

Chapter I

Introduction

1.1 Background of study

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

Now-a-days there are many competition in the business world and bringing more challenges in the business environment. The recent policy of globalization, liberalization and privatization has further created more complexity in successful operation of business, so to operate a business successfully in the business environment, the management must have confidence in its ability to establish realistic objectives and to devices efficient strategies to attain those objectives.

Industrialization is considered essential factor for the economic development of the country these days. It plays active and vital role in the development of the country. The role of industry and trade is very important to the country like Nepal. It uplift the economic standard of the people, creates more employment opportunities, earns foreign currency, promotes to domestic business and increases export and decreases import. It brings opportunity for fully utilize of the internal resources and make able the country to gain its resources profit planning is one of the comprehensive approaches that has been developed to facilitate effective performance of the management process. It is an important tool of any business firm which helps the organization to achieve the maximum benefit from the resources available to an organization over a particular span of time. Therefore, the basic concept of profit planning is to assist the organization in systematic and formalized approach and control the activities and operation to achieve maximum return with minimum efforts.

1.1.1 Purpose of profit planning

Profit planning is a systematic and formularized approach for stating and communicating the firm's expectation and accomplishing management in such a way to maximize the use of a profit plan and to achieve the maximum benefit from the resources available to an organization over a particular span of time. It is an important tools of a

business firm which measure the success of business. Profit planning is the source of communication to state the firms expectations. The purpose of profit planning can be explained as follows.

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

1.1.2 Profit Planning Process

Profit planning process should involve periodic consistent and depth planning so that all aspects of operations are carefully re-examined and re-started.

Following are the steps in profit planning process.

- i. Identification and evaluation of external variables.
- ii. Development and broad objectives of enterprise.
- iii. Development and evaluation of company strategy.
- iv. Executive management planning instructions.
- v. Preparation and evaluation of project plans.
- vi. Development and approval strategic and tactical profit plans.
- vii. Implementation of profit plans.
- viii. Use of periodic performance.
- ix. Use of flexible expenses budget and implementation of follow up.

1.1.3 Industrial background of Nepal Pharmaceuticals Laboratory Pvt. Ltd.

Since its inception in B.S. 2042 **Nepal Pharmaceuticals Laboratory Pvt.Ltd.** has been heading in the direction of steady growth. Over the last 25 years, it has been working hard with an aim of serving the people with quality drugs.

NPL started out manufacturing products that we were no different than other companies in term of drug molecules, the so called “Me too” products. It has come out as a pioneer, over the years, by constantly introducing newer therapeutic agents available, yet new to Nepalese manufacturers. NPL now has a wide range of products to cover a broad range of ailments. Another division of NPL, lapen gives special focus to cardiac, Diabetic and Psychotropic products. NPL has launched its products in the Indian market few years back, a small yet remarkable contribution in the area of global integration. NPL also has a veterinary division and hopes to serve the animal health sector with equal enthusiasm.

With a work force of over 150 people, a team of highly competent management and technical professionals and equally devoted members at all levels, NPL stands out in terms of its human resources. Training programs, work shops, refresher courses are carried out on a regular basis for Human Resource development of the institution.

NPL believes that the growth and development of the Nepalese pharmaceutical industry will not only elevate national technology but also help medical research and related activities. A highly professional organization, **NPL** has different departments, which look after the various aspects of the company. Each department contributes its utmost towards achieving the company’s goal and to serve the humanity.

NPL’s manufacturing plant at Jeetpur, Birgunj, is away from human crowded with non-polluting facilities giving consideration to environmental effect of industrialization. The modern plant, run by competent and qualified technicians is updated periodically to keep up with the latest trends.

NPL is in the process of automization of the plant and has automated liquid section to minimize human touch and process time. **NPL** is endowed with distinct departments of **R&D, QCA,** & production, to insure the quality drugs. The physical, technical and intangible facilities it has, comply with **WHO GMP. NPL,** has professional marketing forces. The market planning department has been set up to integrate the entire institution, especially **R&D** with the Marketing Development. In the rapidly changing scenario of the world of medicine, **MPD** is always working hard to develop the marketing forces and keeping up scientific information to disseminate to medical practitioners.

NPL’s strong infrastructure with inter-dependended departments focusing on their respective responsibilities makes it successful in keeping up to its policy guidelines. **NPL’s** marketing and distribution activities, combined with quality of the up to date products, has proved that we, the

Nepalese have it in us to fight in an extremely competent pharmaceutical market along with foreign companies, to survive and still more, to come out as a winner. Quality in the service of millions.

Product and manufacturing flow of NPL

List of the products

Brand Name	Form	Packaging
ANIM CD	Tablet	25×10's
ANTIF	Ointment	10gm
ANTIF VT	Tablet	1×6's
AZITH 250		5×1×6's
AZITH 500		5×1×6's
AZITH Suspension	Suspension	15ml
BRONIT – P	Tablet	10×10
BRONIT SYRUP	Syrup	30ml
BRONIT SYRUP	Syrup	60ml
BRONIT SYRUP	Syrup	100ml
CIDOXIL 250	Tablet	10×6's
CIDOXIL 500	Capsule	6×10's
CIDOXIL DRY SYRUP	Dry Syrup	30ml
CTZ SYRUP	Syrup	30ml
CTZ TABLET	Tablet	20×14's
DOXYN CAPS.	Capsule	10×10's
DENOVO CAPS.	Capsule	10×10's
DENOVO SYRUP	Syrup	200ml
DENOVO TR	Capsule	3×10×10's
DOLOFEN 50	Tablet	10×10's
DOLOFEN 100	Tablet	10×10's
DOLOFEN GEL	Gel	30gm.
EMENORM SUSP.	Suspension	30ml
EMENORM TAB.	Tablet	10×10's
ENTROX 150	Tablet	10×10's
FLUSTAT CAPS.	Capsule	10×1's
GENTIN	Ointment	10g.
KEFIX 200 TAB		5×6's
KEFIX DRY SYRUP		30ml.
KETOCAN OINT.	Ointment	15gm.
KETOCAN SCALP Lotion	Lotion	50ml.

MATRIX CAPS	Capsule	6×1×10's
MEGACID GEL 170	Gel	170ml.
MEGACID GEL 500	Gel	500ml.
OVIDON GARGLE 50	Gargle	50ml.
OVIDON GARGLE 100	Gargle	100ml.
OVIDON OINTMENT	Ointment	15gm.
OVIDON SOLN. 100		

DIVISION II

Brand Name	Form	Packaging
ABEN	Tablet	1's
ABEN	Suspension	10ml.
ACT TABLET	Tablet	25×10
ACT Paediatric Syrup	Syrup	60ml
AMX 250 DT	Dispersible Tablet	10×10's
AMX 500	Tablet	10×10's
AMX 60	Dry Syrup	60ml.
ANZYME CAPS.	Capsule	10×10's
ANZYME DROPS	Drops	15ml.
ANZYME SYRUP	Syrup	200ml.
ASMADIL EXP.	Syrup	100ml.
ASMADIL TAB.	Tablet	10×10's
BRUCET SUSP.	Suspension	60ml.
BRUCET TAB.	Tablet	25×10's
COLISPAS TABLET	Tablet	30ml.
CEFALOR DRY SYRUP	Syrup	10ml.
CEFALOR DROP	Drop	20×10's
DIARSTAT FORT TAB.	Tablet	10×10's
DIARSTAT SUSP.	Suspension	60ml.
FEZA 120	Tablet	5×6's
FEZA 180	Tablet	5×6's
FM 20	Tablet	20×14
FM 40	Tablet	10×14
MYOZOX TAB	Tablet	10×10
ONIZ 20	Tablet	10×20
NEPEX PAED	Syrup	50ml
NEPEX EXP.	Syrup	100ml
OQUIN TAB.	Tablet	10×10
OQUIN SUSP.	Suspension	60ml
POLYDERM 5 G.	Cream	5GM
POLYDERM 15 G.	Cream	15GM
PROXIN 250	Tablet	10×10

PORXIN 500	Tablet	10×10
STYLOX DT	Dispersible Tablet	10×10
STYLOX CAPS.	Capsule	10×10
STYLOX DRY SYRUP	Dry Syrup	40ML
SUPA TABLET	Tablet	50×10
SUPA SUSPENSION	Suspension	60ml
TAGYL 400	Tablet	20×10
VITAL 100 ML.	Syrup	100ml
VITAL 200 ML.	Syrup	200ml
VITAL FORT CAPS.	Capsule	10×10
OROGUARD SOLN.	Solution	120ml
OROHEX GEL	Mouth Gel	15gm
NEPRIM DS	Dry syrup	20×10
NEPRIM TAB.	Tablet	25×10
NEPRIM SUSP.	Suspension	50ml.
NICIN OINT	Ointment	15gm

LAPEN (A Division of NPI)

List of the products

(*CR=CARDIAC RANGES, PR=PSYCHOTROPIC RANGES, DR=DIABETIC RANGES)

CRITICA

S.N.	Brand Name	Form	Packaging
1 CR	AMLOD AT	Tablet	10×10's
2 PR	CLONAZ 0.5	Tablet	10×14'S
3 PR	CLONAZ 2	Tablet	10×14'S
4 CR	ENPIL 2.5	Tablet	10×14'S
5 CR	ENPIL 5	Tablet	10×14'S
6CR	ENPIL 10	Tablet	10×14'S
7 PR	FLUZAK	Capsule	10×10'S
8 DR	FORMIN 500	Tablet	10×10'S
9 DR	FORMIN 850	Tablet	10×10'S
10 PR	IMID 25	Tablet	10×14'S
11 PR	IMID 75	Tablet	10×14'S
12 CR	LOPIREL	Tablet	10×10'S
13 CR	MONOSOS 10	Tablet	10×14'S
14 CR	MONOSOS 20	Tablet	10×14'S
15 DR	NID 40	Tablet	10×10'S
16 DR	NID 80	Tablet	10×10's
17 PR	OLZAP 2.5	Tablet	10×10's

18 PR	OLZAP 5	Tablet	10×10's
19 PR	OLZAP 10	Tablet	10×10's
20 CR	PAAZ 0.25	Tablet	20×14's
21 CR	PAAZ 0.5	Tablet	10×14's
22 DR	PLITA 15	Tablet	10×10's
23 DR	PLITA 30	Tablet	10×10's
24 PR	SEIZEP 100	Tablet	10×14's
25PR	SEIZEP 200	Tablet	10×14's
26 PR	SERALIN 50	Tablet	10×14's
27 PR	STAYCAM PLUS	Tablet	10×14's
28 PR	TRIPLIN 10	Tablet	10×14's
29 PR	TRIPLIN 25	Tablet	10×14's
30 PR	TRIPLIN 75	Tablet	10×14's
31 PR	CLOPRIUM 5	Tablet	10×14's
32 PR	CLOPRIUM 10	Tablet	10×14's
33 PR	CLOPRIUM 25	Tablet	10×14's
34 PR	PRAN 10	Tablet	10×14's
35 PR	PRAN 20	Tablet	10×14's
36 PR	PRAN 40	Tablet	10×14's

CHRONA

S.N.	Brand Name	Form	Packaging
1 CR	AMLOD 2.	Tablet	20×14's
2 CR	AMLOD 5	Tablet	20×14's
3 CR	AMLOD 10	Tablet	10×14's
4 DR	ARBO	Tablet	10×10's
5 CR	ATOR 10	Tablet	5×10's
6 CR	ACTOR 20	Tablet	5×10's
7 CR	BETEN 25	Tablet	10×14's
8 CR	BETEN 50	Tablet	10×14's
9 CR	BETEN 100	Tablet	10×14's
10 CR	CASPY 50	Tablet	25×10's
11 CR	CASPY 75	Tablet	
12 CR	CASPY 100	Tablet	25×10's
13 CR	CASPY 150	Tablet	
14 DR	GLIPIRIDE 1	Tablet	10×10's
15 DR	GLIPIRIDE 2	Tablet	10×10's
16 DR	GLIPIZ	Tablet	10×10's
17 CR	LOSAP 25	Tablet	10×14's
18 CR	LOSAP 50	Tablet	10×14's
19 CR	LOSAP H	Tablet	10×14's
20 CR	NICLIP TABLET	Tablet	10×10's
21 DR	URETIK 12.5	Tablet	10×14's
22DR	URETIK 25	Tablet	10×14's
23 PR	FLUGRAN 5	Tablet	10×10's
24 PR	FLUGRAN 10	Tablet	10×10's
25 PR	LAPOTIL 50	Tablet	10×10's
26 PR	LAPOTIL 100	Tablet	10×10's
27 PR	THIEPIN 25	Tablet	10×14's
28 PR	THIEPIN 75	Tablet	10×14's

Manufacturing Follow

Raw material :- The following raw material are used in NPL

Alginic acid ip	Glycine	Sulphaacetamide sodium ip
Allopurinol ip	Hydrochlorthizide	Telmisartan
Alprazolam ip	Inositol	Thiamine hydrochloride
Aspirin ip	Ketodonazole	Tinidazole
Atenolol ip	Magaldrate	Triolosan
Calcium chloride ip	Mefanamic acid	Trimethoprim
Camphor	Methyloohalmine	Vitamin A acetate-dry
Diazepam	Niacinamide	Vitamin E 50% power
Diclofenac sodium	Niootinic acid	Zinc oxide
Ehastine ip	Ofloxacin	Zinc sulphate heptahydrate
Ezetimide	Paradetamo	Camohor
Famottoine	Prednisolone	Zinc sulphate monohydrate
Folic acid	Propranolol	Triocalcilm phosphate

1.2 Statement of Problem

Profit is the single measurement of success of any business enterprises. Profit is the blood of any business. Profit does just happening, it should be managed. Profit is usually influenced by planning and control system. Most of the Nepalese enterprises have been suffering from the problem of poor performance. So the reason for this, they have to adopt a systematic profit planning process to their performance.

Nepal pharmaceutical Industry of Nepal is one of the pharmaceutical industry of Nepal which is running at profit since its installation. There are various cause for bearing profit such as good management. Good labour relation, well relationship between top level and lower level e.t.c. this study will analyze and examine the limitation of the company and profit planning system of NPL and provide right managerial suggestion to the management to take proper action to adopt its goal of maximizing profit.

1.3 Objective of the study

The main objective of this study is to analyze and examine the profit planning system of NPL, Jeetpur. Other objectives are as follows:

1. To study and analyze the practice and effectiveness of profit planning.
2. To identify the sales and production trend.
3. To study and analyze financial performance of NPL.
4. To study and analyze various accounting ratios to measure the profitability and efficiency of concern of NPL.
5. To provide suitable suggestions and recommendations for better improvement

1.4 Importance of the study:

Profit planning is very important for any enterprise because it considerably contributes to improve profitability as well as over all financial performance. Profit cannot be earned without proper profit planning. So profit planning is taken as such vital instrument which minimizes the future risks, scarce of resources and predict the future. Profit planning has become an important tool in the field or managerial decision making in the business enterprises.

This study will try to find out the causes and weakness of less profitability and losses of NPL. It will be very useful for profit planning of NPL and most of the Nepalese manufacturing enterprises which are suffering from less profitability and losses and work performance. The study will also analyze the effectiveness, problems and prospect on the ground of applying profit planning in the Nepalese enterprises.

1.5 Limitation of the study:

As we know that the world is dynamic where every thing existing have their own limitation. This study has made on depending NPL data and information so it may not be more effective for other enterprises. This study especially to NPL in course of its profit planning.

The following limitation of this study can be mentioned.

1. This study has been made for partial fulfillment of M.B.S. course, T.U.
2. This study has included only data from 2064/065 to 2068/069
3. This study has more secondary data.
4. This study has especially analyzed profit planning system of NPL.
5. This study has not included the whole system NPL due to limited time and money.

1.6 Hypothesis Formulation:

A hypothesis is a speculative statement that is subject to verification through a research study. Hypothesis formulation is one of the most important theories of decision making. Effective production system can increase the sales is one of the hypothesis of study.

Null Hypothesis: (H_0):- There not relation between production and sales.

Alternative Hypothesis(H_1):- Only effective production system can increase the sales.

1.7 Organization of the study:

This study will organize the following chapters:

1. Introduction:

This chapter includes general information, concept and background of NPL.

2. Review of the Literature:

Under this chapter theoretical aspects of profit planning will be explained with its position. Different concepts and view of different researchers, writers and authors about profit planning will be reviewed here with their own views.

3. Research Methodology

This chapter includes research design, nature and sources of data and research variable.

4. Presentation and analysis of Data:

Under this chapter, collected data through various sources have been presented on tables, graphs, charts as required for the research objective. Data will be analyzed and interpreted with various analytical tools and techniques. Specially secondary data of NPL for profit planning will be analyzed and interpreted here to present the situation of profit planning of NPL.

5. Summary, conclusion and recommendation:

Finally, this chapter includes the summary of the study and conclusion with major recommendation.

Chapter II

Review of Literature

2.1 Introduction

It is a well known fact that Nepal is an agriculture based country. More than 85% of people are engaged in agriculture sector. But nowadays, production of the agriculture is decreasing. In these circumstances, excessive reliance on agriculture is not the care of iconic development so that main power must be shifted from agriculture to another sector. We know that Nepal is developing country. In this process, chaining so many obstacles and problems. All the efforts are concern towards solving the problem. As how to developed growth of national income and alleviation of poverty and reduction income inequalities.

Now industrial development is a major infrastructure for economic development. Different ex-government of our country brought policy for improving industrial but it was not implemented effectively. Different plans were targeted towards nation development and created infrastructure for stable economic growth but the result were not satisfactory and only constable industries were established by the government. On the other hand, lack of stable policy of government, Lack of proper security of entrepreneurs private investors were not interested involving large scale industries which are more profitable and providing return at immediately. After the political change of 2046, The government has adopted new policy for industrial development which has inspired to the investor to establish industry in the country.

Not only the establishment of industries is a completed solution but also protection and creating environment for smoothly running in the future of existing industries is important. Industrialization measures the value added component in agriculture products and helps to shift the labor force from agriculture to industries. Beaution William rightly say's "By revolving large number of men and women from agriculture present that had formed men kinds men occupation. Since the beginning of civilization and introducing them to novel ways of working and living the industrial revolving transformed society."

2.2 Theoretical and conceptual frame work of plan

2.2.1 Profit

Profit means excess of revenue over the expenditure of doing business. Any industries or firm established with the view of earning profit is such surplus amount which inspire to investor, Business persons, employees, managers to perform their activities regularly with full responsibility. It plays an

1. (profiles of PEs in Nepal Government office of the corporation, co-ordination council KTM june 1997 pl)

important role in the life of business. It is excess of the assets over the liabilities and capital between the two periods. According to Lynch and Williamson, "Usually profit does not just happen profit are managed." Profit is a controversial item that it is defined by different interpreters as their own views. According to economists, "profit is the reward for risk bearing."

Accountants defined, profit is the excess of revenues over the expenditure of the business for a given fiscal period. According to labor leader, "Profit is a major of how efficiently labour has produced and that it provides a base for negotiating a wages increases."

Profit is the heart of business. It make alive the business in its life. No any company can survive long without profit for an enterprises, profit is the ultimate measure of its effectiveness. It measures the success of business. It is a single for the allocation of resources and a yardstick for measuring managerial efficiency.

2.2.2 Profit Planning

Profit planning or budgeting is forward planning and involves the preparation in advance of the quantitative as well as financial statement to communicate the intention of the business. Profit planning in fact is a managerial technique it and it is a written plan in which all aspects of business operation with respect to determine future period are include. It is a formal statement of policy plan, objective and goal established by the top management in respect of some future carrier. Profit planning is a predetermined determined detailed plan of action and as a partial basic for the subsequent evaluation of performance. Thus we can say that profit planning is a tool which may be used by the management in planning future course of action and controlling the actual performance.

Profit planning system is special very familiar to business organization, but the practicability of it's depends upon the size of the business. So the main objective of profit planning system whether applied to National finance or business administrative is to formulate policy aimed at objective established after the consideration of the problem course of events in the future and to provide means for the constant composition or actual progress towards this goal again the preconceived result.

2.2.3 Long Range and Short Range Profit Planning

In every company manager should be in intensive activities to develop their respective responsibility strategic and tactical short range plan. The strategic long range plans and tactical short range plans are usually developed currently. It is possible that executive management and the chief financial executive will develop the strategic and tactical profit plan. This approach is

1. R.M. Lynch and Williamson-"Accounting for planning and control"-3rd edition 1988
2. P.V. Kulkarni - "financial management" Himalyan publishing house Bombay 3rd 1955

seldom advisable because it defines full participation in the planning process by middle managers. Lack of participation can cause unfavourable behavioural effect. It important that smaller companies as well as large company that are more complex and decentralize. The formal pertain of the long range plan include the following basic components detailed by each year. Income statement, cash follow projection, capital expenditure plan and man power requirement, research plan and a long range market preparation plan. The strategic plan does not include a formal balance sheet however; it is an anticipated that important balance sheet items would be included. Then the long range plan concerned all the key are of anticipative activity, sales, expenses, R & D, expenditure, cash, profit, Return on investment.

In order to provide broad general view of a complete short range profit plan shown here deal Primarily with annual results detailed classification by monthly responsibility and products. There for these two steps revision that upon receipt of the planning premises and procedural. Instructions, Each manage in charge of a major responsibly centre will immediately initiate activities with his own financial sphere to develop strategic long range profit plan and harmony with five year plan, a tactical or short profit plan for example, planning management consist of the following parts.

- Basic propose and objectives of the company.
- Marketing Plans.
- Research and development engineering plants.
- Capital instruments plants.
- Financial Projections.

2.3 Development of Profit Planning

2.3.1 Plan

The starting profit in preparing profit plan the sales plan, which displays the projected sales in units and rupees. The sales planning process is an essential part of profit plan and control because, it provides for the basic management decision about marketing and based on these decision, it is an organized approach for developing a comprehensive sales plan. If sales planning is not realistic. Therefore, if the management believes that a realistic sales plan cannot be developed, there is little justification for profit planning. Similarly, if it is really impossible to assets the future revenue potential of a business, there would be little or no incentives to investors and prospective investors. Hence, the sales plan in both ends and means of profit planning.

2. Galenn A. Welsch, Ronald W.Hilton, poul N. Gerdon. "Budgeting profit planning and control." 4th edition 1986
3. Minimrir, Jack D and Schmidgoll, Roylonds "Basic Accounting Standards. "West part (pp 133)

The sales plan is the foundation for periodic planning in the firm because practically all other enterprise's planning is build on it. The primary source of cash is sales, the need of capital addition, the plan of expenses, the manpower requirement, production level and other important operational aspects depend on the volume of the sales. A comprehensive sales plan includes two separate but related plans- the strategic and the tactical sales plans. A comprehensive sales plan incorporates such management decision as objectives, goals, strategic and premise. Both long-term/strategic and short-term/ tactical plans must be developed in harmony with comprehensive profit plan. The primary purposes of sales plan are:

- To reduce uncertainty about future revenues.
- To incorporate management judgement and decisions into the planning process.
- To provide necessary information for developing other elements of comprehensive Profit plan.
- To facilitates management control of sales activities.

2.3.1.1 Strategic and tactical sales plan

Strategic sales plan is the long-range sales plan of an enterprise. Usually, it is of 5 to 10 years. It is broad and general. It is usually developed by year and annual amount. It prepared by considering future market potentials, population changes, state of economy, industry projections, company objectives and long-term strategies because they affect in such areas as pricing, development of new product line, innovation of product, expansion or distribution channel, cost pattern etc.

Tactical sales plan is a short-range sales plan.. The tactical sales plan includes a detailed plan for each major products and for groupings of minor products. Tactical sales plans are usually developed in terms of physical units and in sales rupees.

For planning and controlling purpose, the short-term sales plans must be developed by sales responsibility. The end of each month of 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. Hence, tactical sales plans are usually revised on quarterly basis. It is also necessary for completing other components of annual profit plan. The strategic and tactical sales plan components are as follows:-

6. Ibid,pp 137

7. Galenn A.Welsch, Ronald w.Hilton, poul N. Gerdon."Budgeting profit planning and control."5th edition 1999p 197

8. Galenn A. Welsch, Ronald W.Hilton,poul N.Gerdon."Budgeting profit planning and control."4th edition

Table No 1

S.No.	Component	Strategic plan	Tactical plan
1	Mgmt. Policy & Assumption	Broad & general	Detailed & specific
2	Marketing Plan (sales and service)	Annual amounts majors groups	Detailed by product & responsibility
3	Advertising & promotion plan	General by year	Detailed and specific for the year
4	Distribution (selling expenses)	Total fixed and total variable exp. By the year	Fixed & variable exp. By ment. & responsibilities.

2.3.1.2 Developing a comprehensive sales plan

- Step 1 Developing management guidelines for sales planning.
- Step 2 Prepare sales forecast
- Step 3 Assemble relevant data:
 - Manufacturing capacity
 - Sources of raw of raw materials and suppliers
 - Availability of key people and labour force
 - Capital availability
 - Availability of alternatives distribution channels
- Step 4 Develop of strategic and tactical sales budget.
- Step 5 Consideration of alternatives.
- Step 6 Developing pricing policies.
- Step 7 Developing products line considerations.
- Step 8 Price-cost volume consideration.

2.4 The Fundamental of Profit Planning

The concept of budgeting was originally established with the function of an accountant. At its origin, the function of budgeting was assigned to the account. It is applied for desirable management orientation. These fundamentals are needed to be established as a foundation of managerial commitment.

9. Galen A.welsch, Ronald w. Hilton,poul N. Gerdon. "Budgeting profit planning and control."5th edition

Following are some of the important fundamentals of profit planning.

- a. Realistic expectation
- b. Flexible application
- c. Timeless
- d. Individual and group recognition
- e. Full communication
- f. Responsibility accounting
- g. Organization adoption
- h. Managerial involvement and commitment
- i. Follow up

2.4.1 Managerial Involvement and Commitment

Managerial involvement indicates managerial support, confidence and participation and performance orientation to engage itself to comprehensive profit planning. All level of management especially top management most:-

- Understand the nature and characteristic of PPC.
- Be convinced that, this particular approach to managing is preferable for their Situation.
- Be willing to devote the effort required to market and its operative.
- Support the program in all its ratification.
- View the result of the planning process & performance commitment.

A compressive PP program will be successful. It most have the full support to each member of mgmt. Starting with the precedent and the impetus and direction most come from the top level management.

2.4.2 Organizational Adaptation

A success of the profit planning program rest upon sound organization structure and also clear our designation of ones of authority and responsibility. The assignment of authority most establish with a frame work in which enterprise objective may be attend in a co-ordinate and effective way on a continuing basis. The scope and inter relationship of the responsibility of each individual manager and specified. It most has clearly specific assignment of management authority and responsibility at all organizational level.

2.4.3 Responsibility Accounting

Profit planning is done with the help of the historical data supplied by accounting section and control is done by comparing actual data projected as planned data. So for this reason accounting system of any enterprises should be build around the responsibility structure of organization or around functional sub-units. This is called responsibility accounting. For responsibility accounting system one should have to define responsibility of the various division then the relevant parameters of the cost revenue and other financial data should be utilized for preparing.

2.4.4 Full Communication

Communication is an exchange of facts, ideas, opinions or emotion by to or more persons. It involves the systematic and continuous process of telling and understanding. Communication plays role as bridge of passing information between the management and the employees or workers. It is the transfer of meaning and understanding between people through verbal and non verbal means in order to effect behaviour and achieve the desired result. It is the chain of understanding that binds an enterprises from top to bottom and from side to side. Role of communication can be justified in all aspect of management so it an important fundamental of profit planning.

2.4.5 Time Dimension (Timelines)

All the managerial decision and planning are futuristic. Therefore, a manager has to face many problems about time dimension in the planning and decision making. The main problem is how far the future plans should be extended? Time problem is same any type of decision making and planning. So effective implementation of profit planning concept requires that the mgmt. Of enterprises established the definite time dimensions certain type of decision. In viewing time dimension perspective in managerial planning, a clear at distinction should be made between historical consideration & future consideration.

2.4.6 Flexible Application

The fundamental stress that a PP that must not dominate the business and that flexibility in applying the plans must be a forth right policy so that 'Strait jacket' are not imposed and all favourable opportunities are sized even though, they are covered by the budget.

The profit planning problem administered in a sophisticated manner permit greater freedom at all mgmt. Level. This effective is possible because all levels of mgmt. brought into the division making process when plans are developed.

2.4.7 Behavioural View Point

Psychologist, Educators & businessmen have accorded the behavioural aspect of the mgmt. The attention is increasing in scope and intensity in reorganization that here many unknowns, misconceptions and speculation

concerning the respects of the individual and the group in varying situations. The compressive PPC approach to managing brings many of these behavioural problem into sharp focus. A sophisticated view of PP focused on a positive approach to the certain behaviour problems. But in many respect it can provide one effective resolution.

2.4.8 Principle of Exception

The exception principle holds that the manager should concentrate primary on the exception as unusual that appear in daily weekly and monthly reports by leaving sufficient managerial time for overalls policy and planning considerations. It is the “out of items that need immediate managerial attention to determine the cause and to take corrective action. The items that are not put of line need not utilized extensive management time. The different accounting reports concentrate on the variations from the plans. They pinpoint significant exception this support the management by exception.

2.4.9 Follow Up

The important of follow up action on PPC approach is much more follow up action after a careful study needed to:

- i. Correct the action of substandard performance in a constructive manner.
- ii. To recognize and transfer the knowledge of outstanding performance to others.
- iii. On the basis of the study and the evaluation to provide a sound basis for further PP problem.

2.5 Profit planning process

The profit planning should involve periodic consistent and its depth planning so that all aspects of operations are re-examined and restarted. These are following steps in profit planning process which is discussed below.

2.5.1 Identification and Evaluation of External Variables

The variable identification phase of the PP process focuses on identifying and evaluating the effects of the external variables. Identifications also involves the separate consideration of variables that are non-controllable and those that will here a direct and significant impact on the enterprises on the other way analysis & evaluation of the environmental variables must be a continuing concern of management.

11. Galenn A.Welsch,Ronald W.Hilton, poul N. Gerdon. “Budgeting profit planning and control.” 5th edition pp

12. I bid Welsch 5th P 45.

13. I bid Welsch 5th P 45

2.5.2 Development of Broad Objectives of the Enterprises

Development of broad objectives of the enterprises is relevant variables and assessment of the strength and weakness of the organization. Executive management can specify or restore this phase of PP process. This statement of the broad objectives should express the mission, vision and ethical character of the enterprise. Its purpose is to provide enterprise identify, continuing of purposes and definition.

2.5.3 Development of Specific Goals for the Enterprise

The purpose of the goal phase of the profit planning process is to bring the statement of broad objectives into sharp focus and move from the team of general information. It provides both narrative and quantitative goals that are defined and measurable. Such goals should be categorized as specific and common.

2.5.4 Executive Management Planning Instructions

This phase involves communication of the substantive plan to middle and lower management levels. The executive planning explain the broad objectives. Enterprise goals, enterprise strategies and other executive management instruction needed to develop the strategic & tactical profit plans. It is necessary for the participation of all levels of management in the development of strategic and tactical profit plans for the upcoming budget year.

2.5.5 Development and Evaluation of Company Strategies

Company strategies are basic thrusts ways and tactics that will be used to attain planned objectives and goals. Particulars strategies may be short-term or long term. Here are some examples of basic strategies. Increasing long-term market penetration by using technology to develop new products and improve current product.

Expand market to the entire sector.

Market with low price to expand volume.

Use both industrial and local advertising programs to build market.

Improve employees moral and productivity by initiating behaviour Mgmt. program.

2.5.6 Preparation and Evaluation of project plans

Periodic and project plans are different in nature and function. Project plans encompass variable time horizon because each project has a unique time dimension. Project plans encompass such items as plan for improvement of present production, new & expended physical facilities etc. The nature of project is such that, they must be planned as separate units. In planning for a project the time span considered most normally is the anticipated life span of the project. The

preparation & evaluation of current and future project plans are essential on a formal basis one of this profit planning phase.

2.5.7 Development and Approval of strategic and tactical profit plans

The manager of the various responsibility centers in the enterprises receive the executive management planning, Instructions and the project plan. They can begin the intensive activities to develop their respective strategic and tactical profit plans. It is possible that executive will develop the strategic & tactical plans. This approach is seldom advisable because of its design, full participation can cause unfavourable behavioural effects. Participatory planning and respect of the exclusive management instructions, the manager of each responsibility centre will immediately initiate activities with his responsibility centre to develop a strategic profit plan and harmony with the tactical profit plan.

2.5.8 Implementation of Profit Plan

Implementation of management plans that have been developed and approved in the planning process, depends on the management function or leading sub-ordinates in attaining enterprise objective & goals Thus effective management at all level require that the enterprise objective, goals, strategic and policies developed through significant participation establish the foundation for effective communication.

2.5.9 Use of Periodic Performance Report

Profit plans are being implemented during the period of time specified in the tactical plan. So periodic performance reports are needed. These performance reports are prepared by the accounting department on a monthly basis but some special performance reports are prepared more often on as “needed” basis. These performance reports compare actual performance with planned performance and show each different as a favourable & unfavourable performance variation.

In an organization, external and internal financial reports can be applied period performance reports are classified as:

- 1) Statistical reports that give the basis quantitative internal financial about the operation of the enterprise.
- 2) Special management report about non-recurring and special program.
- 3) Periodic performance report which is focus on dynamic and continuous tailored to the assigned management responsibilities.

2.5.10 Implementation of Follow up

Follow-up is an important part of effective control because performance

report are based on assigned responsibilities. They are basis for effective follow up actions. It is an important to distinguish between cause and effect. The performance variation are effected. The management must determined the underlying causes. To identity the cause of both favourable and unfavourable, performance variance should be given immediate priority. In the case of unfavourable performance variance, identify the basis cause as opposed to the results and alternative for corrective action must be adopted.

2.6 Comprehensive profit planning & control

Comprehensive profit planning and control is a new term in the business literature. The other terms, which are used in same contest are comprehensive budgeting, managerial budgeting and simply budgeting. Profit planning and control is one of the comprehensive approaches that have been developed to facilitate effective performance of the management process. It is a systematic and formalized approach for performing significant phase of management planning & control. It includes the development & the application of :

- 1) Board and long term objectives of organization.
- 2) Specification of organization goals.
- 3) A long run profit in broad terms
- 4) A short run profit plan detailed assigned responsibility.
- 5) A system of periodical performance report by assigned responsibility.

Therefore the fundamental concept of PP is that which includes all activities and task, which must be carried out for achieving maximum result. It is a such comprehensive approach which provides frame work for implementing such fundamental aspect of scientific management as management by objectives effectives communication, participative management, dynamic control, continuous feedback responsibility, accounting management by conception and flexibility. The definition also implies the application of profit planning principal procedure to all phases of the operation of an enterprise.

To gain a slow sophisticated understanding of the broad concept of PPC. One must realize that it approaches the total system a concept that integrates all the functional and operational concepts enterprise. Here it is emphasized that the integration an inter relationship of the various functions in a business that is essential for effective management. Wide participation of all level of management from all the subdivision of the enterprise also is emphasized as being fundamental effective PPC. Although PPC is related to according as it is the other function of the business. It cannot be properly classified as an accounting technique, rather it is a management system. But comprehensive PPC has unique relationship to the accounting system in the enterprise in the following respects:

- 1) Accounting provides input of historical data that are particularly relevant for analytical purpose in the development of enterprises plans.
- 2) The financial component of profit plan generally structure in an accounting format.
- 3) Actual data utilized in the measurement of performance provided in large measure by the accounting system.

From the above fact, we find that PPC is not a separate technique that is through of and operated independently of the total management process. Rather it is an integration of numerous managerial approaches and techniques that might be explained such as sales forecasting, sales budget, capital budgeting, cash flow analysis CVP analysis, variable costing budgets, time and motion study, standard costing, strategic planning, production planning and control, Inventory Control, Organizational planning man power planning cost control etc.

2.6.1 Budgets and Budgeting

Budget is comprehensive and co-ordinated plan empresses in financial term for the operation and sources of an enterprises for some specific period in the future. In this modern time, every business enterprises as well as other non profit concern prepare budget for its future plan. So “A budget is the monetary or quantitative expression of business plan and policy to be purchased in the future period of time.”

The term budgeting refers to prepare budgets and other procedures for planning co-ordination and control of business enterprises. Budgeting is to a tool of achieving management objectives. Simply budgeting is defined as the process of preparing and using budget to achieve management objectives. The major purposes of budgeting are:

- 1) To provide a detail of action for reducing uncertainly and for the proper direction of individual and group effort to achieve goals.
- 2) To state the firm’s expectations (goals) in clear formal terms to avoid confusion and to facilities their responsibility.
- 3) To communicate expectations to all concentrated with the management of the firm what they are understood, supported and implemented.
- 4) To co-ordinate the activities and efforts in such a way that the use of resources of minimized.

15. Ghanendra, Fago, “Profit planning and control”, Buddha academic Publishers & Distributers Pvt. Ltd.
 16. Peter F. Drucker , “The practice of management”, New Work Harper & few publishers 19
 17. Galenn A.Welsch, Ronald W.Hilton, Poul N. Gerdon. “Budgeting Profit Planning and control.” 4th edition PP3/4

- 5) To provide the means of measuring and controlling the performance of individual and units to supply information on the basis of which the necessary corrective action can be taken.

Therefore, budget planners say that “A budget is a pre-determined state of management policy during a given period which provides a standard for comparison with the results actually achieved.

Different types of budgets are used today. The main budgets of them are:

- a) Expenses budget
- b) Profit budget
- c) Financial budget
- d) Capital budget

Expenses budget covers all of the part of the operating business. Profit budget is used to do annual profits and subsequently to control actual performance. As so there financial budgets. These are principally concerned with case planning and capital budget is concentrated with expenditure for fixed assets.

Even through there is not universal acceptance on the types of budgets. The following budgets are in maximum use and in the absence of with the profit planning cannot be assumed such as sales budgets, production budget, material budget, labour budget, overhead expenses budget, merchandise budget, cash flow budget etc.

2.6.1.1 Sales Budget

Sales budget is primary step of business organization. So, it is firstly prepare in business organization for comprehensive profit planning and controlling. Sales Budgets estimates the goods that will be sold. Sales budget is prepared to create the idea of the firm of what is sales be in future. So, it will be easy to mainly dependent upon the sales budget.

Sales budget is prepared based upon the sales forecast. It is prepared only in time periods but also on to geographical or responsibility areas by the use of sales quotas. Such budget prepared both in units or amount of the sales volume or sales revenue. A sales plan should be realistic. If it is not realistic, most of the overall profit plan may not be realistic. So, management should develop a realistic sales plan.

18 k.k. Sharma. Shasi K. Gupta “Management Accounting”

19. I.M.Pandey, “Financial Management” Vikash publishing house Pvt.Ltd.. – 1987, PP 556

20.. Galenn A.Welsch, Ronald W.Hilton, Poul N.Gerdon. “Budgeting profit planning and control.” 5th edition PP 187

The primary source of case is sales, the capital edition needed the amount of expenses to be planned. The man power requirement, the production level and other important operational aspects depend on the volume of sales in harmony with the comprehensive profit plan, both statistic long term and tactical short terms sales plan must be developed.

2.6.1.2 Sales Planning and Forecasting

A forecasting is not a plan, rather it is statement and a qualified assessment of future conditions about a particular subject based on one or more explicit assumption. A forecast should be view as only one input into the development of a sales plan. The management of a company may except, modify or reject the forecast. In contrast, a sales plan in corporate management decision that are based on the forecast, on the input and management judgement about such reacted items as sales volume prices sales forecast, production on sales financing.

A sales forecast is converted to sales plan when management has brought to bear management judgement, planned strategies, commitment of resources and the managerial commitment to aggressive action to attend the goal.

2.6.1.3 The merchandise Budget

Manufacturing concern prepare sales budget as explained earlier but non manufacturing concern prepare merchandise budget. Non manufacturing concern are those who don't manufacture but they purchase and sale goods. Non manufacturing concern are wholesalers, retailers etc. They usually include sales planning, inventory, markdown, employee, discount, stock shortage, purchase and gross margin etc. The sales plan is the first merchandise budget foe the manufacturing concern. Two different approaches are used to plan sales depending on the characteristics of the company. The approaches are:

- 1) Unit price approach
- 2) Sales dollar

2.6.1.4 Production budget

The production budget specifies in the planned quantity of goods to be manufactured during the budgeted period. To develop the production budget, the first step is to establish policies for inventory levels. The next step is to plan the quantity of each product is to be manufactured during the budgeted period. The third step is to schedule this production by interim period. A complete production plan should show budget data classified by (a) Products to be manufactured (b) Interim time periods and (c) Activities of each responsibility center in the manufacturing process.

Production Budgeting refers the development of policy about efficient production level, use of production facilities and inventory level. The production is an estimate of the quantity of goods to be manufactured during the budgeted period. Production planning is the second step of profit planning and control. The main purpose of this budget is to maintain optimum balance between sales, production and inventory position of the firm.

Factors consideration in production planning

The following factors is to be considered for production planning:

- 1) Plant capacity
- 2) Availability of raw material
- 3) Types of raw material
- 4) Availability of capital
- 5) Availability of labour
- 6) Timing for production
- 7) Establishment costs
- 8) Economic lot size

2.6.1.5 Material budget

A comprehensive profit planning and control program includes planning and controlling of raw materials and components used in the manufacturing of finished product. When the required quantities of each product to be manufactured are specified in the production plan. The next step in planning of the manufacturing program involves consideration of the various production requirements and costs. In other word, Managerial budget is a co-ordinate of the required raw material and parts, that must be purchased.

To ensure that the appropriate amount of raw materials and components parts will be on hand at the time required and to plan for the costs of such materials and parts, the tactical short term profit plan should include (i) a detailed budget that specify the quantity and cost of such materials and parts and (ii) a related budget of material and parts purchase. Planning of material budget usually includes the following four sub-budgets:

1) Materials and parts budget

This budget specifies the planned quantities of each raw material and parts required for planned production. It should specify quantities of each raw materials and parts by time, by product and responsibility. It helps to determine the quantities of materials and parts needed for production. Material and parts quantities are determined as follows:

Materials Budget = Production budget x standard use rate/unit

2) Material and parts purchase budget

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

Purchase = material use of raw material + closing stock of raw material – opening stock of raw material.

3) Materials and parts Inventory Budget

This budget specifies the planned level of raw material and parts inventory in terms of quantities and cost. The difference in units between the requirements as specified in the materials and parts inventory budget. it can be computed as follows:

Closing stock of raw material = opening stock of the raw material + purchase of raw material – material used of raw material.

4) Cost of Material and Parts budget

Cost of material and parts budget is planned for cost of the materials and parts used in production process. It should be compared as follows:
Material cost = Materials used × Material cost per unit

2.6.1.6 Direct Labour Budget

The direct labour budget includes the planned direct labour requirements necessary to produce types and quantities of outputs planned in the production budget. It is usually preferable to prepare a separate direct labour budget and to include indirect labour in the factory overhead budget. The basic reasons for preparing a separate direct labour budget are to provide planning data about the direct labour requirement, number of direct labour, employees needed, labour of each product and investment requirement. The direct labour budget usually includes the following two budget:

1) Direct Labour Hour Budget

This budget estimates the total direct labour to complete an activity. Internal condition will determine whether it is feasible relate planned production in a producing department to direct labour hour. Similarly, internal factors may include the most practical approach to use for planning direct labour hour. It is computed as follows:

23. Galenn A. Welsch, Ronald w. Hilton, Poul N. Gerdon. "Budgeting profit planning and control." 5th edition PP 241
24. Ghanedra Fago, "Profit Planning and control", Second edition – PP- PP 68/69

DLH = Planned production × standard DLH /unit

Time and motion studies

Standard cost

Direct estimate by supervisors

Statistical estimates by a staff group

2) Direct Labour Cost Budget

This budget estimates the total direct labour cost to complete an activity or output. Direct labour cost budget include the wages paid to employees who work directly on specific productive output. It is calculated as follows:

$$DLC = DLH \times SDLC$$

2.6.1.7 Manufacturing Overhead Budget

The production budget provides a basis for projecting the planned volume of work as activity for each producing department. In turn, the planned activities of each producing department provide a basis for estimation of the volume work or activity that can be accepted in each department is also used in the responsible accounting system.

Manufacturing overhead is that part of total production cost not directly identifiable with specific products or jobs. Manufacturing overhead consist of (i) In direct material (ii) Indirect labour and (iii) All other miscellaneous factory expenses such as taxes, insurance, depreciation, repairs etc.

2.6.1.8 Administrative Expenses budget

All those expenses other than manufacturing overhead and distribution expenses are administrative expenses. They are incurred in the responsibility centers that provide supervision and service to all function. It includes large portion of fixed cost than variable cost. Many companies have found it helpful to apply the fixed variable cost concept to administrative expenses.

2.6.1.9 Selling and Distribution Expenses Budget

Selling and distribution expenses include all cost related to selling and distribution of products to customers. This budget affect the profit for the firm. It is a significant portion of total expenses. From the planning and control point of view, these expenses must be planned by responsibility center.

2.6.1.10 Inventory Budget

In inventory budget, managers determine the planned volume of the inventories for (i) raw material (ii) work in process and (iii) finished goods copies of the productions direct material, purchases, direct labour and factory overhead budgets given to the direct of planning control. The staff uses these figures to compute and assemble data for the budgeted inventory levels and cost of goods sold.

2.6.1.11. Flexible Budgets

Flexible expenses budget relates only to expenses or costs. They are also called dynamic, activity or output adjusted expenses budgets. The concept of flexible expenses & budget is that all expenses are incurred because of passage of time, output, activity, or combination of time and output and activity. Therefore, it is complementary to tactical profit plan. It helps to provide an expenses plans.

2.6.1.12 Capital Expenditure Budget

Capital expenditure budgeting is a process of planning and controlling of the long term and short term expenditure for expansion, replacement and contraction of fixed assets. It is useful to earn future profit and reduce future costs. It includes purchase of property, plant equipment, building and patents are some examples of capital expenditure. In capital expenditure budget, major projects are separately analyzed, planned approved/rejected , completed and controlled. Therefore, capital expenditure budget is primarily composed of series identified projects related to specific time dimension. The major elements of a capital expenditure budget are cash outflow and cash inflows.

2.6.1.13 Cash Flow Budget

A cash budget is a summary of the firm's expected cash inflow and outflows over a projected time period cash budget involves a projection of future cash receipts and cash disbursements over various time intervals. It is also called a cash receipts and cash disbursements budget. It shows the planned cash inflow, outflows and ending position. In annual profit plan, short term cash plan is to be included cash budget includes two parts:

- i) Planned cash receipt (inflows)
- ii) planned cash disbursement (outflow)

2.7 Importance and Limitation of Profit Planning

2.7.1 Importance of Profit Planning

The profit planning and control can be adopted to all types of organization large and small, manufacturing and non manufacturing. The profit planning program helps the management to perform its planning functions by developing a strategic profit plan and tactical profit plan. The following advantages of profit planning can be explained:

- 1) Profit planning forces early consideration of basic policies.
- 2) It helps to co-ordinate and balance the efforts of various department.
- 3) It measure efficiency and inefficiency in attaining enterprise objectives.
- 4) Profit planning ensure discipline in operations. It requires the whole Organization to under take systematic in the development of operating plan.
- 5) It inspire the managers to evaluate carefully their problems and related Variables before making any decisions.
- 6) It helps to optimize the use of the firm's resources like labour, material, capital etc.
- 7) It trends to remove the cloud of uncertainty that exist in many organization.
- 8) It checks progress of lack of progress towards the objectives of the enterprises.
- 9) It forces management to considered expected future trends and conditions.

2.7.2 Limitation of Profit Planning

Profit planning and control is an important tool for the management. But each tool suffers from limitation and its use is free within this limits. Profit planning and control is also not limitless. So the limitation of PP can be summarized as below:

- 1) Profit planning is not an exact science. Its sources depend upon precision of estimates.
- 2) It is not realistic to write out and distribute our goals, policies and guidelines to all the supervisors.
- 3) It takes away management flexibility.
- 4) It creates all kids of behavioural problems.
- 5) It places the management in a strait jacket.
- 6) It adds all level of complexity that is not needed.
- 7) It is to costly, aside from management time.

8) It is not so easy to apply in the enterprises.

2.8 Management and planning

The effectiveness which an entity is managed usually recognized as the single most important factors in its long term success. Success is measure in terms of accomplishment of the entity's goals. Management goals and implementing activities to attained these goals by efficient use of human, managerial and capital resources. The management process by the management of organization conform the following function of management planning, organizing, staffing, leading and controlling.

The management depends upon well planning is the first essence of management and all other functions are performed within frame work of planning. Planning means deciding in advance what is to be in the future. It is the conscious recognition of the futurity of the present decision. Planning is the process of developing enterprises objectives and selecting a future of action to accomplish them. In choosing most reliable and desirable course of action, a prospective frame of reference is established for current decision. It includes:

- a) Establishing enterprise objectives.
- b) Developing premises about the environment in which they are to be accomplished.
- c) Selecting the course of action for accomplishing objectives.
- d) Initiating activities necessary to translate plan into actions.
- e) Current planning to correct deficiencies.

The management planning had been defined as the design of a desired future state for an entity and effective way of bringing about, A fundamental purpose of management planning is to provide for feed work process. The concept of feed work is to provide each manager with guidelines for making a personal decision on day to day basis.

2.9 Level of Planning

2.9.1 Strategic Long Range Planning

Strategic long range planning is of 5 to 10 years. It is to be developed in broad and general management policies and assumptions year and annual amount. Usually, it is prepared by considering future market potentials populations 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. This is more important for broad and long living enterprises. The main purpose of this plan is to serve primarily as a source strategy, motivation and direction. The objectives of strategic long range planning given by George R. They are as follow:

- 1) To provide clear picture of whether the enterprises is handed.

- 2) To keep enterprises strong to focus on long term opportunities.
- 3) To evaluate management personnel.
- 4) To expedite new financing.
- 5) To bring attention to technique.

2.9.2 Medium Term Planning

The medium term planning covers the period of 2 to 3 years. Medium term planning used mainly to determine the allocation of resources among completing activities and to revise long range plans in view of more recent development. Medium term planning takes the form of budgeting in which each division, department or unit is allocated certain resources during the coming year. These allocation are based on in part on forecast of demand, cost, financial positions and completion. The importance and infrequency of medium term planning make it worth while to spend more effort and employ more elaborate techniques to obtain accurate predictions that are the case for short time horizons.

2.9.3 Short Term Planning

Short term planning is also called tactical planning. It is developed for short period of time detailed by products, month and quarters for future of 12 months. Tactical planning includes detailed plan for each major products and for grouping of minor products. Short term planning is usually developed in terms of physical units or jobs and in sales revenue or dollars. Short term planning provides major consideration for planning and controlling purpose. It is also necessary for completing other components of profit plan.

2.10 Corporate Planning in Nepalese Manufacturing Company

Planning is the process of setting goals and choosing the means to achieve these goals. It is a thinking process before doing. It involves the selection of objectives, policies, procedures and programs among alternatives. Without making planning, it is not possible to achieve its target goal and survive in this competitive environment for any enterprises.

An organization operates its activities in environment which is uncertain planning looks to the future and determines the best possible way. In Nepal, Nepalese manufacturing company either they are, public enterprises or private enterprises, suffering from more problems in its achieving target goal. There is still lack of a well structured planning as system in that company. As a result, they are not being in success to maximize their economic sector. Due to lack of systematic planning and procedure, new investors do not want to take high risk and invest their huge resources in the manufacturing concern. So, corporate

26. Galenn A. Welsch, Ronald W. Hilton, Poul N. Gerdon . "Budgeting profit planning and control." 4th edition PP 282/283.

27. George R. TERRY, "Principle of management", Richard Dirwin INC Homewood, 1963-PP 253

planning is most important for the Nepalese manufacturing concern to make their future plans, reduce uncertainty and achieve their goals. M.B. Shrestha has stated in his “corporate planning and its practices in Nepal” research paper that the corporate planning practices in Nepal is suffering from a number of institutional set backs emerging both from governmental and corporate level which must be paralyzed to make the practice effectively.

2.11 Capacity Utilization

Ability to produce unit of product is called capacity of machine or equipment, capacity unit is its ability to produce (John and Keith, 1992). Every machine has its certain capacity which depends upon the power of machine and pre-forecasted by the specialist. To produce over capacity of machine and personnel is impossible for the enterprises. Production & sales as well as profit plan are depended upon the capacity of machine and personnel. Higher production capacity helps to produce higher unit. Cost of production also depends on the utilization of capacity of cost of production. Lower Utilization of capacity increases per unit manufacturing cost where as maximum utilization of capacity reduces manufacturing cost per unit and provide benefit.

2.11.1 Process of Capacity Planning

According to BUFFA, process of capacity planning are developed into six steps. They are as follows:

- 1) Predict future demand includes the possible impact technology Competition and other event.
- 2) Translate production into physical capacity requirement.
- 3) General alternative capacity plan related to requirement.
- 4) Analyze economic effects of alternative plans.
- 5) Identify risk and strategic effects of alternative plan.
- 6) Decide a plan for implementation.

2.11.2 Types of Capacity Utilization

According to Buffa, there are three types of capacity. They are as follows:

a) Normal Capacity

If it is a full capacity of plant and personnel where it is assumed that they Can produce up to a certain limit.

28. M.B. Shrestha “Corporate planning concept and its practices in Nepal”

29. Lynch, Richard M. Williamsom, Robert E. 1992 “Accounting for management Planning for control”.

30. Buffa, Edwoods S. “Modern production operation management” Willey estern Ltd. 1980

b) Maximum Capacity

It means to utilize the maximum limit of production capacity. It is to meet the market demand.

c) Optimal Capacity

It refers to the use of the resources at that point where company will produce maximum output. At this level, cost of production of minimum and capacity utilization is profitable for the company. How much capacity should be utilized depends upon the production need and cost per unit. Some time level of capacity is changed due to change in market situation.

2.11.3 Measurement of Capacity

Profit and responsibility centre capacity can be measured in several ways. If there is only one product or several almost identical products, capacity should be measured in physical units of output. In other circumstances, capacity must be measured in term of some common dominator of output, such as direct labour hours, direct mechanics hours, dollars, sales of goods produced. Usually capacities are expressed as percentage of maximum capacity.

2.12 Implementation of Profit Plan

Implementation of profit plan posses some fundamental questions. How should the plan be implemented ? How should be it used by top, middle and lower level of management? It is emphasized that a profit plan should represent potentially at tangible goals, yet the goals should present a challenge to the enterprises. The plan should be developed with conviction that enterprises going to meet or exceed all major objectives. Use of profit plan as a guide to action an performance, directed toward attaining the goal quantified in the annual profit plan, requires continuous management effort and attention.

2.13 Implementation of Follow Up

Follow up is an important part of effective control because performance reports are based on assigned responsibilities, they are the basic for effective follow of actions. It is important to distinguish between causes and effect. The performance variations are effective result. The management must determine the underlying causes. The identification of both favourable and unfavourable performance variables often identifying the basic cause as apposed to the results. An alternative for corrective action must be selected and implemented for its rectification.

31. Ibid, P- 85/88.

2.14 Review of previous Related Research Work

In the context of Nepal, very few researches have been made in the area of profit planning. Whatever have been made are also not in depth. Most of them are concentrated to state public enterprises. But this study has tried to present the practice and problem in profit planning system of manufacturing owned public company which will be useful to all manufacturing companies. Some dissertation on profit planning in Nepalese have been prepared and submitted to the faculty of management, T.U.

1) Gaire's Study

Mr. Dilli Ram Gaire has submitted a thesis on the topic "profit planning in Nepalese public manufacturing company. (A case study of Butwal Spinning Mills Ltd.)" In this study both primary and secondary data have been used from physical year 2051/52 to 2055/56 B.S. The main objectives of this study is to highlight on the degree of application of profit planning concept in BSM Ltd. He has analysed the various financial budgets adopted by this company.

The major findings of this study are as follows:

- i) There is lack of practice of setting different financial goals for future activities.
- ii) Due to lack of clear organizational chart, it is difficult to analyzed the organizational structure and follow up communication and their effectiveness.
- iii) There is lack of proper documentation. The records of previous years are not available at the time of requirement.
- iv) The company has not planning division. It has no skilled and expert Planner as well.
- v) This company is suffering problem from many internal and external factors in formulating an implementation plans. However, It has no proper practice of environment scanning.
- vi) The company is unable to appoint sufficient number of reliable agents/dealers to improve its sales performance.
- vii) General total production and total sales of BSM is increasing year after year but the rate of growth is not fixed.
- viii) The company has adopted going rate prise. The cost of production is not considered while pricing the product.

- ix) The annual capacity yarn is 2745 metric ton. But the capacity utilization of this company is more deviated from their standard.
- x) BSML has no inventory policy. The finished goods inventory levels of the company have been fluctuating from year to year.

Mr. Dilli Ram Gaire has mentioned the following recommendations to improve the profit planning of BSM Ltd.

- i) BSM Ltd. Should be clear about its objectives and to achieves the basic objectives, it has to defined its main objective in annual goal or target.
- ii) It has to follow the practice of setting different financial specific goals for future activities.
- iii) Trained and qualified manpower of profit planning or budgeting should be hired and present main power should be trained to develop and implement the profit plans effectively.
- iv) Modern strategic management should be introduced instantly. Marketing specialties should be appointed to develop effective marketing policy for sales expansion.
- vi) The clear organization chart should be prepare and availed for all level managers and concerned staff so that there will be no existence of confusion in reporting system.
- vii) The company has the positive sales trend so it should make maximum sales efforts to increase its sales volume to avoid the problem of fund crises.
- viii) The company should improve the quality of its products by providing sufficient training.
- ix) The BSML should consider about the product line to improve its profit. It should give more attention to those products which are profitable and can sell easily.
- x) The company should appoint reliable agents to improve its sale performance.

- xi) The company should maintain the housefly record of direct labour and calculate the labour hours and hourly rate appropriately so that the company will be able to control labour cost.
- xii) The concept of profit planning should be applied in the company. Both long range and short range planning should be prepared, the company should follow: the practice of sales forecasting and sales should be depended on the sales plan which is derived after sales forecasting.
- xiii) The company should adopt a systematic approach of profit planning.

2) Dumre's Study

Mr. Kamal Prasad has Dumre has submitted a thesis on the topic“Profit planning practice in Nepalese public enterprises (A case study of diary Development Corporation)” to the central department of management. T.U. in this study he has used both primary and secondary data from fiscal year 2045/46 to 2049/50. The main objective of this study is highlight on practice of PP and its effectiveness in the diary development corporation.

The major finding of this study are as follow:

- i) There is no picture of goals and objectives of DDC for profit planning.
- ii) There is no detail and formal guideline to the lower level management or departmental management for the for the purpose of developing profit planning, which is also applicable in case of DDC.
- iii) There is one way communication plan that is the plans are prepared by top level management or planning action and supplied to respective department.
- iv) The sales plan and its achievement of DDC shows that the sales achievement is greater than planned sales which shows DDC is unable to forecast the future accurately.
- v) The general performance of DDC is poor so the enterprises is not in position to bear the financing of research and to increase the plan capacity for products by internal resources.
- vi) There is no separate costing department in DDC.
- vi) DDC is unable to earn reasonable amount of profit. There is no proper planning for cost control.

- vii) There is lack of proper budgeting expert skilled planners and entrepreneurship.

Mr Kamal Prasad Demre has drawn the following recommendation. Bashed on his analysis.

- i) The management of DDC should clearly define there broad objectives.
- ii) The annual plan should be in line with the strategic plan. Modern strategic plan. Modern strategic management system should be introduced.
- iii) Trend and qualified man power a budgeting and planning should be hired and present management should be trend.
- iv) DDC should maintain proper co-ordination within the organization.
- v) There should be systematic planning to improve the performance of DDC.
- vi) DDC should follows the product line to improve its profit.
- vii) A separate costing department should be established to measure the cost.
- viii) DDC should make every effort to maintain the existing plan and utilized idle equipment and addition of capital and manpower should be done by a well define propose to relate closely with the production.

3. Shakya's Study

Mr. Manish Raj Shakya has submitted a thesis on the topic "Profit planning in Lumbini sugar Mills Ltd." To the central department of management T.U. in the course of partial fulfillment of MBS. In this study, Mr. Shakya has tried to point out the features and problems of Profit Planning of Lumbini Sugar Mills Ltd. This study has covered both primary and secondary data of last five years from fiscal year 2048/49 to 2052/53. The main objectives of this research work were examined how far different budgets are used as tools of Profit planning in Lumbini Sugar Mills Ltd.

Mr. Shakya's major finding regarding LSM Ltd. Are as follows:

- i) Lack of autonomy and lack of proper communication in LSM Ltd.
- ii) LSM Ltd targets are high expectation but achievement is low.
- iii) There is no detail production plan, expenses plan, inventory plan

and material budget.

- iv) LSM Ltd. Faces some problems of raw materials, skilled labours and technicians.
- v) There is no system of taking corrective action for pre-planning.
- vi) There is no effective personal management, reward and punishment system.
- vii) LSM Ltd. Used to prepare only annual plan.
- viii) There is no clear policy and method of pricing.
- ix) There is no any systematic plan.
- x) LSM Ltd. Contributes only 10% sugar of our national demand.

Based on major finding, Mr. Shakya has made the following recommendations:

- i) LSM Ltd. Should get autonomy in decision making.
- ii) Top management should co-ordinate with all level of management for setting goals for sub division.
- iii) Appointment of general manager should not be made political view.
- iv) LSM Ltd should prepare the strategic long term and short term sales plan.
- v) To fulfil the established objectives, LSM should give more attention towards the production and corrective action.
- vi) LSM should make monthly, half yearly and yearly basis budget to control the cash budget.
- vii) LSM should implement the standard costing approach to cost control.
- viii) Workers motivation is a considerable factor, reward and punishment system should be made more effective.
- ix) LSM should prepare funds flow statement for sources of fund use in proper side after generating profit.
- x) National demand is not fulfilling by internal production, so LSM should also give attention on selling budget.

4) **Bhatt's study**

D. Bhatt, submitted a thesis to the faculty of management. Central department of management T.U. , impartial fulfillment of the requirement for the degree in master of Business Administration, which is mainly concerned with the profit planning in Royal Drugs Limited.

The objectives of the study was to examine the effectiveness of the profit planning system in Royal Drugs Limited. The time period covered by the study was five years FY 2049/050 to FY 2053/2054. We recollected data mainly from primary and secondary sources and published documents RDL book, booklet, magazines, publication of corporation co-ordination council of ministry of finance publication of national planning commission center bureau of statistics. Mr. Bhatt has pointed out various finding. Few major findings are as follows:

- i) Objectives are not clear in RDL.
- ii) RDL has not been successful to maintain co-ordination within the Company.
- iii) Lack of budgeting, expert and skilled planner, plans are formulated on traditional basis. Mr. Bhatt K.D., Profit Planning in Royal Drugs Limited, unpublished master degree dissertation submitted to central department of management, T.U., 1999.
- iv) RDL has not been able to utilize full capacity.
- v) Sales targets are, constants to previous year but sales achievements are fluctuating.
- vi) RDL has not given statement of specific plan about research and development.
- vii) RDL has no optimum inventory policy.
- viii) Materials are available in right time in right quantity and right place so as to supply for production.
- ix) Fixed cost and non manufacturing costs are growing high.
- x) RDL has been frequently suffering from operating loss since many years.
- xi) Liquidity positions of RDL is poor.
- xii) There are no clear cut boundaries to separate cost into fixed and variable.

Mr. Bhatt has recommended some measures on the basis of his study and ideas are:

- i) HMG intention should not be made for functional aspect of enterprise management it should be given full authority, responsibility and accountability for routine and major operations.
- ii) RDL should co-ordinate all components of profit and cash plan.
- iii) Only an easy way of making positive profit is to utilize its full capacity.
- iv) Trend and qualified man power in budgeting and planning should be hired and present management should be trend.
- v) RDL should maintain proper co-ordination within the organization.
- vi) There should be systematic planning to improve the performance of RDL.
- vii) RDL should follow the product line to improve its profit.
- viii) Company should adopt contribution margin approach to improve its profitability.
- ix) RDL should follow proper motivational programmers, reward and punishment system to increase the capacity and efficiency of the workers.

5) Paudel Study

Mr. Laxamn Prasad paudel has submitted a thesis on the topic “ A study on PPC (A case study of Gorkhkali Rubber Industry Ltd.) on June 1996. The period covered by Mr. Paudel’s study was of four years i.e. from the FY 2049/50 to 2052/53 necessary data were collected both from the primary and secondary sources. The basic objectives of Mr. Paudel’s research were:

- i) To sketch the trend of profit and loss over all.
- ii) To see the Gorkhkali rubber industry’s PP on the basis of over all managerial budgeting.
- iii) To evaluate the variances between targets and actual of the enterprise.
- iv) To examine the practice and effectiveness of PP.
- v) To know the liquidity position Gorkhkali Rubber Industries.
- vi) To highlight on the sales achievement of Gorakhali Rubber Industries.
- vii) To sketch the budgeting system of Gorkhkali Rubber Industries.

Major finding of Mr. Paudel's research are:

- i) Unrealistic evaluation on relevant internal and external market variable.
- ii) Inadequate evaluation or relevant internal factors.
- ii) HPPCL and RDL should decide and make policy about research and development, factory productivity, capacity utilization and cost control.
- iii) Price volume relationship should be taken into consideration while developing sales plan and pricing strategies.
- iv) Planning department should be given adequate authority to decide create new ideas to formulate various plans.
- v) Trained and qualified manpower of budgeting and planning should be hired and present manpower should be trained to develop and implement the profit plan effectively. Marketing specialists should be appointed to develop effective marketing policy for sales expansion.
- vi) Cost reduction program should be formulated and applied. And present cost capacity structure should be changed, efforts to reduce fixed costs.

Chapter – III

Research Methodology

3.1 Introduction

Research methodology is the way to solve systematically about the research problem. This chapter refers to the overall approach to the research process, covering from theoretical underpinning to the collection and analysis of data. It is composed of both parts of technical aspect and logical aspect. Specially, this chapter has focused on research design, population and sample, period covered, nature and sources of data, data analysis tools, research variable. It helps to analyze, examine and interpret various aspects of research work related to the subject matter. The basic objective of this research is to analyze, examine and interpret the profit planning of Nepal pharmaceuticals Laboratory pvt. Ltd. (NPL). Various financial and statistical tools are used in this research work. Research Methodology is followed to achieve the objective of the research. It includes the following major contents:

3.2 Research Design

Research design is a plan to obtain the answer of research question through analysis of data. It is the application of scientific methods to the study of a problem and obtain the answer of the research question. This study is mainly related with the quantitative plans and account of NPL. So analytical descriptive approaches have been adopted to present the situation of profit planning of NPL. This study is an examination & evaluation of budgeting procedures in the process of profit plans of NPL. Therefore the study is closely related with the various functional budgets & other accounting statements to draw the picture of profit trends, their capacity utilization and to evaluate production and sales planning with the actual results of budgets. These information and data are presented in the analytical method. The research design of the study is analytical as well descriptive approach. The view of selection of this type of research design provide quantitative and qualitative information which are available.

3.3 Population and Sample

Nepal is a developing country with a very small number of industrial sectors. Its economy is based on agriculture. The industrial history of Nepal is not so old. Therefore, there are many pharmaceutical factory in Nepal. In the field of medicine there are some main pharmaceutical company which are as follow:

1. National Pharmaceutical company, Chhatapipra, (Bara) Nepal.
2. Pharmaceutical company of Nepal, Kalaiya, (Bara) Nepal.
3. Concept Pharmaceutical company, Lipni, (Bara) Nepal.
4. Shani Aushadhi Udhyog, Chitwan, Nepal.

5. Quest Pharmaceutical, Chhatapipra, (Bara) Nepal.

These all pharmaceutical company are producing some different & same type of medicine to fulfil the need of domestic medicine and to expert in the foreign country. But in average, these all pharmaceutical are earning profit every year. So this study has made to analyze the more profit planning and implementation and find its solution for better improvement. But as sample NPL has been selected to evaluate its profit planning process with its limited data.

3.4 Period covered

This study has covered the period of 5 years (i.e. fiscal year 2064/2065 to 2068/2069) for the analyzing of profit plan of NPL. The managerial and financial strength and weakness of NPL has been analyzed for long range and short range of profit plan with this data.

3.5 Nature and Sources of data

To fulfil the objective of this study. Primary data as well as secondary data has been used. The main sources of these data are NPL records. Primary data have been collected through interview with the executives and top levels and different opinions have been also collected from different staff of NPL. Secondary data have been collected from the published documents of NPL. As the same other necessary data have be collected through different published documents from different sectors such as ministry of finance, department of industry national planning commission etc.

3.6 Data Analysis Tools

Collected data from various sources in this study have been analyzed with different financial and statistical tools. Data have been presented on chart, table, graph, diagram etc. This study has been conducted mainly on the basis of secondary data. The financial and statistical tools used in the analyzing of the profit planning etc.

3.6.1 Financial Tools

Various financial methods are used to analyze the effectiveness of profit planning in Nepalese manufacturing company.

a) Financial Ratio Analysis

The significance of financial ratio analysis may be viewed in different ways. For example, a creditor is interested in the liquidity of the firm because claim is short term and the ability of a company to pay the claim is best judged by means of analysis of its liquidity. Management also employs financial analysis for the purpose of internal control. Ratio analysis is widely used tools for analyzing which established the numerical or quantitative relationship between two items, i.e. variable of the financial statement.

b) cost volume profit analysis

The relationship between cost volume and profit is shown by cost-volume-profit-analysis. It is an analytical tool for analysing the relationship among cost, price, profit, sales and production volume. Mainly, there are three elements in cost-volume- profit analysis. They are cost, sales or production volume and profit.

c) Flexible budget

Flexible budget is defined as a budget which, by recognizing the difference in behaviour between fixed and variable costs in relation to fluctuations in output, turnover, or other variable factors such as number of employees, is designed to change appropriately with such fluctuation. As per above definition, cost should be classified into variable, semi-variable and fixed carefully for preparation of flexible budget.

d) Variance analysis

Variance is the difference between the standard performance and actual performance. In the case of cost, the variance refers to the difference between the standard cost and actual cost of each element of cost i.e. direct material, direct labour, and factory overhead.

3.6.2 Statistical tools

Statistical tools includes the following:

a) Mean (\bar{X})

Mean is used to represent the entire data. It is usually denoted by \bar{X} . Mean of a set of observation is a figure (numerical value) obtained by dividing the sum of all the observations by the number of observations.

$$\text{Mean (x)} = \frac{\sum X}{N}$$

b) Standard deviation(S.D.)

Standard deviation measures the extent of dispersion of certain variables from their average value. This tool help to recognize volatility of the variable within a given time periods this tool have been utilized.

$$\text{Standard deviation (S.D.)} = \sqrt{\frac{\sum X^2}{n} - \left(\frac{\sum X}{n}\right)^2}$$

c) Coefficient of variance (C.V.)

Coefficient of variation (C.V.) measures the standard deviation(S.D.) per unit average of the given variable. Unlike S.D. it id the relative measure of dispersion.

$$\text{Coefficient of variance (C.V.)} = \frac{s}{\bar{X}} \times 100$$

d) Correlation (r)

Correlation is the statistical device which helps to analyze the relationship between two or more variables.

$$\text{Correlation coefficient (r)} = \frac{\Sigma XY}{\sqrt{\Sigma X^2 \times \Sigma Y^2}}$$

r = +1 (positive correlation between two variables)

r = -1 (Negative correlation between two variables)

r = 0 (Un correlated)

e) Probable Error (P.E.)

Probable error of the correlation coefficient is the basis for the interpretation of its value. It is defined by:

$$\text{P.E.} = 0.6745 \times \frac{1 - r^2}{\sqrt{N}}$$

f) Regression line

Regression line of actual sales (Y) on budgeted production (X) or, Y on X is:

$$Y - \bar{Y} = r \cdot \frac{\sigma Y}{\sigma X} (X - \bar{X})$$

g) Straight line trend

Straight line is such tool which is use to show the time factor. It shows the relation with the related variables.

$$yc = a + bx$$

h) T-test

T-Test is used as a tool to determine the explaining power of independent variable. While, t-test is significant, the variable under consideration can best explain the variation in dependent variable.

The steps for t – test are as follows :

Step 1 Formulate null (H_0) and alternative (H_1) hypothesis $H_0: \mu = \mu_0$, i.e.

the population mean is μ_0 .

Or, “There is no significance difference between the sample mean and

population mean”.

Or, The given random sample has been drawn from the normal population with Mean μ_0 .

$H_1 : \mu_1 \neq \mu_0$ (two tail - tail test)

$H_1 : \mu_1 > \mu_0$ (right tail - test)

$H_1 : \mu_1 < \mu_0$ (left tail - test)

Step 2 compute the test statistic given by $t = \frac{\bar{X} - \mu}{S/\sqrt{n}}$

Step 3 Fix the level of significance α (usually $\alpha = 0.05$) and decide whether to apply one tail or two tail test on the basis of H_1 .

Step 4 Make decision on the basis of the rule given as follows:

i) If $|t| < t_{\alpha}$ then accept the H_0

ii) If $|t| > t_{\alpha}$ then reject H_0 i.e. accept H_1

3.7 Research Variable

Sales, production, profit and loss, capacity utilization and long range and short range profit planning are the main research variable of this study.

Chapter IV

Data Presentation & Analysis

4.1 Introduction

Data presentation and analysis is main phase of the research. Collecting data is the connecting link to the world of reality for the researcher. The presentation of data is the basis of organization and classification of the data for analysis. Its analysis presents the situation.

The main objective of this research is to examine the profit planning system in the NPL Ltd. This study will analyze the various aspects of the profit planning and their actual accomplishment. To accomplish this objective, various functional budgets, their related variances of NPL will be analyzed properly.

Compressive profit planning continues to be of prime important in virtually all organization. It can control and manipulate of all relevant variables, controllable and non-controllable and reduce the impact of uncertainty so that the enterprises could be served from the change of making losses. Profit is a measure of success of any business to profit planning business increase the chances for making profit . Profit planning is a systematic and formularized approach for attaining effective management performances. It is managerial tool which helps to achieve objectives and goal of enterprises stated in business and future period of time.

Generally two types of profit plans formulated. Both strategic long range profit plan and tactical short range profit are prepared on the budgeting Nepal pharmaceutical Lab. Ltd. Has also adopted this profit planning system but it basically follow the long range profit plan. The present study does not deserve the quality to analyze it in detail because of time and resource constraints. Therefore, the study is mainly on long range profit plan of pharmaceutical industries. However, the tactical short range planning is also mentioned here. For analyzing the profit planning of NPL Ltd., the sales, production and other related figure of previous year are presented and analyzed to know the overall profit planning, economic financial trend and to estimate the possible future trend of the pharmaceutical industries. For this, this study covers the period of five years from fiscal year 2064/065 to 2068/069 .

The short range profit plan is analyzed by taking relevant figures and various functional budget of one F.Y. One F.Y may represent the techniques, process and other procedures of preparing budgets, there use for the purpose profit planning, comparison with actual achievements and analysis of variances for other years because such process are same for very year and repeated each year in the time of preparation of analyzing budgets. For this F.Y. 2068/069 has been taken as representative F.Y to analyze the short range profit plan. Various functional budgets of F.Y 2068/069 their basis of depreciation, actual achievement related variances between budgets actual are analyzed in detail. An attempt is made to find out the result behind the deviations between budgets and actual results. Some

recommendations are also provided for its improvement. Profit planning system represent the techniques, process and other procedures of preparing budgets, their use for the purpose of earning profit, for comparing the actual achievement and variances with the budgeted sales planning.

4.2 Defined objectives and goal of NPL

Profit is the life blood of all company which is necessary at least to keep the companies going on and to make a maximum contribution towards the development of the country. Without any objectives, an enterprise is established either PEs, Public Limited Company or private company. If the enterprise does not generate any surplus for its own expansion and development, it cannot keep going. A profit plan is the formal expression of the enterprises plan goals and objective state in financial term for specific future period of time.

Nepal Pharmaceutical Lab. Is also one of the enterprises which objective is to generate income for its expansion and development. However, the following major objectives of NPL are as follow:

- i) To attempt in the development of the Nepalese pharmaceutical Industry will not only elevate national technology but also health medical research and related activities.
- ii) To distribute and sale of product at reasonable and fair price.
- iii) To develop the industrial infrastructure of country.
- iv) To contribute in national income.
- v) To create employment opportunities.
- vi) To increase the government revenues.
- vii) To assist in saving foreign currency by substituting or reducing the import of different types of medicine.

4.3 Sales Plan

For the application of profit plan, a company should prepared numbers of plans, one of them is sales plan. Sales plan is the infrastructure of profit plan. Sales plan provides management decision marketing and based on these decisions. It is organized approach for developing comprehensive sales plan. Preparation of sales plan is the first and important step in developing the overall profit planning process of a from sales are the primary source of cash and all other financial budgets are prepare on the basis of sales plan. All business operations are directly linked with the sales plan and thus sales plan so we as realistic as possible. If it is not realistic, mostly other parts, of should be as realistic. So, management should develop a realistic sales plan. A man of operation necessary to be built around the activity of volume of business that can reasonably be expected during the specific period by the profit plans.

The sales plan is the foundation for periodic planning in the enterprises most of the operational aspects including manpower requirement, materials, cash etc. Depends on the volume sales. Sales plan is prepared on the basis of sales forecast but sales forecast in itself is not a sales plan. The preparation of sales plan involve the following four inter-related steps (a) The sales forecast (b) The marketing plan (c) The advertisement and promotion budget (d) Selling expenses budget.

Generally, a comprehensive sales plan includes both strategic (long range) and tactical (short range) sales plan. The long term sales plan covers the period 5 to 10 years. Sometimes it extends to 10 years. It is prepared with the annual profit short term sales plan is prepared by quarter, by month or by week.

4.3.1 Sales Plan in NPL

NPL is a manufacturing company which produces and sales different types of medicine. NPL has adopted long term sales plan. But it is not so effective because company rise has a policy of trying to sell all goods that are produced in the factory. The sales territories of the company can be divided into two major group-domestic sales and export sales. The company has a sells department; they have both marketing and sales. The selling price is fixed by top management. The company practice of environment planning. They have effective policy to forecast their sales and research. The management of the company is looked so serious in all these matters.

There are some main pharmaceutical industries. They are :-

1. National Pharmaceutical company, Chhatapipra, (Bara) Nepal.
2. Pharmaceutical company of Nepal, Kalaiya, (Bara).
3. Concept Pharmaceutical company, Lipni, (Bara) Nepal.
4. Shahi Aushadhi Udhyog, Chitwan, Nepal.
5. Quest Pharmaceutical, Chhatapipra, (Bara) Nepal.

The company has to face completion mainly with produced by all companies. The company has adopted the going rate pricing.

Long Term Sales Plan in NPL

Long term sales plan (strategic sales plan) is the most important for broad and long living enterprise. It is closely concerned with the concept of the comparison as a long living institution. It comes 5 to 10 years. NPL is one of the long living enterprises which prepare such type of plan. Now I am going to Present the company's previous long term target and achievement to forecast the possible future trend of sales of the company.

Table No.2

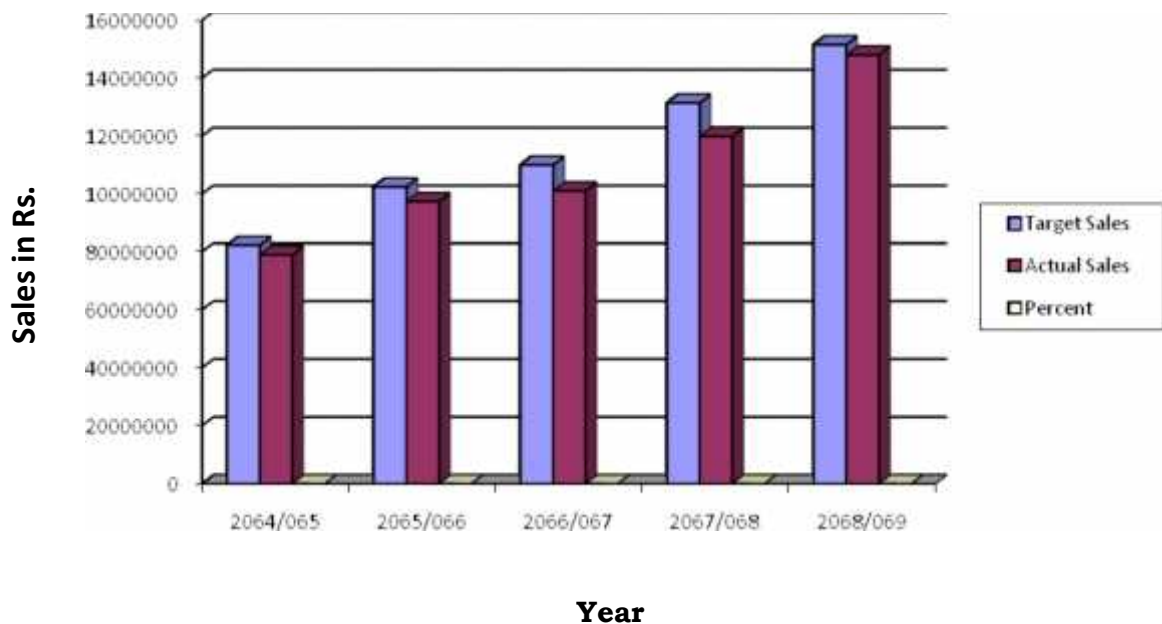
Long term sales plan

Fiscal year	Target Sales (Rs)	Actual Sales (Rs)	Percent
2064/065	8,23,75,000	7,90,80,000	96%
2065/066	10,25,26,000	9,75,00,000	95.09%
2066/067	11,00,70,000	10,12,02,000	91.94%
2067/068	13,15,18,000	12,00,20,000	91.26%
2068/069	15,16,28,000	14,80,88,000	97.76%

The above table shows that the sales achievements of actual sales are usually below the targets. Actual sales are not so homogeneous. The percentage of achievement are always fluctuating year to year while preparing the sales budget for coming year, previous year's sales performance should be considered.

Sales of NPL

Target and achievement



The above figure shows the trend of budgeted sales and actual sales of the company. Budgeted sales are always higher than actual are more fluctuate.

In order to find out the nature of variability of budgeted sales and actual sales of different year. We have to calculate arithmetic mean, standard deviation, co-efficient of variation and co-relation co-efficient of the budgeted and actual sales of NPL. The detail calculations of these statistical tools have been presented in Appendix- 1. Now summarizing the result from appendix -1,

We have,

Table - 3

Tools	Budgeted Sales (X)	Actual Sales (y)
Mean	115.62	109.18
S.D.	23.90	23.39
C.V.	20.67%	21.42%

Correlation co-efficient $r = 0.99$, P.E. = 0.0060

The above table results shows that the actual sales are less than the target sales. Hence, C.V. of actual sales is more than the budgeted sales.

A distribution with smaller C.V. is said to be more homogeneous or uniform than the other and greater C.V. is said to be less uniform than. Here NPL Ltd. Actual sales are the nature of less uniform than budget sales.

Statistical tool, correlation of coefficient can be used to analyze the relationship between budgets sales and actual sales. In other words, the sales achievement should increase as the budgets increase of vice version. To find out the correlation coefficient, we can use Karl Pearson's coefficient of correlation. For this purpose, budgets sales (X) are assumed to be independent variable and achievement figure (Y) is assumed to be dependent variable. It is assumed that actual will increase as budgets increase or vice versa significant of correlation is tested with problem error so the detail calculation of "r" and PE have been presented in Appendix - 1

From Appendix- 1, we have calculated the value of r is 0.99 and P.E=0.0060. Here the value of 'r' is greater than P.E. or $r > 6 \text{ P.E.}$ so the calculated value of "r" is significant. So, it can be said that actual sales is positive with budgeted sales.

Regression line can also be fitted to show the degree of relationship between budgets sales and actual sales and to forecast actual sales with at given budgeted sales. For this purpose, actual sales achievements have been assumed to be dependent upon budgeted sales. So the regression line of actual sales Y on budgeted sales x or y on x is as under.

$$y - \bar{y} = r \cdot \frac{\bar{y}}{\bar{x}} (x - \bar{x})$$

Where,

	Budgeted (x)	Actual (y)
Mean	115.62	109.18
S.D.	23.90	23.29

Now, Regression line y on x is,

$$Y - y = r \cdot \frac{\sigma_y}{\sigma_x} (x - \bar{x})$$

$$\text{Or, } y - 109.18 = 0.99X \frac{23.39}{23.90} (x - 115.62)$$

$$\text{Or, } y - 109.18 = 0.97 x - 112.15$$

$$\text{Or, } y = 0.97 x - 112.15 + 109.18$$

$$\therefore y = 0.97 x - 2.97$$

In conclusion, we can give following point on sales.

- 1) The target sales are less variable than actual.
- 2) There is highest degree of positive correlation between target is actual sales.
- 3) Correlation coefficient is significant.
- 4) There is positive relation between actual and budgeted sales.

Time element is also an important factor with the passage of time. The sales achievement changes which can be expressed by the component of time series. A straight-line trend be the method of least square will show the relationship between years (time) and actual sales. The straight-line trend is $yc = a + bx$

Table - 4

Now, Fitting straight line trend by least square method

FY	Actual Sales in Rs (Y) (000000)	X	X ²	XY
2064/065	79.08	-2	4	-158.16
2065/066	97.50	-1	1	-97.50
2066/067	101.20	0	0	0
2067/068	120.02	+1	1	101.20
2068/069	148.08	+2	4	296.16
N = 5	$\sum y = 149.89$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy = 141.70$

Here, To find the straight-line trend, we should compute the value a and b.

$$a = \frac{\sum Y}{N} = \frac{549.89}{5} = 109.18$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{141.7}{10} = 14.17$$

$$\therefore yc = a + bx$$

$$\therefore Y_c = 119.18 + 14.17x$$

This trend line shows the positive sales figure for the future. The sales will be increased if the sales trend of next years continues for the future.

4.4 Production Plan

The production planning refers the development of policies about efficiency production level, use of production facilities and inventory levels, preparation of production budget is the second step in developing profit plan for the purpose of formation of the profit plan. The requirement of the sales plan must be translated into the supporting activities of other major functions. In the case of manufacturing enterprises, the sales plan must be converted to production plan. We can understand the production planning mathematically as under.

Production = Planned sales + Final inventory – initial inventory

Qualities planned in sales budget adjusted to confirm the production and inventory policies. Volume of out that must be manufactured by product and by interim time period are the areas of production planning. The main objective of the production plan is to fulfill the sales requirements. The following factors are to be considered for production planning.

- a) Total production requirements (by product and by interim time period for the planning period.
- b) Plan capacity.
- c) Inventory policies relative to the level of finished goods and work in process.
- d) Availability of raw materials.
- e) Availability of labour.
- f) Time of production.
- g) Economic lot size.
- h) Availability of capital.

4.4.1 Production Planning in NPL

Nepal pharmaceutical is one of the long living enterprises which has long term production plan. Generally, production budget is prepared on the basis of budgeted sales and planned inventory levels. It should be prepared by products and by interim time periods. The production plan is based on the capacity of plan and sales plan. Even through NPL has adopted term production plan. But it is seen that while preparing the production budget in NPL budgeted sales and inventory is not seriously considered.

The long term of production plan of NPL is prepared annually. Company has sufficient capacity to produce its product which can fulfil the demand of sales.

The following table presents the production budget and actual production achievement of NPL from fiscal year 2064/065 to 2068/069.

Table No. – 5

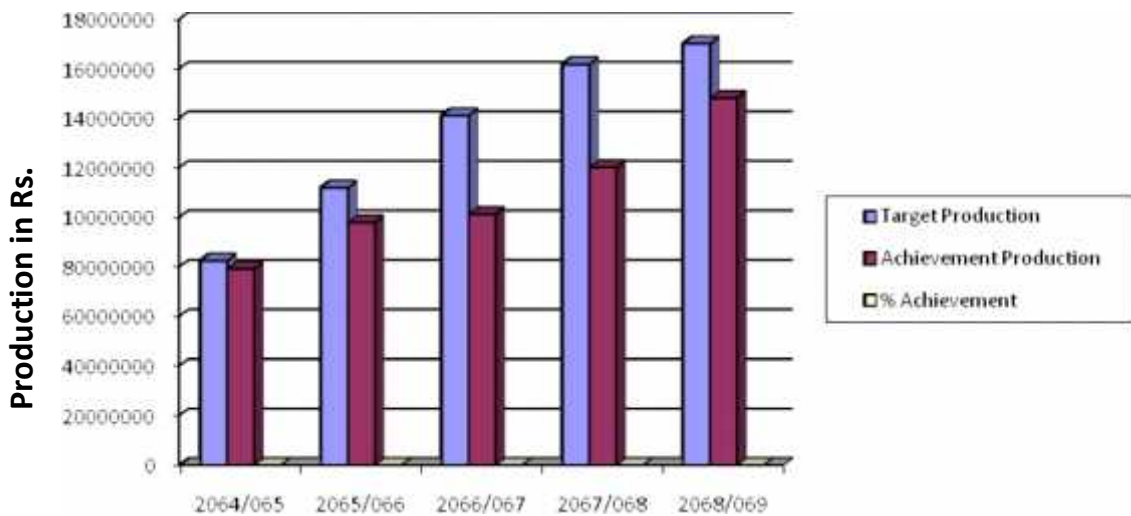
Target and actual production of NPL

Fiscal Year	Target production (Rs)	Achievement Production (Rs)	% Achievement
2064/065	8,25,80,000	7,92,92,000	96.02%
2065/066	11,20,41,700	9,80,08,000	87.48%
2066/067	14,12,06,805	10,13,44,000	71.18%
2067/068	16,18,90,000	12,02,10,000	85.13%
2068/069	17,02,12,000	14,82,01,000	87.07%

The above table shows that actual production is below that the target production. The percentage of achievement is fluctuating of FY year 2068/069 is 87.07% only due to strike.

The production target and achievement of five year also can be shown with the help of bar diagram.

Production Target and achievement



Year

The above diagram shows that the actual production is below than the budgeted production. Actual production is fluctuating year to year.

To find out the nature of variability of production budget and actual production of last 5 years, mean, S.D., C.V., Correlation coefficient, P.E., regression line and straight line trend should be calculated. The details calculation of the

variables have been presented in Appendix – 2. Now summarizing the result for Appendix -2

Tools	Budgeted production X	Actual achievement Y
Mean	113.57	109.41
S.D.	32.45	23.34
C.V.	24.29%	21.33%

$$r = 0.90$$

$$P.E. = 0.057$$

$$\text{Regression line } Y = 0.65x + 22.59$$

$$\text{Straight line trend } y_c = 109.41 + 32.01x$$

The calculation of above statistical tools shows C.V. is lower in actual than in budgeted production. It indicates that the actual production is more uniform.

The value of “r” shows that there is positive correlation between target and actual production.

The value of r, > 6 or $(0.09 > 0.342)$ which shows r is significant or there is positive relation.

The regress line also shows the degree of relationship between budgeted and actual production. Here, the regress line shows the highest degree of positive relation.

The time element tools or straight line trend also shows the relationship between year (time) and actual production achievement. Here, the straight trend line shows the positive actual production figure for future use. The production will increase in future, if past year production trend is adopted.

4.4.2 Comparison between actual sales and actual production

All goods are produced to sell show it is not so much important that weather the budgeted production is achieved or not but it is most important that sales is made by production or not. Therefore, it is necessary to analyze the relation between past year actual production and actual sales.

The following table shows the result of company is operation relation to actual sales and actual production of previous year.

The actual production is assumed (X) and actual sales is assumed (Y).

Table No. – 6

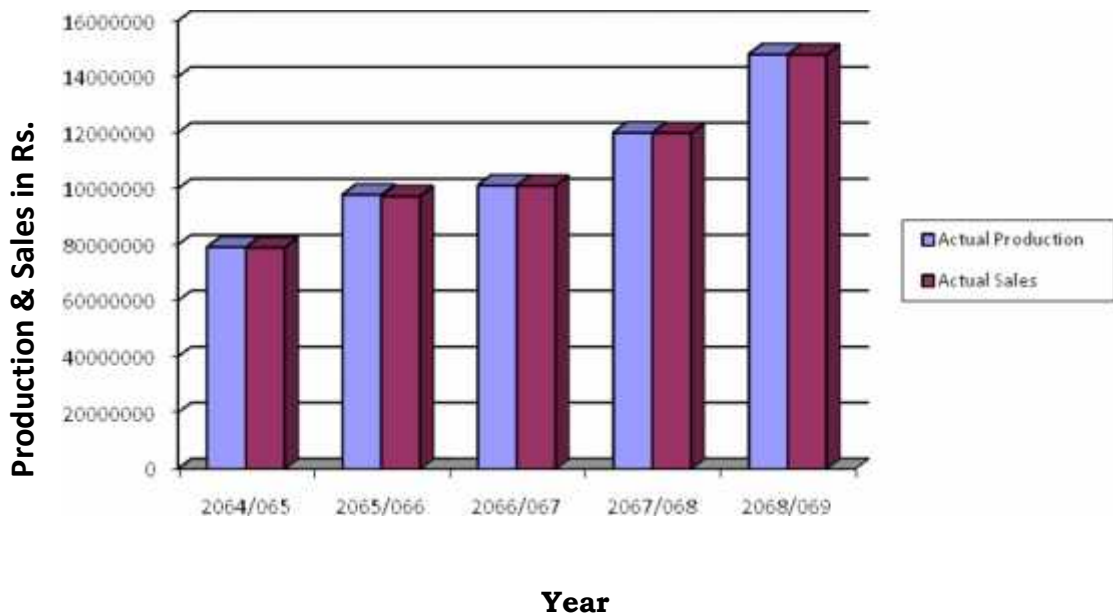
Actual production and actual sales of NPL

Fiscal year	Actual production in (Rs)	Actual sales in (Rs)	Achievement
2064/065	7,92,92,000	7,90,80,000	99.73%
2065/066	9,80,08,000	9,75,00,000	99.48%
2066/067	10,13,44,000	10,12,02,000	99.86%
2067/068	12,02,10,000	12,00,20,000	99.84%
2068/069	14,82,01,000	14,80,88,000	99.92%

The above table shows that actual sales is less than actual production and it is fluctuated year to year. But this table shows that actual sales is not very difficult than actual production. This indicates that company produces goods in accordance with the sales plan. However, while of production goods, the actual sales level is considered rather than the budgeted production.

The actual production and actual sales of the last 5 year can be shown with the help of bar-diagram.

Actual production and Actual Sales of NPL



Above diagram also shows that actual production is not more higher than the actual sales.

To find out the nature of variability of actual production and actual sales, Mean, S.D., C.V., correlation coefficient, P.E. Regression line, straight line trend should be calculated. The detail calculation of these statistical tools has been presented in Appendix No – 3

Now summarizing the results from Appendix – 3

Fiscal year	Actual production	Actual Sales
-------------	-------------------	--------------

Mean	109.41	109.18
S.D.	23.34	23.53
C.V.	21.33%	21.55%

4) correlation coefficient (r) = 0.99

5) Probable error = 0.0060

6) Regression line, y = 0.998x – 0.01

7) Straight line trend,

$$\hat{y}_c = a + bx$$

$$= 109.18 + 16.05x$$

The above analysis shows that the actual sales are more uniform or considerable than actual production because C.V. of actual sales is less than CV. of actual production. But the different is very small.

The value of r shows that there is positive relation between actual production and actual sales. The value of r is 0.99 which shows highly perfect & positive correlation between actual production and sales.

The value of r > 6 PE (0.99 > 6 PE or 0.036) so it is significant. The regression lines can also be fitted to shows the degree of relationship between actual production and actual and to forecast the positive sales. Here the regression line shows the highest degree of positive relationship.

The straight line trend also shows positive actual sales or sales will be increased in future if past sales trend continued for future.

From the above results, we can conclude the following:

Actual sales are more uniform than actual production:

There is highest degree of positive correlation between actual production and actual sales.

Correlation coefficient is significant.

There is positive relation between actual production and sales.

4.5 Short Range Tactical Plans of NPL Ltd.

Tactical Short Range Plan covers only one year plan. It is analyzed by taking relevant figure and various functional budgeted of one FY short term planning shows and deals primarily with annual results, detail classification by months, responsibility and products. NPL Ltd. prepares short term planning by month. To provide over all conception of the comprehensive short range profit of NPL Ltd. , we should know its tactical sales plan and tactical production plan.

4.5.1 Tactical Sales Plan

NPL Ltd. prepares its tactical sales plan to forecast its sales for the twelve months. It prepares its tactical sales plan by month. Sales plan is entirely depend upon the production department with the guideline of a plan. Even through NPL Ltd. has adopted such policy but it is not seemed as systematic plan. The following details tactical sales plan of NPL Ltd. by month of the Fiscal Year 2068/2069.

Table No. – 7

Monthly Sales Budget

Month	Target Sales (in Rs)	Annual Sales (in Rs)	Achievements (%)
Shrawan	12567595	12282467	97.73%
Bhadra	13040681	12469945	95.62%
Ashwin	13018005	12670000	97.34%
Kartik	11675011	11400000	97.64%
Mangsir	12670000	12487620	98.86%
Paush	12582579	12340508	98.08%
Magh	13280950	12868125	96.89%
Falgun	12405800	12045562	97.09%
Chaitra	12578450	12142600	96.54%
Baishakh	11846000	11584000	97.79%
Jestha	12706505	12596340	99.13%
Ashadh	13250424	13200833	99.63%
Total	151622000	148088000	

Source NPL Ltd. Record.

The above table shows the tactical sales plan of NPL Ltd. that the achievement is very goods. This is the cause of different internal and external factors. It shows the company should follow the best policy to improve its tactical sales man.

4.5.2 Tactical Production Plan

In developing the profit plan, the sales should be converted in the production plan for manufacturing concern without production, company cannot achieve their sales plan. Tactical production plan is one of the most important element of tactical profit plan. The tactical production man of NPL Ltd. is presented below by monthly in Fiscal Year 2068/2069.

Table No. – 8

Monthly Production Budget

Month	Target sales (in Rs.)	Actual sales (in Rs.)	Achievements (%)
Shrawan	14000000	12350000	88.21%
Bhadra	14200000	12400500	87.33%
Aswin	14000000	12200000	87.14%
Kartik	13800000	12480000	90.43%
Mangsir	13850000	12209800	88.16%
Paush	14100000	12340400	87.52%
Magh	14012000	12412300	88.58%
Falgun	14200000	12400000	87.32%
Chaitra	14300000	12525000	87.59%
Baishakh	14885000	12300000	82.63%
Jestha	14800000	12200000	82.43%
Ashadh	14065000	12383000	88.04%
Total	170212000	148201000	

The above table shows the tactical production plan and its achievement. Achievement is more fluctuate so company should improve it.

4.6 Direct Material Budget of NPL Ltd.

Material budget is a co-operation of the required materials and parts, inventory levels of raw materials and parts that must be purchased. Direct material cost covers the major portion of firm's expenses in manufacturing enterprises. Direct material budget is prepared after the completion of production budget. Raw material requirement is calculated by multiplying the units to produce with standard raw material needed to prepare each unit.

NPL Ltd., purchases its raw material from our country and other country. Generally, the raw materials are purchased from India and other country. NPL Ltd. prepares its raw material budget as raw material wise but total amount is accumulated and records as cost of raw material consumed. The main types of raw materials which NPL Ltd. uses are as follows:

Alginic acid ip	Glycine	Sulphacetamide sodium ip
Allopurinol ip	Hydrochlorthizide	Telmisartan
Alprazolam ip	Inositol	Thiamine hydrochloride
Aspirin ip	Ketodonazole	Tinidazole
Atenolo ip	Magaldrate	Triolosan
Calcium chloride ip	Mefanamic acid	Trimethoprim
Camphor	Methyloohalmine	Vitamin A acetate-dry
Diazepam	Niacinamide	Vitamin E 50% power
Diclofenac sodium	Nicotinic acid	Zinc oxide
Ehastine ip	Ofloxacin	Zinc sulphate heptahydrate
Ezetimide	Paracetamol	Camphor
Famotidine	Prednisolone	Zinc sulphate monohydrate
Folic acid	Propranolol hydrochloride	Triacalcium phosphate

The following raw materials purchase during Fiscal Year-2065/2066 in RS 6,92,85,800

4.7 Consideration of Inventories

The production budget is important when the objectives are both to see and to store. The budgeted sales and inventory effect the production volume. Finished goods inventory is the cushions between sales and production.

When sales exceeds production then inventory is used for the sales and the level of inventory going to be decrease and on the other hand when production exceeds sales then the production is kept into store and the level of inventory is going to be increases. A certain level of inventory is needed for smooth sales activities of the company. Different companies have different inventory policies according to their nature of product, seasonally, production process and other so many factors.

NPL Ltd. has adopted stable inventory and production policy. The management of the company often accept inventory planning and control. Now-a-days, inventory of yarn is increasing day by day. As a result to compensate for an excess inventory level. Management suddenly may have to increase selling prices of the goods to the desirable level.

The following table presents the actual inventory level of finished goods (Medicine) from Fiscal Year-2064/065 to 2068/069.

Table No. 9

Finished goods Inventory Level of NPL Ltd.

Fiscal year	Opening stock (in Rs.)	Closing stock (in Rs.)
2064/065	860000	1072000
2065/066	1072000	1580000
2066/067	1580000	1722000
2067/068	1722000	1912000
2068/069	1912000	2025000

4.8 Capacity Utilization

Capacity is the most important factor in manufacturing enterprises. Production and sales both depend on capacity of machine. Higher the capacity, higher unit can be produced. Cost of production also depend on the utilization of capacity. Cost of production is lower at optimum level of capacity utilization.

In case of NPL Ltd. full capacity is utilizing. The production capacity of this company is Rs 15,00,00,000 @ year. From this we can find out the utilization of capacity as follows.

$$\text{Capacity Utilization} = \frac{\text{Actual production}}{\text{Capacity}} \times 100\%$$

The following table shows the capacity utilization trend of NPL Ltd.

Fiscal Year	Actual Production	Capacity Utilized (%)
2064/065	79292000	52.86%
2065/066	98008000	65.64%
2066/067	101344000	67.56%
2067/068	120210000	80.14%
2068/069	148201000	98.90%

The above result shows that the capacity utilization is increases year by year with its full capacity. Company has sufficient capacity of production and it can increase its production of its utilized capacity.

4.9 Planning of Expenses of NPL Ltd.

Planning for expenses is necessary to maintain reasonable expenses. Planning for expenses of factory expenses, administrative expenses, depreciation is important for the enterprises. Planning for expenses is not reducing of cost but it means better utilization of limited resources. Expenses planning and controlling should focus on the relationship between expenditure and benefits derived from those expenditure. If we take the case of Nepalese manufacturing enterprises, they are attempting to reduce expenses without rational planning or without considering the adverse affects on benefits. Any company should prepare a systematic planning for expenses.

NPL is also one of the Nepalese company which is suffering problem from some necessary expenses. The following table shows the planning for expenses of NPL for same expenses like factory expenses, administrative expenses & depreciation.

Table No. 10
Expenses Report of NPL

Fiscal Year	Factory expenses	Administrative expenses	Depreciation
2064/065	45600000	24840000	880400
2065/066	48000000	25518000	900600
2066/067	47700000	25000000	900600
2067/068	47080000	28065000	912856
2068/069	48050000	29980850	975000

The trend of expenses of above table shows that expenses trend is increasing year. So, company should introduced systematic cost control system.

4.10 Human Resources Planning

Human resources planning refers the area of personnel needs requirement, training, job description and evaluation, performance appraisal, union negotiation salary & wages administration. Human resources planning is process of pre-determined the needs of human resources.

Labour is most important element of production, without labour, company cannot operate. Human resources planning is very essential to estimate the size and cost of human resources. The direct labour budget includes the estimation of direct labour requirement to produce the goods.

NPL has adopted the practice of human resources planning. It has practice to maintain the number of required personnel. However, a well planned manpower has been adopted by NPL which is essential for the organization for the comprehensive PP. NPL has fixed salary employees & daily wages workers also, in NPL, there are two types of employees, one is administrative and another is technical.

The following table present the labour plan of NPL.

Table No.- 11
Direct Labour Plan of NPL

Year Level	2064/065	2065/066	2066/067	2067/068	2068/069
<u>Office level</u>					
Administrative	15	15	16	18	22
Technician	18	18	21	24	28
<u>Assistant Level</u>					
Administrative	40	45	60	75	105
Technician	305	345	410	417	480

Sources :- NPL Ltd

On the light of above direct labour plan, it is already said that there is no detail labour budgeted and no co-ordination with production target. Factory has also not determined the total labour hours required. It is limited on only number of labour.

4.11 Profit & Loss A/C of NPL

Profit & loss A/c is an accounting tool which shows the operating efficiency of the organization for the relevant period. Every enterprises prepares profit & loss A/c or income & expenditure A/c to know their losses or profit in the relevant period profit & loss A/c contains all items of revenue gains, losses and operating expenses incurred for the carrying business activities. For the particular accounting period. Here, the profit & loss A/c of 2067/068 and 2068/069 of NPL is comforting presented on the table.

Table No. 12
Profit & Loss A/c of NPL

Particular	2064/065	2065/066
Sales	12,00,20,000	14,80,88,000
Cost of goods sold	(5,75,78,000)	(6,91,72,800)
Gross profit	6,24,42,000	7,89,15,200
Commission from insurance Claim other Income receipt	1,80,600	1,95,850
	6,26,22,600	7,91,11,050
Administrative Exp.	(2,80,65,000)	(2,99,80,850)
Selling & Distribution Cost	(15,80,900)	16,00,000
Opening income	3,29,76,700	4,75,30,200
Interest Expenses	(10,86,900)	(13,91,000)
Depreciation	(9,12,856)	(9,75,000)
Opening Profit before tax	3,09,76,944	4,51,64,200
Provision for tax	(82,08,890)	(1,19,68,513)
Net Profit/Losses Transfer to B/S	2,27,67,754	3,31,95,687

The above profit & loss A/c of NPL shows profit is increases year to year.

4.12 Balance Sheet of NPL

Balance sheet is an accounting mirror which the financial positive of a concern and provides valuable information of financial matters to its users. It shows the figures of assets, investment owner's equity or borrowed from third parties, loan liabilities, cash & bank balance etc. Now, the balance sheet of NPL for the year 2067/068 and 2068/069 can present comparatively as under.

Table No. – 13**Nepal Pharmaceutical Lab. Ltd.****Balance Sheet as 31th Ashadh 2069**

Particulars	2067/068	2068/069
Capital & Liability:		
Capital	75,00,00,000	75,00,00,000
Mid term & Long term	10,00,70,000	14,00,00,000
loan	2,80,00,000	2,20,00,000
Reserve		
Current Liability/ Reserves:-	2,28,00,000	1,50,00,000
Bills payable	2,27,67,754	3,31,95,687
Profit & Loss A/c		
Total	92,36,37,754	96,01,95,687
Assets:		
Fixed Assets	57,85,75,754	59,78,70,687
Inventory	20,35,00,000	18,12,00,000
Current Asset :-		
Stock	19,12,000	20,25,000
Bills receivable	10,18,90,000	12,80,20,000
Cash and other	2,75,80,000	3,85,60,000
Prepaid Expenses	1,01,80,000	1,25,20,000
Total	92,36,37,754	96,01,95,687

4.13 cash flow statement of NPL

Cash is the lifeblood of a business enterprise. It is the fuel take keeps a business alive. Without cash no activities can take place. So a business must have an adequate amount of cash to operate. When cash planning is made, a decision maker must pay attention to the firm's cash position and that even which affect the cash statement of cash plans. A cash flow statement is a statement of company's ability to generate cash from various activities such as operating, Investing and financing their need of cash. It shows the inflow and outflow of cash and cash equivalent during the year. NPL Ltd has also adopted the cash flow planning considering the above facts. Cash flow statement of NPL Ltd for 2068 and 2069 can be present here comparatively.

Table No. 14**Nepal Pharmaceutical Lab. Ltd****Cash Flow Statement**

	2068	2069
Operating Activities :-		
Net Profit/Loss	2,27,67,754	3,31,95,687
Add.:-Funds from operation	80,40,000	(2,00,00,000)
Deferred revenue expenditure	20,00,006	-
Current Assets decrease/Increase	(3,50,48,000)	(2,85,83,000)
Current Liability increase/decrease	(1,80,57,440)	(78,00,000)
A. Net. Cash from operating activities	(2,02,97,680)	2,31,87,313
Purchases/Sales of fixed assets	1,10,00,000	2,02,69,933
Establishment closes	-	(2,83,32,620)
Inventory	40,00,020	2,23,00,000
B. Net cash from investing activities	1,50,00,020	1,42,37,313
Payment of long term Loan	-	(2,00,00,000)
Raising/Reducing of mid term loan	1,53,47,660	3,99,30,000
C. Net cash from financing activities	1,53,47,660	1,99,30,000
Net. Changes in cash and cash equipment	1,00,50,000	1,09,80,000
(A+B+C)	1,75,30,000	2,75,80,000
Add:- Opening cash and bank balance		
Closing cash or bank balance	2,75,80,000	3,85,60,000

4.14 Analysis of Profit planning of NPL Ltd.

Profit is the measure element for every type of organization for its future developing, surgery and fulfilling social expectation. It is the most important measurement of company's performance. However, the concept of profit is changing time to time. At present, reasonable profit approach has been becoming at a strong position.

Following table shows the last 5 years profit & loss trend NPL Ltd. since 2064/065 to 2068/069.

Table No. :- 15

Profit/ Loss trend of NPL Ltd. (in Rs.)

Fiscal Year	Profit/ Loss
2064/065	2,00,00,950
2065/066	2,00,00,450
2066/067	2,10,40,805
2067/068	2,27,67,754
2068/069	3,31,95,687

It can be seen that NPL Ltd. is earning profit from several years. In FY 2068/069 there is also earn profit more than other previous year.

4.15 Performance analysis

Performance reporting for internal management use is an important part of a compressive profit planning and control system performance evaluation is an important phase of PPC. Generally, Nepalese manufacturing company have a good systematic approach for performance analysis NPL Ltd. is one of them, but this company has adopted some criteria to evaluate its performance. They are:

4.15.1 Financial Ratio of NPL Ltd

Ratio is a simple Mathematical expression of the relation of one item with another. It refers to the numerals or qualitative relationship between two variables.

Financial ratio is also an expression of inter relationship existed among various accounting data. It is a technique of analysis and interpretation of financial statements. It helps to analysis the accounting data and make judgement about the financial positive and performance of the firm. It involves the following ratios. The following calculation shows the financial ratio of NPL Ltd. Ratio.

$$1) \text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{18,11,25,000}{4,81,95,687} = 3.76:1$$

It shows satisfactory level

$$2) \text{Quick Ratio} = \frac{\text{Liquid/Quick Assets}}{\text{Current Liability}} = \frac{16,65,80,000}{4,81,95,687} = 3.46:1$$

$$3) \text{Inventory turn over Ratio} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}} = \frac{6,91,72,800}{19,68,500} = 39.14$$

$$4) \text{Debtor turn over Ratio} = \frac{\text{Credit Sales}}{\text{Average Debtors}} = \frac{11,84,70,400}{2,49,55,000} = 4.75 \text{ times}$$

$$5) \text{ Gross profit Ratio} = \frac{\text{Gross Profit}}{\text{Sales}} = \frac{7,91,11,050}{14,80,88,000} \times 100\% = 53.42\%$$

$$6) \text{ Net Profit Margin} = \frac{\text{Net Profit}}{\text{Sales}} = \frac{3,31,95,687}{14,80,88,000} \times 100\% = 22.42\%$$

$$7) \text{ Return on total Assets(ROA)} = \frac{\text{NPBIT}}{\text{Total Assets}} \times 100\% = \frac{4,51,64,200}{92,36,37,754} \times 100\% = 4.89\%$$

$$8) \text{ Average collection period} = \frac{\text{Days in year}}{\text{Debtor's turn over ratio}} = \frac{360}{4.75} = 79.79 \text{ or } 80 \text{ days}$$

4.15.2 Cost Volume Profit Analysis

The analysis of relation between cost, volume and profit is known as CVP analysis. It is an analytical management accounting tool which is used for studying the relationship between cost, volume and profit. It shows volume or level of activities necessary to state at break-even.

The CVP analysis includes both contribution or analysis and break-even analysis emphasized the levels of output or loss. Break even analysis rests upon the foundation of cost variability separate identification and measurement of fixed and variable components of cost.

To find the relationship of cost production and sales revenue, the analysis is used. It is very important for sales and production plan because without the knowledge of BEP in NPL Ltd. The following assumption should be considered.

- 1) It is based on P/L of FY 2068/069
- 2) Activity base is selected in term of sales revenue.
- 3) Calculation is based on total basis not a product wise.
- 4) SP, FC, VC ratios are assumed to remain constant.
- 5) Opening and closing stock are not changed.

Here,

Total sales revenue = 14,80,88,000

Total fixed cost = 4,97,33,593

Total variable cost = 6,51,58,720

$$1) \text{ V/V Ratio} = \frac{\text{Total Variable cost}}{\text{Sales}} = \frac{6,48,80,000}{14,80,88,000} = 0.44$$

$$2) \text{ P/V Ratio} = 1 - \text{v/v Ratio}$$

$$= 1 - 0.44$$

$$= 0.56$$

$$3) \text{ Break even point in Rs.} = \frac{\text{Total Fixed Cost}}{\text{P/V Ratio}} = \frac{4,97,33,593}{0.56} = \text{Rs.}8,11,09,988$$

4.15.3 Identification of Cost variability

Identification of the variability of cost is necessary in planning and control. Thus, the knowledge of cost behaviour is very important. Generally cost behaves in two ways with the relation to the volume of output. First it does not change proportionately with the change in output.

According to the behaviour of the cost, cost can be broadly classified in two ways, first fixed costs which remain constant in total for certain period of time say year to year or month to month regardless of fluctuation in output or volume of operation. Second variable cost that change in total directly with change in output or volume of operation but remain constant in per unit basis. Semi variable expenses are also a sub group of cost which has some of the characteristics of both fixed and variable cost.

Classification of cost into fixed and variable is very important to plan and control the cost. It helps to determine the volume of operation desire to maintain the industry profitability. NPL Ltd. has maintained its cost as fixed and variable cost as follows:

The following table shows the cost classification of NPL Ltd.

Cost	cost behaviour
Purchase of Materials	Variable
Production expenses	Variable
Selling expenses	Variable
Administrative expenses	Variable
Depreciation	Fixed
Rent	Fixed
Interest expenses	Fixed

4.15.4 Flexible budget

Flexible expenses budget is complementary to tactical profit plan. It helps to provide expenses plan adjusted to actual output for comparison with actual expenses in periodic performance. Flexible expenses budget is also called dynamic, activity or output adjusted expenses budget. For planning and controlling purpose, flexible budget formula can be developed for each expenses in each responsibility center with the help of flexible budget, company can estimate the operation level of activity and its cost. It is also helpful to analysis on what level of production company can attend profit.

Here, flexible budget of NPL Ltd. is prepared on the basis of 2068/069. For preparing this budget sales revenue has been assume to remain in the same ratio and ratio of variable cost is also remain constant as well as fixed cost. The following is the flexible budget of NPL Ltd. of the different levels.

Table No. -16

Flexible budget of NPL Ltd.

Capacity	70%	80%	90%	100%
Sales revenue	10,36,61,600	11,84,70,400	13,32,97,200	14,80,88,000
Less:- variable cost (93% of sales)	4,56,11,104	5,21,26,976	5,86,42,848	6,51,58,720
Contribution Margin	5,80,50,496	6,63,43,424	7,46,36,352	8,29,29,280
Less:- Fixed cost	4,97,33,593	4,97,33,593	4,97,33,593	4,97,33,593
Net income/(Loss)	83,16,903	1,66,09,831	2,49,02,259	3,31,95,687

The above flexible budget of NPL Ltd. shows that NPL Ltd. is earning profit. This profit is raised due to control of fixed cost, more utilization of capacity and use of new techniques and skilled labour. So company should utilize their maximum capacity, improve their production system.

4.15.5 Variable Analysis

Variable analysis is an important tool that can increase the usefulness of period performance reports. Rather than taking action only on the basis of difference between actual and planned and budgeted costs or sales, variable analysis enables management to decompose such differences into smaller sub variances.

The basis feature of performance report is a reporting of variances between actual and planned or budgeted goals. If variance is significant a careful management study should be made to determine the underlying causes, rather the actual results should lead to remedies through appropriate corrective action by management.

Following steps are considered while analyzing variances:

- 1) Standard should be developed for materials, overheads, yields, sale and profit.
- 2) Comparison between actual results and standard should be made to find variances.
- 3) Cause should be analysed and diagnosed as controllable and uncontrollable.
- 4) Responsibilities and accountability should be assigned to relate centered and authorized personnel should be made accountable for controllable causes of unfavourable variances.
- 5) Necessary corrective actions should be taken to improve unfavourable variances.

Table No. 17

Sales variance of NPL LTD

Fiscal year	Target Sales(In Rs)	Actual Sales (In Rs)	variances	Remarks
2064/065	8,23,75,000	7,90,80,000	32,95,000	Unfavourable
2065/066	10,25,26,000	9,75,00,000	50,26,000	Unfavourable
2066/067	11,00,70,000	10,12,02,000	88,68,000	Unfavourable
2067/068	13,15,18,000	12,00,20,000	1,14,98,000	Unfavourable
2068/069	15,16,28,000	14,80,88,000	35,40,000	Unfavourable

The above table shows that there were unfavourable sales variances in every fiscal year. It shows the company prepares the sales budget without considering the other factor relating to sales. So responsible department should be held accountable for this unfavourable sales and corrective action should be implemented.

Table No. 18

Yield variance of NPL Ltd

Fiscal year	Target production (in Rs)	Achievement production (in Rs)	variance	Remark
2064/065	8,25,80,000	7,92,92,000	32,88,000	Unfavourable
2065/066	11,20,41,700	9,80,08,000	1,40,33,700	Unfavourable
2066/067	14,12,06,805	10,13,44,000	3,98,62,805	Unfavourable
2067/068	16,18,90,000	12,02,10,000	4,16,80,000	Unfavourable
2068/069	17,02,12,000	14,82,01,000	2,20,11,000	Unfavourable

The above table shows the unfavourable in production. It is find that the main responsible factor of unfavourable yield variance for the company is under utilization of variation capacity and wastage of resources. Hence, it is suggested that company should have to control these unfavourable variances by taking corrective action.

4.15.6 Mean, Standard deviation (S.D.), coefficient of variation (c.v.), correlation error P.E., Regression analysis and straight line trend.

A. Mean

After the collection of data, the next step is to analyze it. Since huge and unworldly masses of data are confusing to remember, so we need to unique

value representing them. The averages are the measures which condense a huge mass of data into single value representing the whole data. So “Mean” of a set of observation is the sum of all the observation divided by the number of observation. Its details calculation has been presented in Appendix - 1,2

B. Standard deviation (S.D.)

Standard deviation is the absolute measure of dispersion in which the draws Hackles present in other measure of dispersion are removed. Its details calculation has been presented in Appendix – 1.

C. coefficient of Variation (C.V.)

It is used to compare the variable of two or more than two series. It is measure of dispersion that is useful in comparing the risk of assists. It is denoted by C.V. Higher C.V. shows high risk. Lower C.V. shows low risk. The detail calculation of C.V. has been presented in Appendix.

D. Correlation (r)

Correlation is statistical devices which help to analyze the relationship between two or more variables. The measure of correlation caused the “correlation coefficient” summarized in one figure the degree and direction of movement.

Where the value of r shows the following relation:-

$r = + 1$ (Positive correlation between two variables)

$r = - 1$ (Negative correlation between two variables)

$r = 0$ (Un correlated)

E. Probable Error (P.E.)

It is such statistical tool which is used to test reliability of the calculated value of r. It shows the following relation:-

1) If $r < P.E.$, it is in significant.

2) If $r > 6 P.E.$, it is significant.

The detail calculation of P.E. has been presented in Appendix.

F. Regression analysis

The literal meaning of regression is stepping or returning back to the original position. Regression analysis is use as tool of determining the strength of relationship between two variables. Thus it is a statistical device, with the help of which we can estimate or predict the value of one variable when the value of other

variable is known. The unknown variable which we have to predict is called dependent variable and the variable whose value is known is called independent variable. So, regression analysis is used to describe the average relationship between two variables. There are two regression equation of x on y and Regression y on x. The detail calculation has been presented in Appendix.

G. Straight line trend

Straight line trend is such tool which is use to show the time factor. This shows time relation with the related variable.

$$Y_c = a + bx$$

4.15.7 Hypothesis of the study

A hypothesis study is a speculative statement that is subjected to verification through a research study. Testing of hypothesis is one of the most important accepts of the theory of decision making.

It consists of decision rules required for drawing propilistic inferences about the population parameters. It often involves deciding at any given point of time weather a given population parameter is the same as before as claimed or has changed.

Hypothesis is an assumption that is made about the population parameter and then its validity of such assumption which under take on the basis of sample evidence. By, resting the hypothesis, it is found out weather it deserves the acceptance or rejection of the hypothesis. The truth or falsity of a statistical hypothesis is best on the information contained in the sample which may be consistent or inconsistent with the hypothesis and accordingly the hypothesis may be accepted or rejected.

Generally two complementary hypothesis are set up at one time. If one of the hypothesis is accepted than other hypothesis is rejected or vice versa. The two complementary hypothesis that are set up in the setting of hypothesis are null hypothesis and the alternative hypothesis.

The hypothesis of this study is :

Null hypothesis (H_0):- There is not relation between production and sales.

Alternative hypothesis (H_1):- Only effective production system can increase the sales.

For testing the hypothesis of the assumption,

T – Test is considered.

Now, computation of T – Test.

The production data and sales data of last five year of NPL Ltd. are as follow:

Fiscal year	Production (000000)	Sales (000000)
2064/065	79.29	79.08
2065/066	98.00	97.50
2066/067	101.34	101.20
2067/068	120.21	120.02
2068/069	148.20	148.08

Here the production and sales are indicated by X_1 and X_2

Hypothesis:

Null hypothesis $H_0: \mu_1 = \mu_2$ i.e. there is not relation between production and sales.

Alternative hypothesis $H_1: \mu_1 \neq \mu_2$ (Two tail) i.e. Effective production can increase sales.

$$\text{Test Statistic: } t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}}$$

Where,

$$S^2 = \frac{1}{n_1 + n_2 - 2} \left[\sum (X_1 - \bar{X}_1)^2 + \sum (X_2 - \bar{X}_2)^2 \right]$$

Computation of S^2 , \bar{X}_1 and \bar{X}_2

X_1	X_2	$X_1 = X_1 - \bar{X}_1$	$X_2 = X_2 - \bar{X}_2$	X_1^2	X_2^2
79.29	79.08	-30.12	-30.09	907.21	905.41
98.00	97.50	-11.41	-11.68	130.19	136.42
101.34	101.20	-8.07	-7.98	65.12	63.68
120.21	120.02	10.08	10.84	116.64	117.51
148.20	148.08	38.79	38.91	1504.66	1513.98
547.04	545.89			$\sum X_1^2 = 2723.80$	$\sum X_2^2 = 2737$

For Production

$$\bar{X}_1 = \frac{\sum X_1}{n_1} = \frac{547.04}{5} = 109.41$$

For Sales,

$$\bar{X}_2 = \frac{\sum X_2}{n_2} = \frac{545.89}{5} = 109.18$$

$$\begin{aligned}
S^2 &= \frac{1}{n_1 + n_2 - 2} \left[\sum (X_1 - \bar{X}_1)^2 + \sum (X_2 - \bar{X}_2)^2 \right] \\
&= \frac{1}{5+5-2} [2723.82 + 2737] \\
&= \frac{1}{8} \times 5460.82 \\
&= 682.5 \\
\therefore t &= \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{S^2 \left(\frac{1}{n_1} + \frac{1}{n_2} \right)}} \\
&= \frac{109.41 - 109.18}{\sqrt{682.5 \left(\frac{1}{5} + \frac{1}{5} \right)}} \\
&= \frac{0.23}{8.26} \\
&= 0.028
\end{aligned}$$

∴ Critical Value: For two tail at 8 d.f. (5+5-2), $t_{0.05} = 0.028$

Decision:

Since, the calculated value of t is greater than the tabulated value of t or $|t| > t_{0.05}$. Hence H_0 or Null Hypothesis is rejected and H_1 is accepted that there is a relation between production and sales and effective production can increase the sales.

4.16 Findings

The major of this study based on the analysis of variable data are pointed out on the basis of the different analysis and observation, it can be found that NPL Ltd. has been earning profit from long time due to various internal and external causes in the process of formulating and implementing profit plan. Therefore, these findings can be explained as below.

- 1) The technique of preparation of different budget seemed to be Systematic and perfect.
- 2) Company has been facing marketing problem in international market as well as domestic market.
- 3) Company is dependent in the international market for its raw

material, there is no domestic market for raw material.

- 4) There is realistic forecast.
- 5) Sales achievement is always below than the budgeted sales. But the percentage of sales achievement is homogeneous.
- 6) There is clear cut and result oriented policies & objectives.
- 7) The company is few affected by the problem of excessive fixed cost.
- 8) Lack of optimum capacity utilization.
- 9) There is effective cost control system.
- 10) There is well systematic manpower planning.
- 11) Effective – Communication and co-ordination between the top level and low level.
- 12) Company has proper practice of segregation of cost in fixed & variable.
- 13) There is sufficient of skilled manpower.
- 14) There is a proper facility of training to the employees.
- 15) There is evaluation of relevant internal and external market variables.
- 16) Company is able to get proper facilities through government.
- 17) Variance are properly analyzed and serially taken.
- 18) The company's financial position is so good.
- 19) There no more pressure of long term loan.
- 20) There is participatory management.
- 21) There is no more pressure of Indian worker's who get handsome than Nepalese workers.
- 22) There is good motivation to motivate the employees.
- 23) Net profit margin of the company is good.
- 24) The company is able to cover the domestic market.
- 25) There is positive co-relation between target and actual sales.
- 26) The actual sales and production is positively co-related.

27) The company has clear vision & concept of comprehensive profit
Planning process.

Chapter V

Summary, Conclusion and Recommendation

5.1 Summary

Nepal is an agricultural country where more than 85% of the economically active people is estimated to be involved in agriculture. So, the economic development of our country is developed upon the agriculture sector. But it is impossible to develop the country without developing the industrial sector. So, it is very essential to develop the industrial sector.

Industrialization is a key factor in process of economic development and its importance a means of achieving economic growth and prosperity has long been recognized in the economic literature. Industrialization is universally accepted as strategies of economic development as well as fundamental goal of most developing countries.

From the initial planned effort in 1956, Nepal adopted the plan for the economic development of country. In the process of economic development of country. In the process of economic development, Nepal adopted the concept of mixed economic where the public as well as private sector freely operated. In Nepal public sector enterprises have been working side by side. These enterprises play an active and important role in the use of internal resources for the social economic development of the country. The prime objective of the enterprises should generate responsible amount of surplus on their capital employed with a view of producing sufficient funds for investing.

These enterprises are established with the objective of creating opportunities of employment, for the purpose of importing substitution help to control in price situation, mobilizing resources and reasonable profit necessary for the development of the country. But the earning reasonable profit necessary for the development of country. But the performance of most of these enterprises is far from satisfactory. Most of the enterprises have no clear cut and specific goals and objectives due to unclear policies and procedures regarding goals and objectives due to lack of planning experts. Most of the manufacturing enterprises are suffering from losses or less profitability. Their performance is unhappy. They are suffering from serious problem of under utilization of available capacity, excess amount of production cost, high pressure of fixed cost and the problem of managerial inefficiency.

Profit Planning is one of the most important management tool used to plan and control business operation. When a management plans its profit performance that is profit planning. The profit planning and control is not a techniques of improving performance of the enterprises rather it is a long-term policy of the enterprises without analyzing strengths, weakness, opportunities and threats in the enterprises, the enterprise may not survive for long time. Profit planning and control technique analyzed the straight, weakness, opportunities and threats in the enterprises. However, profit planning is an important tool for

management, has some limitations and problems. Thus, the user of profit plan must have full knowledge about these limitation and problems of profit planning. Every type of manufacturing enterprises should try to develop profit planning without any realistic and irrational optimism.

Thus, the present study has been examined the application of profit planning in Nepalese manufacturing enterprises. Nepal pharmaceutical Lab. Pvt. Ltd, Jeetpur, Birgunj is one of the medicine manufacturing enterprises of our country which established in B.S.2042 by Nepalese investor under the company act 2021. The main objective of this company is to produce and sale different type of medicine which are used as basic raw material in different industries. The production capacity of this company is increasing day by day. The basic raw material of this company is utilized by domestic source and other chemical raw material which are imported from India and other countries. This study has been undertaken to examined the degree of application of profit planning of NPL Ltd. In course of study, analytical and descriptive research design has been followed to analyze and examine the collected data from several financial and statistical tools have been used. It is seen that this company is in good condition from a long-time of various internal and external hard working. Company has policy to make profit plan and also gain profit from systematic and top level is looked so serious in fact. In short, the company has good practice of developing, formulating and implementing the profit plans.

5.2 Conclusion

This study has been carried out of examined the degree of application of profit plan in Nepalese Manufacturing Enterprises with special difference of Nepal Pharmaceutical Lab. Jeetpur, Birgunj. This study has tried to examine the profit planning system and point out its situation. Different financial and statistical tools have been used to analyze and examined the collected data in course of application of profit plans.

This study has been organized in five main chapters:

- 1) Introduction
- 2) Review of Literature
- 3) Research Methodology
- 4) Presentation of Analysis of Data
- 5) Summary, Conclusion and Recommendation

To study the profit planning system, analytical and descriptive research design have been followed here. Both Primary and Secondary data have to analyze the purpose. In this study, the term profit and short term tactical plan of company have been analyzed with their situation. Marketing system and other qualitative aspects have been analyzed the purpose. Marketing system and other qualitative aspects have been also analyzed here.

After the detail analysis of the profit plan of NPL Ltd. this study has concluded the following facts.

- 1) This company is suffering from losses or less profitability from a long time.
- 2) There is fair and appropriate system of developing plan.
- 3) The company is not suffering from excessive fixed and administrative expenses.
- 4) NPL Ltd. has a practice of systematic forecasting. Sales forecast are made in ad-hoc basis.
- 5) The trained of achievement production is in increase pattern but the company has system of long range forecasting.
- 6) The company has high producing capacity and the company is utilizing its full capacity so there is no problem of under utilization of full capacity.
- 7) There is positive relation between actual production and sales which indicates increase in production and increase in sales.
- 8) Regression line of sales and production of NPL is in positive trend.
- 9) NPL Ltd. has good system of periodical performance reports. So it can be conclude that top level is so serious to considered this good performance.
- 10) There is fair and appropriate system of motivation to motivate the employees on the basis of task performance.
- 11) This company is not suffering from internal strike.
- 12) There is domestic market for its raw material because some material should be imported from India to other countries.
- 13) There is proper system of cost control, capacity utilization and developed the factory production with better training.,
- 14) Budget and Budgeting are prepared so it is favourable due to well budgets expert and skilled planner.
- 15) Another main positive point of this company is related to manpower. All the employees are paid their salary by their by their qualification and work which makes the qualified and personnel good relation.
- 16) The pricing system of this country is seemed to be scientific because this Company has adopted the modern pricing system.
- 17) The company adopted eight decision making and implementation of plan and program. Every function requires necessary formalities which is best for this company.
- 18) There is good domestic and abroad market for supplying of this company. so the company should face the great competition with foreign product.

5.3 Recommendation

Based on the major findings of the study of profit planning. Some suggestions have been recommended in this part. It seems necessary to develop, implement and improve the process of profit planning. It is hoped that these recommendation will be useful to the management of NPL Ltd. Jeetpur, Birgunj and other concern enterprises. The following recommendations can be explained:

- 1) The management of the company should try to minimize the gap between planned and actual sales by the application of short-range and long-range plan in practice, similarly, in case of producing plan.
- 2) The company has high producing so the management of the company needs increase in production and sales volume to utilize the available capacity.
- 3) Trained and qualified manpower of profit planning or budgeting should be hired and present manpower should be trained to develop and implement the profit plans effectively.
- 4) Modern strategic management system should be introduced instantly. company should prepare systematic long-range and tactical short-range plan.
- 5) Marketing specialists should be appointed to develop effective marketing Policy for sales expansion.
- 6) The clear organizational chart of the company should be prepared and available for a level managers and concerned staff to that their will be no existence of confusion in reporting system.
- 7) Profit planning manuals should be communicated from top to lower levels. All personnel should be participated on decision making and planning process.
- 8) The company has a positive sales trend so it should make maximum sales efforts to increase its sales volume to avoid the problem of fund crisis.
- 9) The company is not suffering from excessive burden of fixed cost and administrative cost.
- 10) The concept of cost classification such as controllable and non-controllable. Fixed cost or variable cost must be made within a single specific frame work of responsibility and time.
- 11) The company should adopt contribution margin approach to improve profitability.
- 12) Cost reduction program and effective as well as scientific cost system must be introduced and prepared for each responsibility centre.
- 13) System of periodical performance should strictly follow to be conscious about poor performance and to take correlative action timely.

- 14) Company should have to consider breakeven analysis while preparing sales plan.
- 15) Company should follow proper motivational programs, reward and punishment system to increase the capacity and efficiency by the workers.
- 16) The company should improve the quality of product by applying Scientific production system to face the market competition.
- 17) Finally, the company should adopt a systematic approach of profit planning to improve its profitability.

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8) In which plan your factory gives more attention to fulfill the established objectives?

[Sales plan]

[Production plan]

9) Is your production plan supported by other necessary plans?

[Yes]

[No]

10) Do you have sufficient raw materials?

[Yes]

[No]

11) Is there a post of PP director in your factory?

[Yes]

[No]

12) To control the cost which technique is your factory applying?

.....

13) Do you prepare flexible budget in your factory?

.....

14) Which pricing method is adopted?

.....

15) What distribution channel is used?

.....

16) What production policy is adopted?

.....

17) Is there clear duties and responsibility provide to each employees?

.....

18) Is your company face the problem for getting skilled manpower?

.....

19) Do you think that the present strategy is enables to achieve the objectives or it should be modify or adopt new strategy?

.....

20) Which department has the overall responsibility of profit planning?

.....

21) Are you taking correlative actions for re-planning?

[Yes]

[No]

Appendix – 1

For detail calculation of different statistical tools ,sales figures have been assumed (X) and actual figure figures have been assumed (Y).

Calculation of Mean, S.D., Correlation coefficient P.E.

Fiscal year	Target Sales (X) (000000)	Actual Sales (Y) (000000)	$X - \bar{X} =$ X	$Y - \bar{Y} =$ Y	X^2	Y^2	XY
2064 /065	82.38	79.08	-33.25	-30.09	1105.56	905.41	1000.49
2065 /066	102.53	97.50	-13.02	-11.68	171.35	136.42	152.89
2066 /067	110.07	101.20	-5.55	-7.98	30.80	63.68	44.29
2067 /068	131.52	120.02	-15.89	10.84	252.49	117.51	172.25
2068 /069	151.63	148.08	36.00	38.91	1296.0	1513.98	1400.76
$\sum N$ = 5	$\sum X = 578.12$	$\sum Y = 545.89$			$\sum X^2$ =2856.2	$\sum Y^2$ =2737	

For Target Sales:

$$\text{Mean } \bar{X} = \frac{\sum X}{N} = \frac{578.12}{5} = 115.62$$

$$\text{S.D. } (\sigma X) = \frac{\sqrt{\sum (X - \bar{X})^2}}{N} = \frac{2856.2}{5} = 23.90$$

$$\text{C.V.} = \frac{\sigma X}{\bar{X}} \times 100\% = \frac{23.90}{115.62} \times 100\% = 20.67\%$$

For Actual sales:

$$\text{Mean } \bar{Y} = \frac{\sum Y}{N} = \frac{545.89}{5} = 109.18$$

$$\text{S.D. } (\sigma Y) = \frac{\sqrt{\sum (Y - \bar{Y})^2}}{N} = \frac{\sqrt{2737}}{5} = 23.39$$

$$\text{C.V.} = \frac{\sigma Y}{\bar{Y}} \times 100 = \frac{23.29}{109.18} \times 100\% = 21.42\%$$

$$\begin{aligned}
 \text{Calculation of correlation coefficient (r)} &= \frac{\Sigma XY}{\sqrt{\Sigma X^2} \times \sqrt{\Sigma Y^2}} \\
 &= \frac{2770.68}{\sqrt{2856.2} \times \sqrt{2737}} \\
 &= \frac{2770.68}{53.44 \times 52.32} \\
 &= \frac{2770.68}{2795.98} \\
 &= 0.99
 \end{aligned}$$

$$\begin{aligned}
 \text{Probable error} &= 0.6745 \times \frac{\mathbf{1 - r^2}}{\sqrt{N}} \\
 &= 0.6745 \times \frac{1 - (0.99)^2}{\sqrt{5}} \\
 &= 0.6745 \times \frac{1 - 0.9801}{2.24} \\
 &= 0.0060 \\
 6 \times \text{P.E.} &= 0.0060 \times 6 \\
 &= 0.036
 \end{aligned}$$

Appendix – 2

For detail calculation of different statistical tools, target production has been assumed (X) and actual production has been assumed (Y).

Calculation of Mean, S.D., C.V., Correlation coefficient

Fiscal Year	Target Production (X) in Rs. (000000)	Actual Production (Y) in Rs. (000000)	$X - \bar{X} = X$	$Y - \bar{Y} = Y$	X^2	Y^2	XY
2064/065	82.58	79.29	-50.99	-30.12	2599.98	907.21	1535.82
2065/066	112.04	98.00	-21.53	-11.41	463.54	130.19	245.66
2066/067	141.21	101.34	7.64	-8.07	58.37	65.12	-61.65
2067/068	161.89	120.21	28.32	10.08	802.02	116.64	285.47
2068/069	170.21	148.20	36.64	38.79	1342.49	1504.66	1421.27
$\sum N = 5$	$\sum X = 667.9$	$\sum Y = 547.04$			$\sum X^2 = 5266.4$	$\sum Y^2 = 2723.82$	$\sum XY = 3426.57$

For Target Production:

$$\text{Mean } \bar{X} = \frac{\sum X}{N} = \frac{667.93}{5} = 133.57$$

$$\text{S.D. } (\sigma X) = \frac{\sum (X - \bar{X})^2}{N} = \frac{\sqrt{5266.4}}{5} = 32.45$$

$$\text{C.V.} = \frac{\sigma X}{\bar{X}} \times 100\% = \frac{32.45}{133.57} \times 100\% = 24.29\%$$

For Actual Production :

$$\text{Mean } \bar{Y} = \frac{\sum Y}{N} = \frac{547.04}{5} = 109.41$$

$$\text{S.D. } (\sigma Y) = \frac{\sqrt{\sum (Y - \bar{Y})^2}}{N} = \frac{\sqrt{2723.82}}{5} = 23.34$$

$$\text{C.V.} = \frac{\dagger Y}{\bar{Y}} \times 100\% = \frac{23.34}{109.41} \times 100\% = 21.33\%$$

$$\begin{aligned} \text{Calculation of Correlation coefficient (r)} &= \frac{\sum XY}{\sqrt{\sum X^2 \times \sum Y^2}} \\ &= \frac{3426.57}{\sqrt{5266.4 \times 2723.82}} \\ &= \frac{3426.57}{72.57 \times 52.32} \\ &= 0.99 \end{aligned}$$

$$\begin{aligned} \text{Probable error} &= 0.6745 \times \frac{1-r^2}{\sqrt{N}} \\ &= 0.6745 \times \frac{1-(0.90)^2}{\sqrt{5}} \\ &= 0.6745 \times \frac{1-0.81}{2.24} \\ &= 0.057 \end{aligned}$$

$$\begin{aligned} 6 \times \text{P.E.} &= 0.057 \times 6 \\ &= 0.342 \end{aligned}$$

When, $r > \text{P.E.}$, Significant

Competition of regression line:

The regression line of actual production Y on budgeted production X or, Y on X is :

$$Y - \bar{Y} = r \cdot \frac{\dagger Y}{\dagger X} (X - \bar{X})$$

$$\text{Or, } y - 109.41 = 0.90 \times \frac{23.34}{32.45} (X - 133.57)$$

$$\text{Or, } y - 109.41 = 0.65x - 86.82$$

$$\text{Or, } y = 0.65x - 86.82 + 109.41$$

$$\therefore y = 0.65x + 22.59$$

This regret line can be fitted due to high degree of positive relation between budgeted production & actual production:

Calculation of Straight line trend:

Fitting Straight line trend by least square method

FY	Actual Production in Rs. (000000)	X	X ²	XY
2064/065	79.29	-2	4	-158.58
2065/066	98.00	-1	1	-98.00
2066/067	101.34	0	0	0
2067/068	120.21	1	1	120.21
2068/069	148.20	2	4	196.4
N = 5	$\sum Y = 547.04$		$\sum X^2 = 10$	$\sum XY = 160.03$

For fitting the straight line trend, we should compute the value a and b.

$$a = \frac{\sum Y}{N} = \frac{547.04}{5} = 109.41$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{160.03}{10} = 16.00$$

$$\therefore y_c = a + bx$$

$$= 109.41 + 16.00 x$$

Appendix - 3

For the detail calculation of different statistical tools, the actual production has been assumed (X) and actual sales (Y).

Calculation of Mean, S.D., C.V., Correlation coefficient P.E.

etc.

Fiscal Year	Target Production (X) in Rs. (000000)	Actual Sales (Y) In Rs. (000000)	X - \bar{X} =X	Y - \bar{Y} =Y	X ²	Y ²	XY
2064/06 5	79.29	79.08	-30.12	-30.09	907.21	905.41	906.31
2065/06 6	98.00	97.50	-11.41	-11.68	130.19	136.42	133.27
2066/06 7	101.34	101.20	-8.07	-7.98	65.12	63.68	64.39
2067/06 8	120.21	120.02	10.08	10.84	116.64	117.51	109.27
2068/06 9	148.20	148.08	38.79	38.91	1504.66	1513.98	1509.32
$\sum N = 5$	$\sum X =$ 547.04	$\sum Y =$ 545.89			$\sum X^2 =$ 2723.82	$\sum Y^2 =$ 2770	$\sum XY =$ 2722.56

For actual production:

$$\text{Mean } \bar{X} = \frac{\sum X}{N} = \frac{547.04}{5} = 109.41$$

$$\text{S.D. } (\sigma X) = \frac{\sqrt{\sum (X - \bar{X})^2}}{N} = \frac{\sqrt{2723.82}}{5} = 23.34$$

$$\text{C.V.} = \frac{\sigma X}{\bar{X}} \times 100 = \frac{23.34}{109.41} \times 100\% = 21.33\%$$

For Actual Sales:

$$\text{Mean } \bar{Y} = \frac{\sum Y}{N} = \frac{545.89}{5} = 109.18$$

$$\text{S.D. } (\sigma Y) = \frac{\sqrt{\sum (Y - \bar{Y})^2}}{N} = \frac{\sqrt{2770}}{5} = 23.53$$

$$\text{C.V.} = \frac{\sigma Y}{\bar{Y}} \times 100 = \frac{23.53}{109.18} \times 100\% = 21.55\%$$

$$\begin{aligned}
\text{Calculation of correlation coefficient } r &= \frac{\sum XY}{\sqrt{\sum X^2 \times \sum Y^2}} \\
&= \frac{272256}{\sqrt{272382 \times 2770}} \\
&= \frac{2722.56}{52.19 \times 52.63} \\
&= \frac{2722.56}{2746.76} \\
&= 0.99
\end{aligned}$$

$$\begin{aligned}
\text{Probable error} &= 0.6745 \times \frac{\mathbf{1 - r^2}}{\sqrt{N}} \\
&= 0.6745 \times \frac{1 - (0.90)^2}{\sqrt{5}} \\
&= 0.6745 \times \frac{1 - 0.9801}{2.24} \\
&= 0.0060 \\
6 \times \text{P.E.} &= 0.060 \times 6 \\
&= 0.036
\end{aligned}$$

When, $r > \text{P.E.}$, Significant

Regression line:

The regression line of actual sales (Y) on budgeted production (X) or, Y on X is:

$$Y - \bar{Y} = r \cdot \frac{\uparrow Y}{\uparrow X} (X - \bar{X})$$

$$\text{Or, } Y - 109.18 = 0.99 \times \frac{23.53}{23.34} (X - 109.41)$$

$$\text{Or, } y - 109.18 = 0.998x - 109.19$$

$$\text{Or, } y = 0.998x - 109.19 + 109.18$$

$$\therefore y = 0.998x - 0.01$$

Straight line trend:

Fitting Straight line trend by least square method

FY	Actual Sales (y) in Rs. (000000)	X	X ²	XY
2064/065	79.08	-2	4	-158.16
2065/066	97.50	-1	1	-97.50
2066/067	101.20	0	0	0
2067/068	120.02	1	1	120.02
2068/069	148.09	2	4	296.18
N = 5	$\sum y =$ 545.89		$\sum X^2 =$ 10	$\sum XY =$ 160.54

For fitting the straight line trend, we should compute the value a and b.

$$a = \frac{\sum Y}{N} = \frac{545.89}{5} = 109.18$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{160.54}{10} = 16.05$$

$$\therefore yc = a + bx$$

$$= 109.18 + 16.05$$

This trend line shows positive sales relations.

