I = Investment

2.29.7.1.2.2 Average Rate of Return Method

Average rate or return is also known as Accounting rate of return (ARR) on investment. ARR on investment is the percentage of annual net return before depreciation and after taxes to the initial investment. It is simple to compute and based only on cash flow but it ignores the time value of money.

$$\text{Average Rate of Return} = \frac{\text{Average Earning After Tax X 100}}{\text{Average Investment}}$$

$$\text{Where, Average Earning} = \frac{\text{Total Income}}{\text{No. of Years}}$$

If ARR is greater than minimum rate of return then the project is accepted on the other hand if ARR is less than the minimum rate of return then the project is rejected.

2.29.8 The Cash Budget

The cash budget is a plan of future cash receipt and payment. It is an integral part of cash planning. One of the major responsibilities of management is to plan, control and safeguard of the resources. Two kinds of resources flow through many businesses– cash and non-cash assets. The cash budget focuses on cash resources that are cash inflows and cash outflows.

Cash budget helps in effective planning and controlling of cash flows. It helps in assessing cash needs and using excess cash. A cash budget includes two parts: (1) the planned cash receipts (inflows) and (2) the planned cash disbursement (outflows). Planning cash inflows and outflows gives the planned beginning and ending cash position for the budget period. A cash plan or budget is prepared from the previously prepared budgets such as sales budget, purchases budget, material budget, overhead budgets and other functional budgets. Company treasurers are responsible for the preparation of cash budget. A cash budget is prepared on three different time horizons – long term, short term, and immediate term. A cash budget helps management in: 1) determining the future cash needs of the firm, 2) planning for financing of those needs, and 3) exercising control over cash and liquidity of the firm.

2.29.8.1 Purposes of Cash Budget

The primary purposes of the cash budget are as follows: (Welsch, Gordon and Hilton; 2000:434)

To give the probable cash position at the end of each period as a result of planned operations.

To identify cash excesses or shortages by time periods.

To establish the need for financing and or the availability of idle cash for investment.

To coordinate cash with, total working capital, sales revenue, expenses, investments and liabilities.

To establish a sound basis for continuous monitoring of the cash position.

2.29.8.2 Approaches Used to Develop a Cash Budget

Two primary approaches are used to develop the cash budget- cash receipts and disbursement approach and financial accounting approach.

2.29.8.2.1 Cash Receipt and Disbursement Approach: This method is also called cash account or direct method. It is simple to develop. This method is based on detailed analysis of the increase or decrease in the budgeted cash account that would reflect all cash inflows and outflows from such budgets as sales, expense, and capital expenditures. It is used for short-term cash planning as a part of the annual profit plan. In this method the cash receipts from various sources and the cash payments to various agencies are estimated. In the opening balance of cash estimated cash receipts are added and from the total, the total of estimated cash payments is deducted to find out the closing balance.

2.29.8.2.2 Financial Accounting Approach

This method is also called as indirect income statement approach. It is used more often for long-term cash planning. This approach requires less detail and fits the approaches commonly used in long range planning. Basically, this method develops cash flows starting with net income. The net income is converted from the accrual basis to cash basis.

2.30 Planning and Control of Non Manufacturing Organization

A non-manufacturing organization or a merchandising business purchases goods and resell them in essentially in the same form rather than converting raw materials into finished product. A non-manufacturing enterprise purchases and sells a number of dissimilar products that vary in major ways, such as usage, size, weight, price, style, and service required. Because of the diversity in characteristics of items sold, planning focuses more on Rupees than on units. A non-manufacturing enterprise would not develop budget covering production, raw materials purchase, direct labor, or manufacturing overhead. Non-manufacturing enterprise focus on the merchandise budget.

2.30.1 Merchandise Budget

Merchandise budget is prepared in non-manufacturing companies. It includes planning of sales, reduction, markdown, employee discounts, stock shortage, purchase and gross margins. It is the first sales plan in merchandising company. Two approaches are used to plan sales in non-manufacturing company.

1. Unit price Approach: According to this approach, the units to be sold and the unit sales price for each product are planned. This method is practical when the number of product lines is small and the selling price is relatively high.

2. Sales-dollar Approach: This approach plans sales in dollars only for each department. This approach is used when the number of product lines is large and the selling prices across product lines vary significantly.

2.30.2 Planning Inventory and Purchasing

Planning Inventory: An important feature of planning inventory levels and purchase in non-manufacturing companies is that plans are developed in terms of retail prices. Then the retail

price is converted to purchase cost. That is since the sales are planned at retail prices, the beginning of month (BOM) stock levels are also planned in retail. The BOM inventory for one month is the ending of month inventory (EOM) for the preceding month thus, planning focuses on sales and the BOM stock level of each month. The following formula is used to determine the stock levels.

Planned BOM stock at retail = Stock to sales ratio X planned sales

Planned EOM stock at retail = BOM stock of the next month

$$\text{Where, Stock to sales Ratio} = \frac{\text{Average Stock (at retail)}}{\text{Net Sales}}$$

Planning Purchases: The following formula is usually applied to compute the planned purchases at retail value:

Planned purchases = Planned net sales + Planned reductions + Planned EOM stock+ Planned BOM stock.

2.30.3 Open-to-Buy Planning

Open-to-Buy is a term generally used in non-manufacturing enterprises to refer to that amount that a buyer can spend for goods during a specified time period.

Table: 3

Format for Open to Buy Planning

S.N	Particulars	Amount	Amount
A	Stock Requirements		
	1.EOM Inventory		xxxxx
	2.Planned Sales for the Month	xxxx	
	Less: Actual sales to date	xxxx	xxxxx
	(Y) Planned sales for remaining period		xxxxx
	3.Planned Reductions	xxxx	

	Less: Actual Reductions to date (Z) Planned reduction for remaining period	xxxx	 xxxxx
A.A	Total Stock Needed (Y+Z)		xxxxx
B	Stock Available 1.BOM Stock 2.Merchandise received to date Total stock available Less: Actual sales to date Actual reductions to date	 xxxx xxxx xxxx xxxx	 xxxxx xxxxx
	Total Add: Merchandise ordered for month		xxxxx xxxxx
B.B	Total Stock Available		xxxxx
C.	Open-to-Buy at Retail (A.A – B.B)		xxxxx
D.	Open-to-Buy at Cost = Open-to-Buy at retail X (1- Mark up rate)		 xxxxx

2.30.4 Other Budgets in Non-manufacturing Enterprise

Others budget such as expense budget, cash budget, capital budget etc. in non-manufacturing situations present the same problem as encountered in a manufacturing situation.

2.31 Completion of Profit Plan

The development of an annual profit plan ends with the planned income 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 period and report the primary impacts of the detailed plans on the financial characteristics of the company. Budget director has the responsibility in the completion of profit plan. The planned income statement is concerned with determining the total income of the planned period. It is

prepared under accrual basis rather than the cash basis. Similarly the planned balance sheet is concerned with forecasting total assets and properties and capital and liabilities of the company.

2.32 Performance Reports

Performance reporting is an important part of a comprehensive profit planning and control system. The performance report of a comprehensive PPC program significantly influences the extent to which the organization's planned goals and objectives are attained. Performance reports are usually prepared on a monthly basis and follow a standardized format from period to period. Such reports are designed to facilitate internal control by the management. Performance report compares actual goals and budget plans. The measurement of actual performance relative to planned targets is just as applicable to non-manufacturing companies as it is to manufacturing companies.

2.32.1 Features of Performance Report

The important features of performance report are as follows :(Welsch, Hilton and Gordon; 2000: 544-545)

Tailored to the organizational structure and locus of controllability (that is by responsibility centers)

Designed to implement the management-by-exception principle.

Repetitive and related to short time periods.

Adapted to the requirements of the primary users.

Simple, understand and reports only essential information.

Accurate, and designed to pinpoint significant distinctions.

Prepared and presented promptly.

Constructive in tone.

2.33 Analysis of Budget Variance

Comparison of actual results with planned or budget goals has been emphasized as in integer part of the control process. A basic feature of performance report is the reporting of variance.

Variance is the deviation between planned or budget and actual results, which may favorable and actual results, which may favorable and unfavorable. It a variance is significant a careful management study should be made to determine the underlying causes and remedies negative causes through appropriate corrective action. This analysis increases the usefulness of performance report.

Some of the primary approaches determine the underlying of variances:

Conferences with responsibility center managers and supervisors employees in the particular responsibility center involved.

Analysis of the work situation includes the flow of work, co-ordination of activities, effectiveness of supervision and other prevailing circumstances.

Direct observation, On the spot investigations by line managers, Investigations by staff groups, Internal audit, special studies, variances analysis, Generally following steps involved in analysis variance, Setting standard, Measurement of performance, Analyzing variance, Taking corrective action.

Variance analysis involves a mathematical analysis of two set data in order to gain insight in to the underlying causes of variance. One amount is treated as the base, standard or reference point. Variances further should be classified as controllable and non-controllable. If unfavorable variances are arising due to controllable causes than related center or managers should be accounted for the responsibility.

CHAPTER THREE

REVIEW OF LITERATURE

3.1 Review of the Earlier Studies

There has been a lot of research work in the past on PE's of Nepal and the application of PPC in both manufacturing and non-manufacturing companies. These past studies have helped this study to be more effective and logistic in its sense. To solve the task presented in this study several concepts and theories of these past thesis have been taken. Many researchers have shown interest in doing research in PPC and have carried numerous research and field observations to illuminate pertinent issues. Very few researchers have carried research in PPC of manufacturing industries. Whatever the research in the areas of profit planning and control made are also not in depth and in detail. Very few dissertations have been submitted in the topics of profit planning and control of manufacturing industries like SROM. Some of the researcher's findings and suggestions of the previous studies are reviewed here.

3.2 Review of Research work

A. Mr. Lekhnath Dahal (2005)

Mr. Dahal has submitted the thesis entitled, "Comprehensive budgeting and its impact on profitability of Public enterprise: A case study of Gorkhapatra Sansthan"2005. He has focused his study to examine the current practice and effectiveness of profit planning in Gorkhapatra Sansthan and to analyze various functional budgets of Gorkhapatra Sansthan.

Major Findings

GC did not have systematic comprehensive profit planning. The budgeting system is not based on scientific and realistic approach.

Sales and production forecast are unrealistic.

There is under utilization of available capacity in GC.

There is no systematic way of segregating cost into fixed and variable.

Overhead costs were not systematically classified.

GC liquidity and profitability ratios were not satisfactory.

GC was suffering from loss in some FY 2059/060, 060/061, 061/062.

Recommendations offered:

GC should consider its pricing policy. The cost of production should be considered while pricing of the publication. It should attempt to control the production cost.

The unproductive expenses should be reduced by the management and administrative staffs of GC.

GC should prepare the sales budget on the realistic ground.

GC should prepare periodic performance reports about the activities of corporation.

GC should consider break even analysis while preparing sales plan.

All personnel should be made to participate in decision making and planning process.

GC needs to classify the costs in scientific manners.

B. Mr. Umesh Raj Paudel (2007)

Mr. Paudel has submitted the thesis entitled "Profit Planning and Control of Government Corporations, A Case Study of Salt Trading Corporation Limited". Mr. Paudel has concerned his study to examine the practice of PPC in the government corporations. He has focused his study to analyze the sales and purchase budget of Salt Trading Corporations Limited.

Major Findings

The overall financial condition of STC is satisfactory.

The planning process of STC is little bit ambitious because the actual achievement is lower than that of targeted figure.

STC has practiced only short term planning rather than long term planning.

Promotional expenses and programs in STC are very low for a trading organization dealing in diversified products.

Minimum expenditure is made in advertisement. In fact, most people don't know that STC deals in product other than salt.

Recommendations offered:

STC should develop realistic strategic plan as well as tactical plan regarding sales, purchase and expenses.

Long term objectives of the STC should be clearly formulated so as to make clear distinction between profit motive and social motive.

STC needs to explore business opportunities and develop it as a self-sustainable public enterprise.

STC should focus on promotion and advertisement to enter into commercial trading of various products.

To improve the profit pattern STC should develop profit plan formulation and make proper implementation of it.

C. Mohan Gurung (2008B.S)

Mr. Gurung had submitted his thesis titled "Profit Planning of Non-manufacturing enterprise in Nepal: A Case Study of Nepal Food Corporation"(2008). The study was mainly concerned with the finding of degree of application of profit planning system in NFC to increase its profitability by increasing its effectiveness.

The main objectives of his research work were:

Comparative study of sales trend.

Comparative study of purchase trend.

Analytical studies of inventory policy.

To examine the cost structure.

His research covered the time period of nine years from the FY 2059-60 to FY 2063-64. For data gathering process, secondary sources were used.

Major Findings:

The planning section that makes the plan is confusing and creates conflict between profit and goals. NFC profit planning is adversely affected.

NFC has no any objectives to create and maintain an optimum enterprise environment that maximize the interest and motivate all employees.

There is no well-developed system of performance evaluation for employee. No fair system of reward and punishment to employee on the basis of their work performance.

So far NFC has not achieved its specific goals that were targeted.

NFC is not capable enough to formulate and implement its profit plans.

Corporation has established a planning department but there is no concern authority to decide and create various plans.

Most of the PE's in Nepal has not been able to generate work efficiency and financial capacities are still dependable on government protection.

Recommendations offered:

NFC must formulate clear-cut goals objectives policies, long-term plans, and strategic programs etc. while preparing sales and purchase budgets the concern authorities should be flexible.

Corporation should come up with the program of reward and punishment for the workers who are dedicated and for the non-dedicated one.

The concept of PPC should be well informed to every level of management.

Planning department should be provided with adequate authority in decision-making and in implementing various plans.

A separate costing system should be developed.

The corporation should be away from nepotism and favoritism and should also be away from government pressure while selecting the staff.

The administrative expenses should be checked time to time to avoid unnecessary expenditure.

D. Mr. Laxman Sharma Poudel (2008 B.S)

Mr. Laxman Sharma Poudel submitted a thesis on the topic, "Profit is planning in manufacturing PEs, A case study of Gorakh Kali Rubber industry Ltd." to the faculty of management central department T.U. on the course of partial fulfillment of MBA. In his research Mr. Poudel has tried to examine how far the different functional budgets are being applied as tool for profit planning in the business enterprise. In his research paper has used primary as well as secondary data i.e. published documents, booklets, magazines document. Mr. Poudel has made research covering the time period of four years from FY 2059/60 to FY 063/064.

The main objectives of this research here:

To sketch the trend of profit and loss.

To see the Gorakh Kali Rubber Industry's profit planning on the basis of overall managerial budgeting.

To examine the practice and effectiveness of profit planning.

To evaluate the variance between targets and actual of the enterprises.

Major findings

Unrealistic of over ambiguous sales forecasts.

Inadequate planning of profits due to lack of skilled planner.

Inadequate evaluation of relevant internal and external market variables.

Inadequate knowledge of technical knows how.

Recommendations offered :-

Industry should develop the long-term strategic plan for every expected on its operations.

Pricing policy should be revised and cost volume profit relationship should be considered while pricing the products.

Effective sales promotion activities should be made to increase the export of the industry.

Industry should clearly state its objectives, and should be in depth analysis of the industry's strength & nearness.

E. Miss Mina Kumari Acharya (2009 B.S)

Miss Miina Kumari Acharya submitted a research on the topic, " profit planning and control in manufacturing public enterprises of Nepal, A study of Himal cement Co.Ltd."(2009) to the faculty of management central department T.U. on the course of practical fulfillment of MBA. In her research, Miss Acharya has tried to examine how far the different functional budgets are being applied as tool for profit planning in the business enterprise. In her research paper she has used primary as well as secondary data i.e. published relevant document reports of auditor general were the secondary sources of data and personal interview with the top level management and the questionnaire were the primary source of data. Miss Mina has made research covering the time period of five years from FY 2060/61 to FY 064/065.

The main objective of research were:

a. To analysis the various functional budgets adopted in Nepalese enterprises.

b. To examine how far the profit planning system is applied in this company.

c. To sketch the trend of profit and problems of planning in HCC.

d.To examine the practice and effectiveness of profit planning.

e.To evaluate the variance between targets and actual of the enterprise.

Major findings :-

The company did not fix it's broad and long-range objectives and periodic performance report systematically.

Company has satisfactory production plan. Production is formulated as required by sales plan. The planning procedure and system of company were also good.

Actual production of company is largely depending upon plan.

Recommendations offered :-

a. Company should try to increase its market share.

b. It should be benefited to prepare a realistic sales plan.

c. There must be opened separate profit planning unit and have to appoint planning director to achieve company's goal.

d. Company should try to increase its market share.

F. Srijana Aryal (2010)

Srijana Aryal as submitted a thesis on the topic, "Profit planning in manufacturing company in Nepal; a Case study of Nepal lever limited T.U. on the course of partial fulfillment of MBS. In this research Aryal has focused some features and problem of profit planning, prevailing practices and premises for implementing profit planning on Nepalese Manufacturing Company in Nepal. In her research paper she has used primary as well as secondary data i.e. published documents, booklets, magazines document Miss. Aryal has made research covering the time period of five years 2004/05 to 2008/09.

The main objectives of this research were:

To analysis the various functional budgets adopted in Nepal lever limited.

To assess the financial performance of NLL using BEP Analysis.

To examine how far the profit planning system of NLL has applied.

To sketch the trend of profit and problems of planning in NLL.

Major Findings :-

Role conflict between departmental managers.

NLL has practiced to cover all markets.

No efforts of market research for individual production.

NLL has many product some product, some product are not good.

Recommendations.

Sales forecasting should be made on the realistic ground. Forecasts should include strategic and tactical forecasts that are consistent with the time dimensions used in the comprehensive profit plans.

Nepalese manufacturing company should tack be the behavioral problems in organization.

Profit planning manuals should be communicated from top to lower levels. All personnel should participate in decision making and planning process.

Price-cost volume relationships should be taken in to consideration while developing sales plan and pricing strategies.

3.3 Research gaps

There was very few research studies made in the field of business and service sector. Those that were made were also not done in depth. Those research studies lack the performance analysis of the company. They dealt with either single accounting tool such as CVP analysis or they were limited in the projections of sales and production. A brief review of above mentioned dissertations, it is seen that most of the enterprises are not operating effectively and they have also not applied the full concept of budgeting profit planning and control. Most of the studies have only highlighted correlation, regressions,percentage etc.for analyzing the variables. But this research paper has also applied t-test analysis between targeted sales and actual sales with other tools of analysis.

CHAPTER FOUR

Research Methodology

4.1 Introduction

The main objective of this research is to understand the practical aspects of the enterprise and to highlight the applications and current practice of Profit Planning and its effectiveness in realizing profit in Sharada Rice and Oil Mill. Moreover the objective of the study is to analyze, examine, and interpret the budgeting techniques with the help of various financial statements, accounting analysis, statistical tools and non-financial subject matters. The basic objective of the present research is to highlight current practices of profit planning and its effectiveness in Nepalese public enterprises. The study also included method of data collection, processing and tabulation for analyzing different aspect of the study.

As the main objectives of this research is to analyze, examine and interpret various profit planning techniques & effectiveness of the enterprise the study compares planned financial target with actual performance with the help of various annual financial statements.

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

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objects in view. Research methodology refers to the systematic method consisting of finding the problem, collecting facts of data, analyzing the facts critically and reaching conclusions based on them.

Thus, this chapter highlights the research methodology used for the study of profit planning & control of Sharada Rice and Oil mill.

4.2. Research Design

A Research Design is the arrangement of conditional for collection and analysis of data in a manner that aims to combine relevant to the research purpose with economy in procedure.

Research design provides the overall framework or plan for the collection and analysis of data during the research study. It is the plan, structure, and strategy of investigation conceived so as to obtain answers to research questions. This study is an examination and evaluation of budgeting procedure in the process of profit plan of SROM. This study is closely related with the various functional budget and other accounting statements that the company has adopted. An intensive analysis of historical and descriptive research design was used in this study to analyze the performance of past five years from the FY 2063\2064 to FY 2067\068. The research possesses both quantitative as well as qualitative aspects.

4.3 Sources of Data

The source of data comprises both primary and secondary but the major source is secondary. The source of data is the interaction with staff. The secondary data was taken mainly from the annual reports, balance sheets, profit & loss accounts, cost sheets, auditors' reports of SROM and other published and unpublished data. The help of weekly magazines, daily newspapers and business journals were also taken.

The main sources of data are.

1. Financial statement of Sharada Rice and Oil mill.

2. Some published as well as unpublished records of Sharada Rice and Oil mill.

3. Some previous studies make regarding in this field

4. Magazines and news papers.

4.4 Population and Sample

Since the study is wholly focused on the single company entitled SROM therefore, the company as a whole is a population and sample.

4.5 Period Covered

The study analyzed only for five fiscal years period. The period for conducting research starts from the FY2063/064 to the FY 2067/068.

4.6 Data Collection and Analysis

Secondary data were collected from office records, annual reports, balance sheet, profit & loss account and unpublished thesis related with this matter. The primary data were collected from the concerned authority by discussion, opinions and information provided by them.

The analysis of data were done by using different accounting, financial and statistical tools. The statistical tools used are mean, co-relation, and regression. Similarly different ratio analysis, variance analysis etc. were used as financial tools. As for the accounting tools different functional budgets were taken.

4.7 Procedure of research methodology:

In a procedure of research methodology, the following steps are included:

1. Tentative selection of the problem

2. Initial survey of literature

3. Defining or selecting the research problem

4. Extensive literature survey

5. Specification of the information required formulating the hypothesis.

6. Design of the research project.

7. Sample design

8. Collection of data/construction of questionnaires

9. Execution of project

4.8 Analytical tools and techniques.

The collected data from various sources have been presented and tabulated on systematic way and data are analyzed using different statistical tool and techniques as necessary. For the

purpose of this study primary data, secondary data, financial and statistical tools are used. These financial and statistical tools are CVP analysis, BEP analysis, S.D, mean and coefficient of variance, least squares method, correlation, Graphs, Diagrams and budgets.

4.9 Research Variables

The research variables of the study were related with the accounting statement of SROM. Sales, production, purchase, inventories, expenses, labor, profit and loss were some of the important research variables that affect the research study.

This chapter refers to the overall research method comprising the theoretical aspect to the collection and analysis of data. This study covers quantitative methodology in a greater extent and uses the descriptive part based on both technical aspect and logical aspect. On the basis of historical data, performs a well-designed quantitative research in a very dear and direct way, using both financial and statistical tools. This research is descriptive, analytical as well as exploratory in nature. For this purpose, data has been managed in proper from for interpretation and explanations wherever necessary.

CHAPTER FIVE

PRESENTATION AND ANALYSIS OF DATA

Profit Planning and Control is the tool that helps a firm to achieve its objectives. It helps in effective planning of a firm. To make profit, effective planning and control of cost is necessary. PPC deals with all these aspects.

SROM prepares only the short – range profit plan. Tables and diagrams were used to make the result more simple, clear and effective.

To make the data presentation more simple and effective this chapter was divided into three portions:

a) **Budget Analysis:** In this portion the various functional budgets that SROM prepares were presented and analyzed with the help of various statistical tools.
b) **Financial condition of SROM:** In this portion the financial condition of SROM was tried to find out with the help of financial tools.
c) **Variance Analysis:** In this portion variances between actual and planned budget goals were compared.

5.1 Sales Plan/Budget :

The sales plan is a necessary portion of PPC. This is the first step of budgeting process. All the organization prepares sales plan as a primary source to provide the necessary information for developing other elements of a comprehensive profit plan, to reduce uncertainty about the future revenue, and to facilitate management's control on sales activities.

Sales are the primary source of cash and the other entire functional budgets/plans are prepared on the basis of sales budget/plan. Sales plan is the first plan in developing profit plan. It is not only the most important but also the most difficult to prepare. Sales plan provides basic guidelines for purchase of materials and preparing production budget. It is an organized approach for developing comprehensive sales plan. Short-term sales plan is prepared for 12 months. Similarly, Sharada Rice and Oil Mill has prepared strategic sales plan for 5 to 10 years. They have the policy of selling the production produced in the factory.

The following table shows the actual sales in units (tones) and Rs. (millions) of Sharada Rice and Oil mill fiscal year 2063-64 to 2067-068.

Table 1

Actual sales by Territories in unit (tones)

Form FY 2063-064 to 2067-068

Fiscal year	Total sales		Far western region sales		other region sales	
	Units	Growth	units	Growth	units	Growth
2063-064	4800	-	3150	-	1650	-
2064-065	6850	42.71	2800	11.11	4050	145.46
2065-066	6550	(4.38)	3050	8.93	3500	-13.58
2066-067	10555	61.15	4025	31.97	6530	115.51
2067-068	21905	107.53	5863	45.66	16042	145.67

source: Audit report

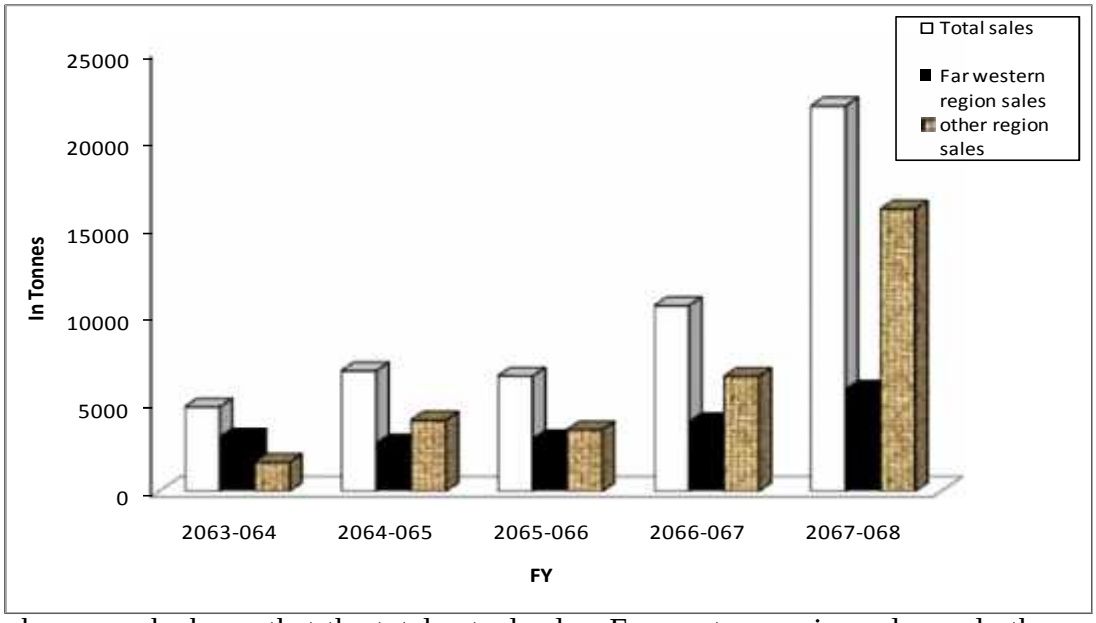
The above table shows that the annual sales of Sharada Rice and Oil mill in farwestern region and other region. Sharada Rice and Oil mill sold the product in Nepalgunj, Dang, Nawalparasi and Surkhet. The sales ratio is increasing. At fy 2063-64 the total sales was 4800 tonse, far western region sales was 3150 tones and other region sales was 1650 tones. The sales were increased by 42.71% at fiscal year 2064-65. At fy 2065-66 the sales was decreased by 4.38% . At fy 2066-67 sales was increased by 61.15% and fy 2067-68 sales was increased by 107.53%. At After analysis of above table it seems that the sales was increasing slowly. The Nepalese economic environment is affected by many factors so sales were not increasing at fast speed. The market faced many strikes.

The following is the graphic representation of Actual sales of Sharada Rice and Oil mill in units for different FY.

Figure 1

Actual sales by Territories in unit

Form FY 2063-064 to 2067-068



The above graph shows that the total actual sales, Far-western region sales and other region sales in units (tones). Sharada Rice and Oil mill sold highest in FY 2067-068 and lowest in FY2063-064. From FY 2063-064 every year actual sales were increasing slowly because of the external and internal environments. Every year Far western regional sale was lower than other regional sales. The other region sale is more than the farwestern region sales. The main market of Sharada Rice and Oil mill is Surkhet, Nepalgunj,Dang and Nawalparasi.

Table 2
Actual sales by Territories (in million)
From FY 2063-064 to 2067-068

FY	Total sales		Far western region sales		other region sales	
	Amount	Growth	Amount	Growth	Amount	Growth
2063-064	150.2		51.67		98.53	
2064-065	170.50	13.52%	50.15	(2.94%)	120.35	22.15%
2065-066	167.96	1.49%	89.19	77.84%	78.77	34.55%
2066-067	202.62	20.64%	77.42	13.20%	125.20	13.59%
2067-068	280.41	38.39%	105.60	36.40%	174.81	39.62%

Source:- Audit report

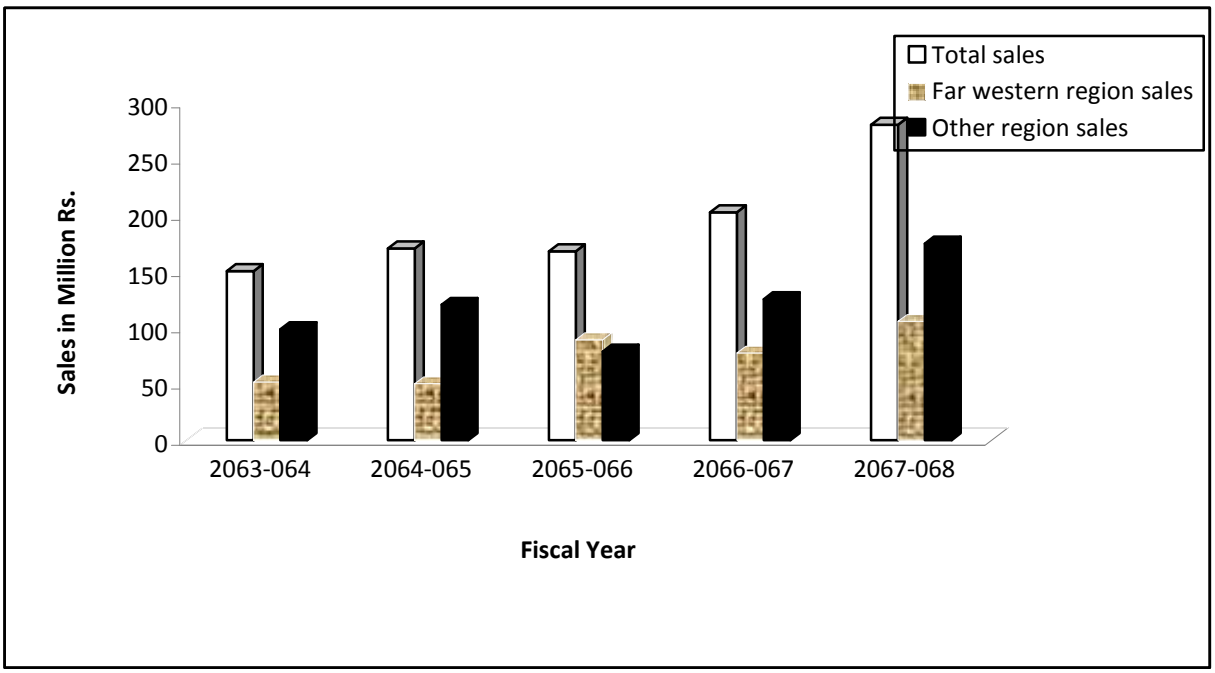
Above table shows that the total annual sales amount and growth in different fiscal year. The above table shows that there is increasing trend at FY 2063-064 to FY 2067-068. In FY 2063-064 total sales amount is Rs. 150.2 million. The sales trend of far western region Sales is

lower than other region sales. In FY 2064-065 sales is increased by 20.3 million from the sales amount of FY 2063-064. The FY 2066-067 sales amount was highest than other. It sold Rs. 280.41 million in that time. Sales were increasing after one to other fiscal year. After analysis, the above table shows that the far western region sales amount is less than the other region sales. Other region sales are highest in FY 2067-068 and lowest sales in FY 2066-067. The domestic's sales in FY 2065-066 are higher than other years.

Following is the graphic representation of actual sales in Rs. of Sharada Rice and Oil mill in different FY.

Figure - 2

Actual sales by Territories (in million)
From FY 2063-064 to 2067-068



The above figures show that there is increasing trend in sales amount in different fiscal years. There are lights sales in fiscal year 2066-067. The sales of other region are also highest in this year. The domestic sales in FY 2063-064 are lower than other fiscal year. In FY 2064-065 the other region sales are low. After analysis of the above figure the other region sales are highest in any fiscal year than the domestic sales. It covers the other region market.

5.2 Production plan/budget of Sharada Rice and Oil Mill

The second step of profit planning is preparation of production plan. Production plan is prepared according to the previous year's sales requirement. A production budget incorporated the estimates of the total volume of production with the scheduling of operation by day, weeks and months. The production budget is normally prepared in quantitative terms such as units of output, tones of production, etc. for production budget, there must be considered the quantity which is now on hand in inventory; the quantity required to meet projected sales and quantity which it is desired to have in inventory at the end of budget period. The manager of Sharada Rice and Oil Mill prepared production plan with the help of previous year sales. Different products are produced in Sharada Rice and Oil mill on the basis of availability of different raw material required, plant capacity and the past sales tend etc.

The following table shows the actual production of Sharada Rice and Oil Mill from fiscal year 2063-064 to 2067-068.

Table 3

Production Units (in Tones)

From FY 2063-064 to 2067-068

Fiscal year	Production
2063-064	13210
2064-065	18258
2065-066	17325
2066-067	21362
2067-068	24610

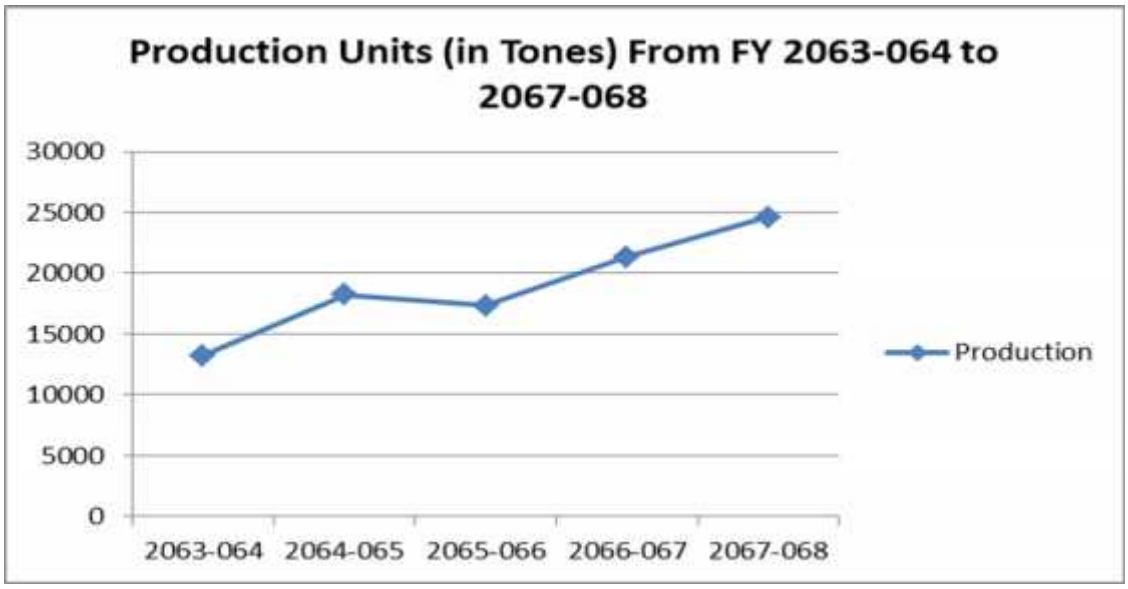
Source: Audit Report

The above table shows the actual production trend of Sharada Rice and Oil mill. The production trend was in increasing in year 2064-065 and then it was decreasing at the year 2065-066. In 2066-067 the production units is increased. The production trend is also increasing one to other year. At FY 2067-068 the production was product units is higher than other years. Production trend was increasing due to many marketing programs for domestic market.

Following is the line graphic representation of actual production in Sharada Rice and Oil mill in the different fiscal years.

Figure 3

Actual Production of SROM



The above graph shows that the production in units (tones) of Sharada Rice and Oil Mill is highest in fiscal year 2067-068 and lowest in FY 2063-064.Every year production is increasing in one step than decrease because of internal and external factors. The production is starting to increase.

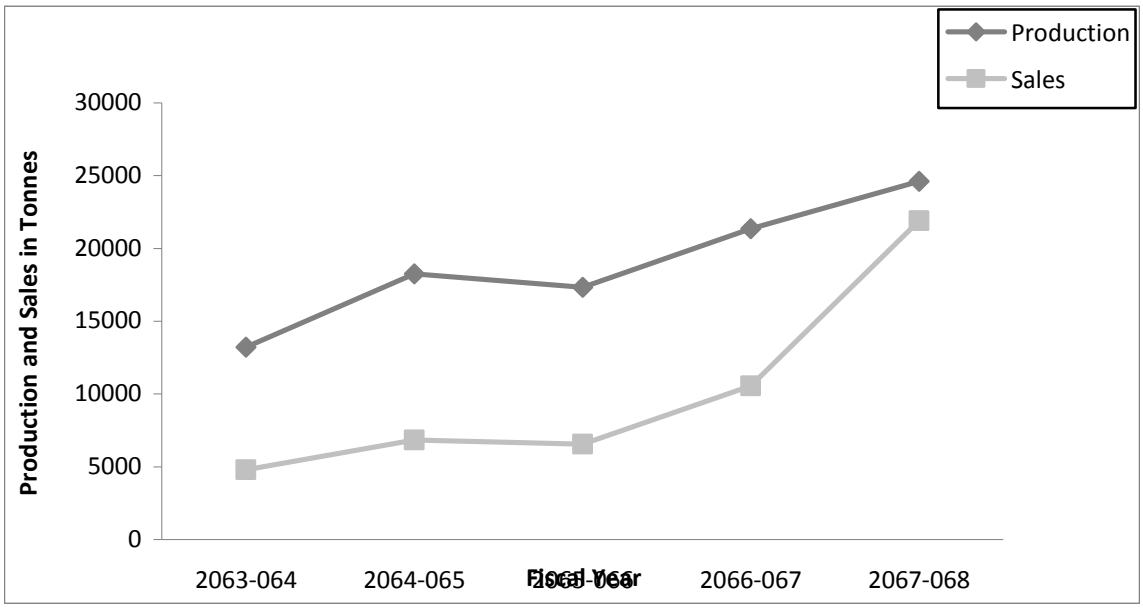
5.3 Comparison Between Sales and Production on of Sharada Rice and Oil Mill

Sharada Rice and Oil mill has no practice of sales forecasting. It does not prepare sales and production plans. Sales are depending upon production rather than on sales plan, which was delivered after sales forecasting.

Table 1 and table 3 shows that there was not any progress in sales and production of Sharada Rice and Oil mill. In the fiscal year 2067-068, the sales and production both are increased. Every year both sales and production were more increasing than compared to previous year.

Figure 4

Comparison between sales units and production units of Sharada Rice and Oil Mill



The above graph shows that the total production in unit (tones) of Sharada Rice and Oil mill was highest in every year than actual sales. Both production and sales units was highest in FY 2067-068 and lowest in FY 2063-064. Every year both production and sales were increasing but in FY 2064-065 both production and sales was decreased because of the external and internal environments.

The arithmetic mean and standard deviation with coefficient of variance and correlation of Sharada Rice and Oil Mill sale and production units from 2063-064 to 2067-068 were calculated in appendix No.1 and which is summarized as below.

Table 4

Comparison between sales and production

Description	Sales Unit (×)	Production Unit (y)
Mean	10132	18953
Standard deviation	6177.62	3845.01
Coefficient of Variation	60.97%	20.28%

Correlation between x and y = 0.895

The above tables show that there is high degree of variability nature of data between actual sales and actual production. S.D. and C.V. of actual sales were higher than actual production. It shows that there is positive correlation between actual sales and actual production. Coefficient of correlation shows that there is high degree of positive relationship between actual sales and actual production.

To analyse the trend of actual sales and to estimate the future sales, least square method is important statistical tool. A straight-line trend of least square shows the relationship between years and actual sales. In other words least method is also used for estimating the possible future sales , which is calculated as below.

Fitting straight Line Trend by least square (in tones)

Fiscal year	Actual sales (Y)	X	x^2	xy
2063-064	4800	-2	4	-9600
2064-065	6850	-1	1	-6850
2065-066	6550	0	0	0
2066-067	10555	1	1	10555
2067-068	21905	2	4	43810
Total	x =50660		x^2 = 10	xy =37915

Assumed year of base year is FY 2065-2066

Straight trend line

yc = a+bx

Where, a = $\frac{y}{N}$ = 50660/5= 10132

b = $\frac{xy}{x^2}$ = 37915/10= 3792

…Yc = 10132+3792

5.4 Finished Goods Inventory Plan/Budget of SROM

Inventory plays a vital role in profit planning. If sales are more exceeding than production, venture is used for sales and the level of inventory is going to be decreased and when

production exceeds more than the sales, the remaining products as an inventory in business appear. SROM has a policy to main some stock or inventory for primary sales.

The following table shows the actual inventory of finished goods of SROM's from FY2063-64 to 2067-68.

Table 5

Inventory of SROM

From FY 2063-64 to 2067-68

Fiscal year	Initial inventory	Final inventory
2063-064	-	25520410
064-065	25520410	20526415
2065-066	20526415	37542895
2066-067	37542895	42910795
2067-068	42910795	43452072

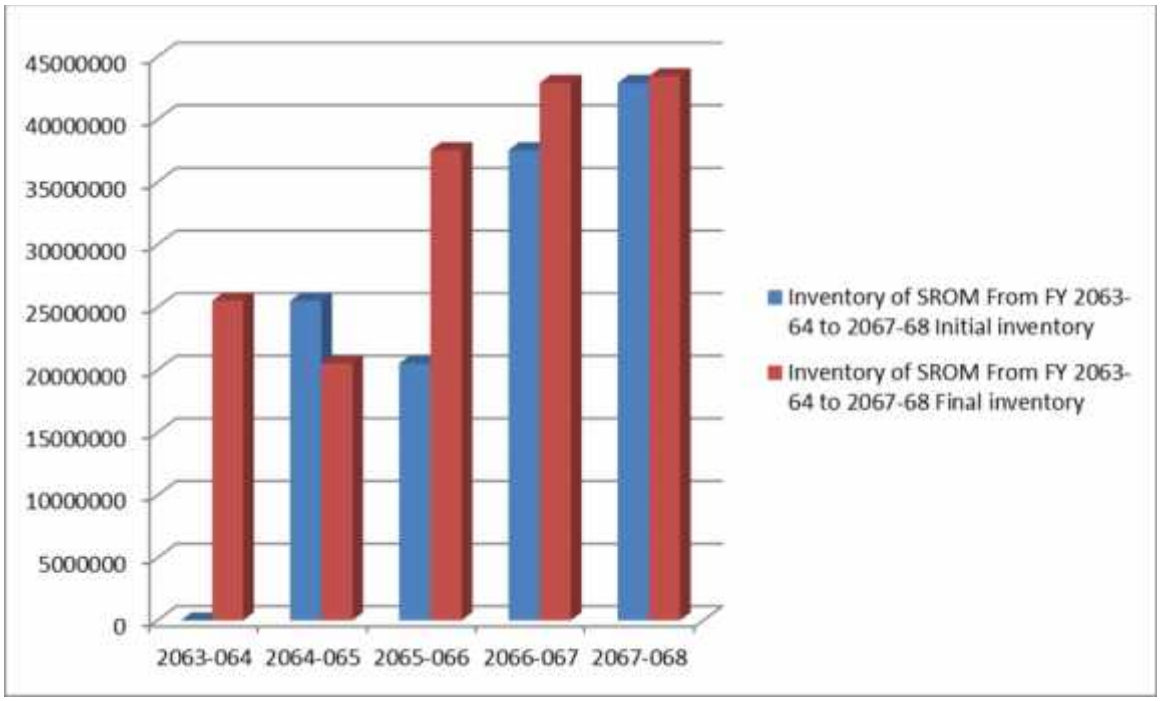
Source: Audit report

The above table shows the initial inventory and finished inventory of SROM, which show that the both inventories have been fluctuated every year. The final inventory was decreased in year 2064-065. The final inventory is maximum in year 2067-068.

Following is the graphic representation of final inventory is SROM in the different fiscal year.

Figure 5

Final Inventory of SROM



5.5 Raw materials and packing materials purchase plan/budget of SROM

Table 6
Raw material and packing material purchase budget (in million)
From FY 2063-064 to 2067-068

Fiscal year	Raw material	Packing material
2063-064	26.33	4.26
2064-065	30.11	5.75
2065-066	28.28	5.21
2066-067	34.22	6.05
2067-068	36.23	6.08

Source: Audit Report

The above table shows that the trend of purchase budget for raw material and packing material SROM was very fluctuating. In FY 2065-066 the purchase trend of both raw material and packing material were decreasing than they were increasing up to FY 2067-068. The raw material purchase and packing material purchase trend were increasing because sales

and production were also increased. When the markets increase all production process and sales processes are increase.

Table 7

Raw material and packing material consumption budget (in millions)
From FY 2067-068

Particulars	Amount (in Rs.)
Opening stock of raw material Opening stock of packing material	3.75 2.18
Total opening stock of raw material	5.93
Add, Purchase of Raw materials. Purchase of packing materials	 45.32 12.45
Total purchase of materials	57.77
Total requirement of raw materials	63.70
Less, Closing stock of Raw material Closing stock of packing material	 10.49 6.20
Total closing stock of raw materials	16.69
Raw material consumption during the year	47.01

Raw material and packing material budget is prepared after the planned production budget. Raw material and packing material purchased budget is prepared with considering the final inventory of raw material and packing material and initial inventory of raw material and packing material.

5.6 Manufacturing overhead plan/ budget of SROM

Table 8

Manufacturing overhead plan/ budget of SROM

From FY 2063-064 to 2067-068

Fiscal year	Expenses
2063-064	108.74
2064-065	133.26
2065-066	127.72
2066-067	186.23
2067-068	202.19

Source: Audit Report

The above table shows the manufacturing expenses of Sharada Rice and Oil mill. The manufacturing expenses trend was increasing every year in comparison to previous year i.e. the trend of manufacturing expenses were increasing trend. The highest manufacturing expenses were in Fiscal year 2067-068 and lowest manufacturing expenses were in FY 2063-064. After analyzing the above figures and tables, where the production units were also increasing FY 2064-065 the manufacturing expenses were decreased more than previous FY 2065-066.

5.7 Administrative overhead plan /budget of SROM

Administrative expenses budget consults the overhead incurred in farming policies, direction the organization and controlling the business operations. In other words, this budget includes those overheads which are not related to the manufacturing and distribution expenses. Large portions of administrative overhead are fixed rather than variable. They are incurred in the responsibility centers that provide supervision and service to all function of the enterprises.

Table 9

Administrative overhead plan
From FY 2063-064 to 2067-068 (in lakhs)

Fiscal year	Expenses
2063-064	13.37
2064-065	18.27
2065-066	26.20
2066-067	28.12
2067-068	27.53

Source: Audit Report

The above table shows the administrative expenses of SROM. The administrative expenses trend were more increasing up to FY 2066-067 and was decreasing in FY 2067-068. The highest administrative expenses in FY 2066-067 where 28.12 lakhs expenses occurred.

5.8 Capacity Utilization of SROM

Capacity is the most important factor in manufacturing enterprises. Production and sales both are depends upon the capacity. Production unit, sales unit and cost of production are depending upon the capacity utilization of the capacity.

In the context of SROM the utilization of capacity is shown below in the table.

Table 10
Capacity Utilization of SROM
From FY 2063-064 to 2067-068

Fiscal year	Percentage (%)
2063-064	56.26
2064-065	60.72
2065-066	64.71
2066-067	68.43
2067-068	75.64

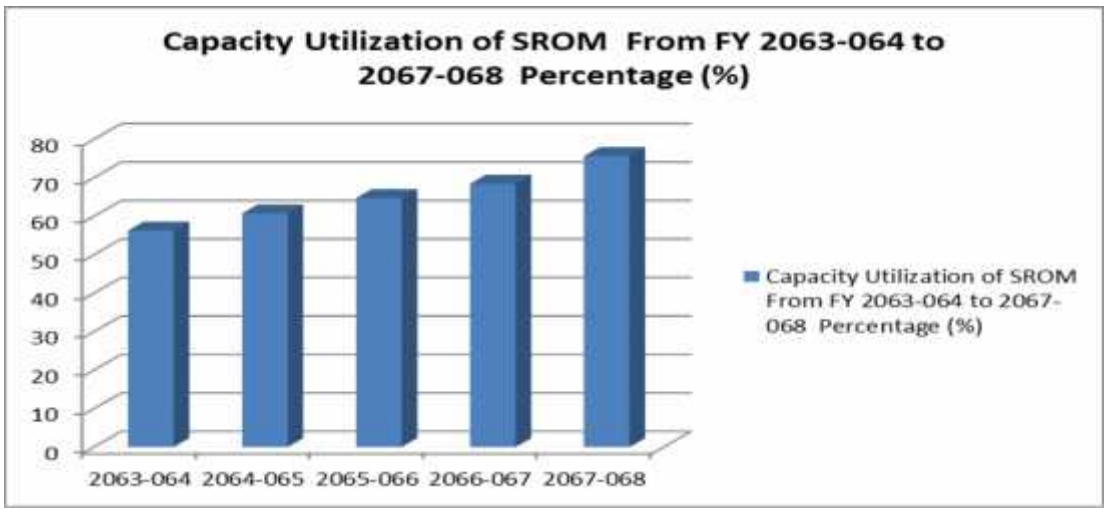
Source: Audit Report

From the above table, it is presented that SROM has not utilized its full capacity in any year but its utilization capacity is increasing every by few percentage. In FY 2063-064, Capacity utilization was 56.26% latter it was increased at 75.64% during the study period 2067-068.

The average mean capacity utilization for five years is 65%. Following is the graphic representation of capacity utilization of SROM in the different fiscal year.

Figure 6

Installed and Utilized Capacity



5.9 Flexible Plan/Budget of SROM

A flexible budget is a budget that is prepared for a range i.e. more than one level of activity. The essence of a flexible budget is the presentation of estimated cost data in a manner that permits their determination at various levels of volume. In flexible budget, the total variable costs will be adjusted upward or downward in accordance with the rise or fall of attained volume, while fixed cost will stay about the same with in a given range of activity. Same with in a given range of activity.

SROM has not maintained any clear-cut boundaries about cost classification as fixed and variable components. For this study, all costs are classified in to variable and fixed.

Table 11

Flexible Plan/Budget of SROM (in million)

Particular	Activity level in Percentage				
	30%	40%	60%	70%	100%
Sales units (tones)	13943	18590	27885	32533	46475
Sales revenue (Rs.)	217.2	289.73	434.59	507.02	724.32
Less: Variable cost					
material consumed	38.47	51.29	76.44	89.76	128.13
Manufacturing overhead	153.97	205.29	307.93	359.25	513.22
Total variable cost	192.43	256.58	384.37	449.01	641.45
Contribution margin	24.77	33.15	50.22	58.01	82.87
Less:- Fix cost					
Administrative overhead	7.30	7.30	7.30	7.30	7.30
Management salaries	10.72	10.72	10.72	10.72	10.72
Depreciation	6.35	6.35	6.35	6.35	6.35
Total fixed cost	24.37	24.37	24.37	24.37	24.37
Net profit	0.4	8.78	25.85	33.64	58.5

Source: Audit Report

From the above table, we know that the profit of SROM is highest at the full capacity utilization i.e. 100% of activity level at 30% the profit is low at Rs, 0.4 million that it was increasing in different capacity level. At 40% the profit Rs. 8.78million, at 60% profit Rs 25.85m and at 70%. Profit is Rs. 33.64. The highest profit at 100% which was Rs. 58.5 million.

5.10 Profit and loss Account of SROM

Profit and loss account is prepared after preparing all functional budgets. Profit and loss account is prepared to know eventual profit or loss of the business. P/L A/C contains all the items of revenue gain, losses and operating expenses incurred in carrying on the business and in selling and distribution goods for the particular accounting period.

The following table shows the profit and loss account of SROM for FY 2067-068 and summary of profit and loss from fiscal year 2063-064 to 2067-068.

Table 12

Profit and Loss A/C of SROM (in million)

From FY 2067-068

Particulars	**Amount**	**Amount**
Sales	280.41	
Less: Cost of sales	195.25	
Grass profit		85.16
Less: Non manufacturing expenses		
Administrative cost	7.80	
Management salaries	10.54	
Depreciation	9.02	
Selling & distribution cost	20.05	
Advertisement & promotional ex.	6.75	
Light & power	1.50	
Repairs & maintenance	2.38	
Total non-MFG exp.		58.04
Net profit before interest & taxes		27.12
Less:- Interest exp.	1.16	
Loss on sale of F.Q.	1.07	
Provision per staff bonus	7.75	
Net profit before bonus		9.98
Net profit before tax		17.14
Less:- Tax		2.92
Net Income		14.22

Table 13
Profit and loss of SROM (In million)

Fiscal year	Profit or loss	Profit in Percentage(%)
2063-064	9.01	17
2064-065	7.10	14
2065-066	9.54	19
2066-067	11.43	22
2067-068	14.22	28

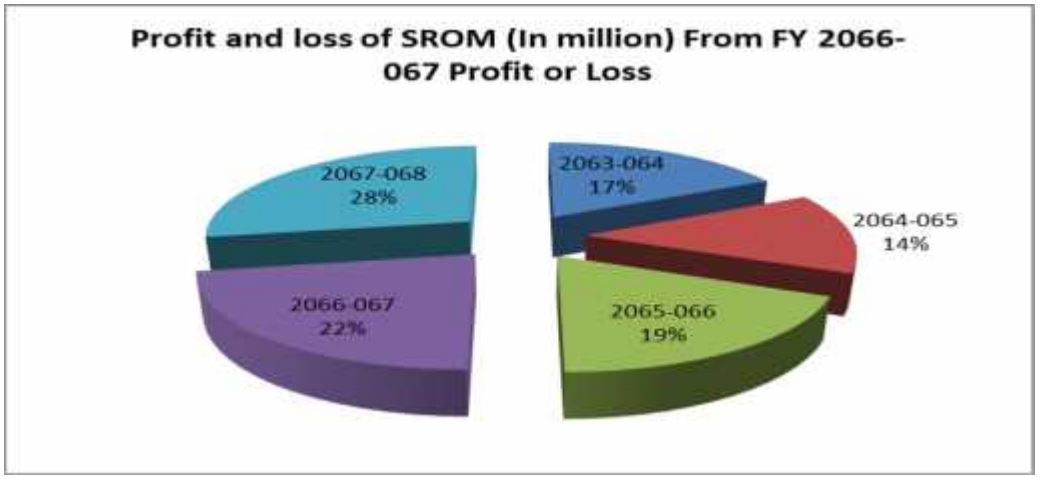
Source: Audit Report

The above table of profit and loss shows that SROM has success to earn profit every year. But profit trend is increasing slowly. In FY 2064-065 profit was decreased by 1.91 million. During the study period profit is highest in 2067-68 and lowest is in year 2064-065. The decrease and fluctuating profit trends concludes the co. does not given proper attention to profit plan. Therefore, SROM should give attention to earn profit by expanding its business activities and giving attention to profit plan.

The company profit ratio was increasing in slow level. In this time, Nepalese market was much fluctuated. It faced many stick and revaluation in the market sot company could not get its profit target any year.

Following is the figure representation of profit and loss of SROM in the different fiscal years.

Figure 7
Profit and loss of SROM



The above figure shows that the profit SROM. In fiscal year 2064-065 the profit was decreased. The rate of increasing was highest in FY 2063-064 and the rate of increasing was

lowest. In FY 2066-067 profit was highest and in FY 2062-063 profit was lowest. Profit was not increasing quickly because many internal and external environments were attached.

5.11 Cash flow statement of SROM

Cash flow is one major responsibility of to plan, control and safe guard of the cash of enterprises. The planning and controlling of the cash inflows, the cash out follows and the related financing is important in all enterprises. It is the process of forecasting the excepted receipts and excepted payment of cash to meet the future obligations. It is an effective way to plan and control the cash flow, as see cash needs and effectively use excess cash.

Cash budget is extremely useful tool for financing planning, which embraces arranging new loans, and borrowing replacing the existing debts, cash outlay, capital expenditures and dividend payment etc.

Cash flow statement describes the sources and use of cash of an organization. It provides information about the inflow and outflow of cash of a firm in an accounting period. It can thus be defined as a statement which explains the change in cash position from one balance sheet date to the next balance sheet date the statement which reports cash flow during the period classified by operating, investing and financing activities are known as cash flow statement Cash flows are inflows and outflows of cash and cash equivalents.

Table 14

Cash flow statement of SROM (In million)

From FY 2067-068

Particulars	Amount
A. Cash flow from operating Activities	
Net Income	14.22
Depreciation Interest Provision (increase) Loss on sale of fixed Assets Increase in current Assets. Increase in current liabilities Interest payments Advance income tax paid	9.02 1.16 4.26 1.07 (0.61) 12.48 (2.67) (0.61)
Net cash flow from operating activities	38.32
B. Cash flow from investing Activities Interest/Dividend receipt Sale/(purchase) of a fixed assets Increase/decrease in short term loan	 - (3.25)
Net cash flow from investing activities	(3.25)
C. Cash flow from financing activities Proceeds from long term short term loan	 (33.48)
Net cash flow from financing activities	(33.48)
Increase/ (Decrease) in cash (A+B+C) Opening cash & bank balance	1.59 0.58
Closing cash & bank balance	2.17

Source: Audit Report

5.12 Balance Sheet of SROM

Balance sheet is a statement of assets and liabilities of the business enterprises at a given date. It depicts the financial position of the business at the close of the accounting period. Preparation of balance is the final step in budgeting. The balance sheet is developing at the end of fiscal year.

Table 15

Balance sheet of SROM (in million)

For FY 2067-068

Capital & liabilities	Amount	Assets	Amount
Capital: As per last year balance sheet	5.89	Plant, furniture & equipment	25.27
Add: This year profit	14.22	Inventory	44.42
Less: tax	(2.92)	Advance income tax	0.61
Total capital reserve & liabilities	17.19	Trade & other receivable	12.12
Interest bearing loan	8.18	Security deposits	0.06
Total non-current liabilities	25.37	Cash & equivalent	1.44
Trade & other payable	56.41		
Value added tax	2.14		
Total current liabilities	58.13		
Total capital & liabilities	83.92	Total Assets	83.92

Source: Audit Report

5.13 Cost volume profit analysis of SROM

Cost volume profit analysis is known as an analysis of relationship between cost, volume and profit. It is an important tool used for profit planning in a business. CVP analysis is great helpful in managerial decision making process.

Cost volume profit analysis applies the variable costing approach to analyze the built in relationship between cost, volume and profit. It analyzes the short term static relationship between cost, volume and profit. It assumes that under constant underlying condition, CVP analysis can be used for the analysis of break-even volume-break even analysis and

contribution margin analysis-profit planning. This assumption of constant underlying conditions and the short term relationship how ever been criticized by many authors.

1. Variable Cost-Volume Ratio (V.V. Ratio)

This ratio shows the proportion of variable cost to each Rs. of sales revenue. VV ratio can be calculated by using the following formula.

$$\text{V/V ratio} = \frac{Total\ Variable\ \ Cost}{Total\ Sales}$$

$$= \frac{256.58}{289.73}$$

$$= 0.8856 \text{ or } 88.56\%$$

2. Profit- volume Ratio (P.V. Ratio)

This ratio shows the proportion of cost margin left for fixed cost and profit for Rs. of sales. P.V. ratio can be calculated by using the following formula.

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

$$= 1 - 0.8856$$

$$= 0.1144$$

3. Break Even Point (BEP)

Break even point is that units where sales value and cost value are equal. In other words it gives the level of production at which the company runs in the condition of no profit no loss. BEP units and value can be calculated by using the following formula.

$$\text{BEP (in units)} = \frac{Total\ Fixed\ Cost}{CMPU\ Ratio}$$

$$= \frac{243.70}{0.104}$$

$$= 2343 \text{ (in tones)}$$

$$\text{BEP (in Rs.)} = \frac{Total\ Fixed\ Cost}{P/V\ Ratio}$$

$$= \frac{24.37}{0.1144}$$

$$= 213.02 \text{ (million)}$$

From this calculation, we find that Sharada Rice and Oil Mill has been starting to gain profit only after sales of 2343 tones. For calculation of cost volume profit analysis, all required data are taken from profit and loss account of Sharada Rice and Oil Mill.

CHAPTER SIX

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 Summary

Profit Planning and control is also known as comprehensive profit planning and control. A budget is a detailed plan of action developed in financial terms for a period of one year. It is an important approach developed to facilitate effective performance of the management process. PPC provides guidelines to management and acts as signal light for the management and enables the management to enforce its policy. It is an important tool in profit-oriented organization for facilitating effective performance of the management.

Profit planning or Budgeting simply refers to planning of revenues and cost. Profit plan is divided into two portions, strategic or long –term plan and tactical or short-term plan. Strategic plan is prepared for three or more than three years while tactical plan is prepared for six months to one-year time horizon. Planning can be divided into two groups, a) functional plan, and b) financial plan. Functional plan includes sales plan, purchase plan, expense plan etc. and financial plan includes income statement and balance sheet.

The importance of profit planning and control is not limited to manufacturing organization only but is equally important to non-manufacturing or merchandising business also. Thus, PPC is the lifeblood of any organization whether it is large or small, manufacturing or non-manufacturing.

Profit planning and control is one of the most important management tools used to plan business operation. In other words profit planning and control is a systematic and formulized approach of performing significant phases of the management planning and control system.

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

Comprehensive profit planning and control is a systematic and formalize approach for accomplishing the planning, co-ordination and control responsibility of management. Profit planning means the development and acceptance of objectives and goals and moving an

organization efficiently to achieve the objectives and goals by substantive and financial plan techniques.

Profit plans are prepared for two-time dimension. strategic long-range plan are for 5 to 10 years and tactical short-range plan for a year detailed by interim time periods.

Comprehensive profit planning and control is one of the more important approaches that have been developed to facilitate effective performance of the management process. The concepts and techniques of PPC have wide application in individual, business enterprises, government units and others. Profit planning entitles an integration of numerous managerial approaches and techniques that might be exploited such as sales forecasting, capital budgeting, cash flow analysis, cost volume profit analysis, variable budgets, time and motion study, standard cost accounting strategic planning, manpower planning etc.

Nepal is predominantly an agricultural country but the concept of industrialization has also been giving the importance here to overall development of the country. After launching first five-year plan in 1956, Industrial policy was formally announced in 1957. In 1992, the new policy was declared which invite mainly the foreign investments and get some facility to industry sealer.

Sharada Rice and Oil Mill is an enterprises established by single person's investment. It was establish with an objective of establishing a factory to manufacture Rice and Oil products. It was established at far-western region in Kailali district.

This study has tired to analyses and examines the current practice of PPC and its effectiveness in Sharada Rice and Oil mill. For the purpose of the total study has been made fewer than six different chapters which are (i) Introduction (ii) Conceptual Framework (iii) Review of literature (iv) Research methodology (v) Presentation and analysis and (vi) Summary, conclusion and recommendation. This study covered only five years period i.e. from 2063-064 to 2067-68.

6.2 Conclusions

After analysis the over all profit planning and control of Sharada Rice and Oil mill following conclusions are drawn:

1. The company has not made in depth analysis of strength and weakness.

2. The plans are only prepared from top level and later it is communicated to the lower level.

3. Budgets are prepared just to fulfill the formalities but these are not used effectively.

4. Sharada Rice and Oil mill has not prepared budgeted sales budget. Firstly it produces quantities and then sales it.

5. The enterprises have no satisfactory achievement of specific goals.

6. Costs are not classified in to fixed and variable. These costs are also not classified as controllable and uncontrollable costs. The company has not made any effort to reduce controllable cots.

7. The correlation between sales and production is highly significant and positive. It indicates that increased in production increase sales.

8. The profit of the company also increases.

9. It has no detailed policy and programmes for maintaining factory, productions and for capacity utilization and cost control.

6.3 Recommendations

On the basis of the above findings of the study following applicable recommendations for the overall improvement of profit planning and control are forwarded to the responsible persons of the Sharada Rice and oil mill.

1. SROM should prepare budgeted sales and budgeted production plans.

2. Profit planning manuals should be communicated from top to lower level

3. The company should fix a target of sales and production.

4. The company should make sales promotion program in domestic and other market through different Medias.

5. The company should improve its capacity utilization by increasing the production or by introducing new product.

6. The company should develop alternative supply sources of raw materials.

7. SROM should consider cost volume profit relationship while pricing its product.

8. SROM should maintain co-ordination between production and market demand.

9. It is suggested that analysis to the customers indifferent area.

10. Employees motivated policy should be used and legal action should be taken against the defaulting employees.

11. If possible, a separate credit department should be established. In case separate department is not considered feasible, at least a separate credit unit should be set up within the finance department.

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APPENDIX I

Sales & Production of SROM (in tones)

FY 2063-064 to 2067-068

FY	x	y	u= $(x-\bar{x})$	v= $(y-\bar{y})$	u^2	v^2	uv
2063-064	4800	13210	-5332	-5743	28430224	32982049	30621676
2064-065	6850	18258	-3282	-695	10771524	483025	2280990
2065-066	6550	17325	-3582	-1628	12830724	2650384	5831496
2066-067	10555	21362	423	2409	178929	5803281	1019007
2067-068	21905	24610	11773	5657	138603529	32001649	66599861
Total	$x =$ 50660	$y =$ 94765	0	0	$u^2 =$ 190814930	$v^2 =$ 73920388	$uv =$ 106353030

Calculation of arithmetic mean standard deviation and co-efficient of variance

1. Calculation of arithmetic mean

cot, x is sales unit and y is production unit

Then, we have

$$\bar{x} = \frac{x}{N} = \frac{50660}{5}$$

$$= 10132$$

or 10132

$$\bar{x} = \frac{y}{N} = \frac{94765}{5}$$

$$= 18953$$

2. Calculation of standard deviation (±)

$$\pm x = \sqrt{\frac{1}{n} \quad u^2}$$

$$= \sqrt{\frac{1}{5} \mid 190814930}$$

$$= \sqrt{38162986}$$

$$= 6177.62$$

$\pm$ y $= \sqrt{\frac{1}{n} \quad y^2}$

$= \sqrt{\frac{1}{5} \mid 73920388}$

$= \sqrt{14784077.6}$

= 3845.01

3. Calculation of coefficient of variation (cv)

Where,

C.V. of x $= \frac{\pm \ x}{x} \mid 100$

$= \frac{6177.62}{10132} \mid 100$

= 60.97%

CV of y $= \frac{\pm \ y}{y} \mid 100$

$= \frac{2252.56}{18589} \mid 100$

= 20.28%

4. Calculation of Correlation coefficient (r)

We have,

(r) = $\frac{uy}{\sqrt{\quad u^2 \sqrt{\quad y^2}}}$

$= \frac{106353030}{\sqrt{190814930 \mid \sqrt{73920388}}}$

$= \frac{106353030}{13813.58 \mid 8597.70}$

$= \frac{106353030}{118765016.77}$

= 0.895

= 000.895

APPENDIX II

Comparative Profit & Loss of SROM (in millions)

Fiscal year	2063-064	2064-065	2065-066	2066-067	2067-068
Sales	150.2	170.5	167.96	202.62	280.41
Less: Cost of sales	92.34	115.43	102.35	130.39	195.25
Gross Profit	57.86	55.07	65.61	72.23	85.16
Less:-Non-manufacturing expenses.					
Administrative cost	4.75	5.20	5.35	6.97	7.80
Management salary	7.03	8.05	8.75	9.55	10.54
Depreciation	7.92	7.02	8.50	7.35	9.02
Selling & distribution cost	17.75	16.82	16.48	17.82	20.05
Advertisement & Promotion expenses	2.02	2.25	2.75	4.25	6.75
Light & power	0.98	1.21	1.26	1.38	1.50
Repairs & maintenance	1.08	1.12	1.42	1.25	2.38
Total Non-manufacturing expenses	41.53	41.67	44.51	48.57	58.04
Net profit before interest & tax.	16.33	13.4	21.1	23.19	27.12
Less:- Interest exp.	1.01	0.59	1.50	1.42	1.16
Less on sale of FA	0.21	-	1.26	1.05	1.07
Profit in for staff bonus	4.35	4.19	7.34	7.25	7.75
Net profit before tax	10.76	8.62	11.00	13.47	17.14
Less: Tax	1.75	1.52	1.46	2.04	2.92
Net Income	9.01	7.10	9.54	11.43	14.22

APPENDIX III

Comparative Balance sheet of SROM (in millions)

Fiscal year	2063-064	2064-065	2065-066	2066-067	2067-068
Plant, Future & equipment	21.41	27.59	25.50	24.62	25.27
Inventory	24.23	17.82	35.26	41.31	44.42
Advance income tax	0.63	-	-	0.61	0.61
Trade & other Receivable	9.15	11.62	10.63	11.54	12.12
Security deposits	0.05	0.05	0.05	0.05	0.06
Cash & cash equivalent	0.62	0.55	0.57	0.56	1.44
Total Assets	56.09	57.63	72.01	78.69	83.92
Capital : As per last year balance sheet	6.89	6.90	6.88	6.92	5.89
Add: This year profit	9.01	7.10	10.53	11.43	14.22
Less: Tax	(1.75)	(1.52)	(1.46)	(2.04)	(2.92)
Less : Drawing	-	-	-	(1.58)	(0.27)
Total capital & reserve liabilities	14.15	12.48	15.95	14.73	16.92
Interest bearing loan	9.58	10.05	11.50	11.75	8.18
Total Non-current liabilities (A)	23.73	22.53	27.45	26.48	25.10
Trade & other payable	28.13	34.05	42.51	50.22	56.41
Value added tax	4.23	1.05	2.05	1.99	2.41
Total current liabilities (B)	32.36	35.10	44.56	52.21	58.82
Total capital & liabilities	56.09	57.63	72.01	78.69	83.92