

# CHAPTER-1

## 1.1 INTRODUCTION

### 1.1.1 Background of the study:

Nepal is basically an agriculture country where more than 80% of the economic active populations are dependent upon it. This sector has contributed about 40% of GDP. However due to traditional method of farming ,lack of modern tools and equipments, on availability of fertilizers & improved seeds, lack of irrigation facilities and poor governmental policy towards agriculture has made this sectors a considerable less attractive. On the other hand increasing educated generation does not prefer to return towards this sector. So industrialization con play vital role to assist the long term development of country. Development of industries can make prominent to generate employment opportunities, solving the great problem of unemployment, reduce import, to earn foreign currencies and balancing the payment as well.

The first step towards industrial development was taken in 1930 by establishing an industrial council. After the Nepal Company Act was acted in 1936 and same industrial enterprises came in 1951.Planned efforts towards industrialization was made. Nepal industrial development corporation was established in 1959 as development bank with the objective of providing financial support to industries.

The industrial sector has played a vital and active role to generate the economic development of nation. It helps the nation by reducing the foreign dependency and sound, healthy and self-confidence level. It generates the employment opportunities in respect to maximum utilization of internal resources

After 1950,a new recent discipline in the branch of accounting is developed naming Profit planning and control. PPC is one of the comprehensive approaches that

have been developed to facilitate effective performance of the management process. It is the systematic and formalized approach for accomplishing the planning co-ordination and control responsibilities of management. It is managerial process that includes planning, organizing, staffing, leading and controlling. From the commercial point of view, profit is the top indicator of economic development of any business concern. It is only possible by the great knowledge and experience of well and systematic management.

A success profit planning and control depends upon so many factors. They are as follows:

1. Managerial involvement and commitment.
2. Organizing adoption.
3. Responsibility accounting
4. Full communication
5. Realistic expectation
6. Flexible application
7. Timeless
8. Individual and group recognition
9. Follow up

The strategic profit plan is broad and it is usually encompasses three or more years in future.

This research study is with reference to manufacturing concern Dabur Nepal Pvt. Ltd. It is one of the important manufacturing concerns in Nepal .

### **1.1.2 Industrial Background of Dabur Nepal Pvt. Ltd.**

Dabur Nepal Pvt. Ltd. is one of such industries which play's a vital role in uplifting the country's economy . Dabur Nepal Pvt .Ltd. has come into existence in year 1884 A.D. with Dabur brand by subtly transforming the tree while it retains the essence

of banyan tree, the tree is symbol of nature, is indelibly regarded as a provider of shelter, food and protection, the tree is regarded as sacred trust worthy and a symbol of nature, is indelibly regarded as a provider of shelter, food and protection, the tree is regarded as sacred trust worthy and a symbol of fertility. In India, the tree is symbol of life. It gives fuel, food and protection.

The company was established by Dr. S.K. Burman at Kolkata. The first production unit was established at Garhia in 1896 A.D. the company established first R and D unit. Till further the company has expanded its presence in different field like Ayurvedic Medicine, Personal care through Ayurvedic. In 1972 A.D. the company shifted its head quarter from Kolkata to Delhi, Dabur enters into food business in 1996 A.D. with launch of real fruit juice.

Sister concern of Dabur:

- Dabur foods
- Dabur Nepal
- Dabur Egypt
- Dabur Oncology
- Dabur Pharma

The guiding force behind Dabur's growth and success has been the wealth of nature and limitless capacity to support life. Dabur has constantly taken care to preserve and protect the nature bounty with its overall vision, eco-substances and expand Dabur resources.

Dabur Nepal Private Limited was set up as an independent group company in 1992. This new company established a unique bond of technology and preservation to boost the Dabur brand further and achieve market leadership status with product marketed in over 60 countries. The company has been manufacturing fruit juices and health care and personal care products. Dabur India increased its stake in Dabur Nepal from 80 percent to 97.5 percent in 2005. Dabur Nepal accounts for 4 percent of Dabur total sales. The consumers of Nepal have immense confidence in all Dabur products and view them

as natural herbal and pure. The state of the –art-green house project for medicinal plants was set up in Banepa in 1998 with an investment of Rs. 150 million. Its annual production is about 40 to 50 million ayurvedic products in local and international markets .Nepal business will continue to occupy an important place in the Dabur Group. Dabur has invested in Nepal not only in monetary terms but also in the form of skills development ,employment , conservation ,technology transfer and best practices.

## **1.2 Focus of the study**

Main focus of this study is to verify the long range planning adopted by the company. As long range planning is significant for the successful operation of the organization. So this research paper is designed to high light long range planning.

Besides these some other relevant facts as well as in profit planning will be discussed in detailed.

- ) The study is to give more consideration in short range planning.
- ) The study is intended to clarify the purpose of different budgets.
- ) The study is to identify the person responsible for different items in the problems.
- ) The study is to evaluate the significant result for future purpose.
- ) The study is to provide some knowledge about the importance of PPC to managers and practioners.

## **1.3 Statement of Problem**

As an MNCs, what are the major challenges in doing business in Nepal?  
MNCs in Nepal are facing various uncertainties. Nepal is a country in transition – cultural, political, economic and social .The political and security situation in Nepal, poor infrastructure and investment environment inadequate power supply , lack of quality skilled manpower are just some of the many challenges faced by MNCs in Nepal.  
What is needed to further encourages MNCs like Dabur to invest in Nepal?

How do you see the Nepali market for your product?

## **1.4 Objectives of the Study**

The primary objectives of the study is to highlight the degree of application profit planning concept in Dabur Nepal Pvt. Ltd. .Major objectives of this study are as below:

- To study and analyze the various financial budgets adopted in Dabur Nepal Pvt. Ltd.
- To study and analyzed the present comprehensive profit planning system Applied in the Dabur Nepal Pvt .Ltd.
- To study and analyzed the profit planning process of Dabur Nepal Pvt. Ltd.
- To study and analyze the strength and weakness of the industry.
- To provide suitable suggestion and recommendations for improving profit plan.

## **1.5 Significance of the study.**

This study concerned to theoretical explanation and practical application of profit planning in manufacturing company. Therefore it will be more useful for Dabur Nepal Pvt. Ltd. management by theoretical and practical illustration and suggestion.

## **1.6 Research methodology**

### **1.6.1 Definitions:**

Research is a systematic investigation to find solutions to a problem. Research is an organized inquiry carried out to provide information for solving problems. Business research is a systematic inquiry that provides information to guide business (Kpithari, 2002; 5).Similarly Copper and Schindler, 2003; 89) defined-Research methodology or process to carry out the whole research work. Likewise according to C.R Kothari (1990), research methodology is the way to solve systematically about the research problem.

### **1.6.2 Research Design:**

According to Kerlinger (1986), Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. Research design is a blue print for further research where theory building process is carried out.

The research design under the study is of analytical and descriptive as well as of diagnostic type.

### **1.6.3 The population and sample**

This research work is designed with profit planning and control is Nepalese manufacturing company. The total number manufacturing companies in Nepal is the population of the study. Among the total population of Dabur Nepal Pvt. Ltd. has been chosen randomly for case study purpose.

### **1.6.4 Sources of Data:**

To attain the objectives of this study primary as well as secondary data have been used .But here mainly secondary data have been used.And such data is collected from published and unpublished documents related to Dabur Nepal Pvt. Ltd.

### **1.7 Limitation of the study**

This study confirms only to the profit planning of Dabur Nepal Pvt. Ltd .On the basis of financial document and planning documents, the accuracy of this study is dependent upon the data availed by the management of Dabur Nepal Pvt. Ltd.This study is focused mainly with short term and long term profit plan. This study is based on primary and secondary data available but mostly based on secondary data. This study is for the partial fulfillment of MBS course ,so it may not be useful for other aspects.

## **1.8 Organization of the study.**

This study has been divided into five chapters they are:

- a.) Introduction
- b.) i. Conceptual back ground of Profit Planning.  
ii. Review of literature.
- c. Research Methodology
- d. Data Presentation and Analysis
- e. Summary, Conclusion and Recommendation.

The first chapter contains introduction of Dabur Nepal Pvt. Ltd. , Focus of the Study, Statements of the problems, Objectives of the study, Importance of the Study ,Research methodology and Limitation of the study.

In the second chapter contents Conceptual background of Profit planning and Review of literature. Conceptual back ground of profit planning includes the theory of budgeting and Profit planning .Fundamental process of profit planning process , Long term and Short term development of strategic and tactical profit plan. The review of literature includes review of some previous related researchwork.

In the third chapter contents Research Methodology. This chapter includes Research design, Period covered, Nature of data , Sources of data . Data collection techniques, Data analysis tools and Research procedure followed.

In the fourth chapter contents Data Presentation and Analysis. In this chapter data collected through various sources has been presented. It mainly consists the analysis of various functional budgets such as profit and loss a/c, balancesheet etc.

In the last chapter this study includes Summary , Conclusion and Recommendation.

# Chapter -2

## Review of Literature

### 2.(A) CONCEPTUAL BACKGROUND OF PROFIT PLANNING .

#### 2.1 Concept of Profit Planning

Profit planning is one of the most important management tools used to plan business operation. The effective operation of a business concern resulting into excess of income over expenditure fully depends upon as what extent the management follows proper planning and effective co-operation.

A profit plan is formal expression of the enterprises plan goals and objectives started in financial terms for specific future period of time. Mostly profit plan depends upon the objectives of organization. Plan should achieve the goals of the organization. It embarks on forecasting the environment in which objectives must be achieved. It determines approach by which the goals or objectives are to be accomplished commonly. The approach is described in the form of strategies, policies, programs and procedure for achieving the chosen objectives in a given environment. Profit planning programs also provides proper organization structure to implement the approval plans and policies.

The purpose including this chapter is to clarify the concept of Profit Planning and Control in smooth and systematic manner. Profit Planning and Control (PPC) is newly developed concept as a crucial way in the business organization. The profit planning approach is especially useful in the selection and evaluation of the alternative to overcome the financial problems encountered by the enterprises. The tactical (short range) and strategic (long range) profit plan sometimes constitute many similar models.

Which can be financial aspects of the enterprises in the process of profit planning construction and use. A procedure such as decision models, income summaries, cash flow analysis and return on investment analysis provides critical information for assessing the impact of different alternatives. A PPC programs helps management perform its control function by providing realistic goals and standards that are implemented and are than compared with actual results to measure performance.

The conceptual discussion of profit planning will be more meaningful only after clarifying and defining the idea of “Profit”and “Planning”.

### **2.1.1 Profit**

Every business organization is established to make profits. Success of any business organization is primarily measured by profit earned because profit is the acid taste of individuals firm’s performances. Profits vary from businessman to businessman and organization to organization. Every business organization is running behind the profit. The term profit has been defined by different people with different aspects.”An economist will say profit is the rewards for the entrepreneurship for risk taking. A lab our might say it is a measure of how efficiently labour has produced and that it provides a base for negotiating a wage increase. An investor will view it as a gauge of return on his or her money. An internal revenue agent might reward it as the excess of the firm’s revenue in a given fiscal period. Using the accountants measuring stick, management thinks of profit as:

- ) A tangible expression of the goods it has set for the firm.
- ) A mean of the performances towards the achievement of its goals.
- ) A mean of maintaining the health, growth and continuity of the company.

It is the ultimate objectives of management to maximize profits over the long tem consistent with its social responsibility. An accounting concept of company profit is a concept of net business income. The sales transactions of a period are regarded as bringing new assets leaving the business in the same period. Profit is thus the surplus

income that remains after paying expenses and providing for that part of capital that has been consumed in producing revenue.

Profit is the amount of revenue earned above the expenses incurred to operate the business. The word profit implies a comparison of the operations of business between two specific dates which are usually separated by an interval of one year. “It should be noted that profits are residual income left after the payment of the contractual rewards to other factors of production.”

“Profit is a signal for the allocation for the allocation of resources and a yard stick for judging managerial efficiency .

Finally , it can be concluded that profit is the excess of revenue over the expenditures . It is said that profit is one of the most important key factor to measure how efficiently the business organization is operating.

### **2.1.2 Planning**

Planning is the first essence of management and all other function all performed within the frame work of planning . Planning is the sole concept of any efficient planning .No firm can accomplish its predetermined goals and objectives Hence , it is the life blood of any organization which enable them efficiently running towards competitive environment.

“Planning is deciding in advance what is to be done.”It is a process thinking what will be done in the future to accomplish firm’s objectives . Planning starts from forecasting and determination of future results.

“All planning involves anticipation of future course of actions (events) and therefore bear and elements of uncertainty in respect of its success”. “Planning is the feed forward process to reduce uncertainty about the future. The planning process is based on the

conviction that management can plan in its activities and conditions of the state of the enterprises that determine its density.

“The planning processes both long and short term is most crucial component of the whole systems. It is both foundation and the bond for the other elements because it is throughout the planning process that we are determining .What are going to do? How are going to do? Who is going to do? It operates as the brain center of an organization and life the brain in reason and communication.”

### **2.2.1 Strategic or Long term Planning**

Strategic o long term planning is generally planned for more than two years varying with the enterprise and sometimes extended to 10 years. “The best ling range plan is one that establishes a broad flexible objective to serve as a guide lines for subordinates plans and that is not likely to become absolute as result of rapidity changes in technology.”

Basically long range planning is one important for broad and long living enterprise. It is the continuous process of making present entrepreneurial risk (risk taking) decision style systematically and with the best possible organizing systematically.

The main purpose of this plan is to serve primarily as a source of strategy, motivation and direction.

Some of decisions that are made in preparing long term planning are :

- ) Determinations of goals , objectives and strategies.
- ) The level and direction of capital expenditure
- ) The acquisition of new source of funds.
- ) Organization design and structure

“The objectives of long term planning are given by George R .Terry is as follows:

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

To keep enterprise strong.

To evaluate management personal.

To expedite a new financing.

To bring attention to new techniques

### **2.2.2Medium Term Planning:**

Medium term planning is normally prepared for two to three years horizon. This planning is detailed less than long range planning and more than short range planning.

“Medium term planning used mainly to determine the allocation of resources among competing activities to revise long range plan in view of more recent development . Medium term planning often takes the form of budgeting in which each division ,development or unit allocated certain resources during the coming years. These allocations are based in part on forecast on demands , const financial position and competition with a time horizon of one to two years and critical decisions on resource allocation , medium term planning must correctly predict the general levels of economic activity , since that effect such factors as revenue ,profit, cost and expenditures.

The importance and infrequency of medium term planning make it worthwhile to spend more effect and employ more elaborate techniques to obtain accurate prediction that is the case for shorter time horizon.

Often it may be wise to use more than one method in order to check check and compare the accuracy of results . Some of the methods most frequently used for medium term planning needs are decomposition.

### **2.2.3 Short Term Planning:**

Short term planning is usually made for short period that is one year or less than one year . Short term planning includes policies , program , projects budgets ,procedure and rules.

Lower level of managers are normally engaged in short term planning. It term to be more detailed , more formal, and more certain than medium term and long term planning.

According to Koontz and Cyril O Domell . “The short range planning is to conform to fiscal quarters or years , because of the practical needed for conforming plans to accounting periods and the same what orbitary limitation of long range to three to five years is usually based as has been included on the prevailing beliefs that the degree of uncertainty cover long period makes planning of questionable values.

## **2.2 Forecasting Vs Budgeting.**

Some times the term “Budgeting “ and “Forecasting” are used interchangeably. Both term based some similarities. Fore example both relate to future events and involves prediction of somethings .The basic differences between budgeting and forecasting lies in degree of sophistication involved in the prediction used by them . To prepare a good budget forecasting tools are needed extensively.

“Forecasting is an assessment of probable future future events Budgeting is based on the implication of a forecast and related to planned events , forecasting proceeds preparation of a budget as it is an essential part of the budgeting process.

Budgeting is not mainly forecasting of a particular events. It is not simply an estimation or prediction . It is a plan for certain period.

## **2.4 Budgeting as a Tool for Profit Planning**

A budget is a formal expression of policies, plan, objectives and goal laid down in advance by top management for undertaking as a whole and for every sub-division. Budget is expressed in financial form for a period of time in future.

“ A budget is a detailed plan of operation for some specific future period. It is an estimate, prepared in advance of the period to which it applies; it acts as a business barometer as it is to complete programme of activities of the business for the cover period covered.”

“Budget control is a system of controlling costs which includes the preparation of budgets, coordinating the departments and establishing the responsibilities comparing the actual performance with the budgeted and acting upon results to achieve maximum profitability.”

Thus budget is concerned with the policy making while budgetary results from the implication of the policy. The common objectives of budgetary control are to formulate policies aimed at objectives established after the consideration of the possible course of events in the future and to provide a means for the constant comparison of actual progress towards these goals against the preconceived results. Budgets not only compare the actual results with those of budgeted but also provide a standard of performance.

## **2.5 Requirements for effective budgeting.**

There are some requirements to develop effective budgeting which are as follows:

1. Support of top management while developing budget programmed and implementing it.
2. Clearly defined organization with defined responsibility on each responsibility center.

3. Accumulate and clear accounting system.
4. Unambiguous policy.
5. Preparation by responsible executive.
6. Immediate action in variance between actual and budgeted results.
7. Continuous budget education to employees of the undertaking on the objectives ,potentials and techniques of budgeting.
8. Logical and sequential process in preparation ,submission and review of budget.
9. Flexible for both possible and unforeseen circumstances require essentially in budgeting.

## **2.6 The Fundamental Distinction of Profit Planning**

The concept of budgeting was originally established with the function of accountant. As its origin the function of budgeting was assign to the accountant. But in modern day budgeting as given much more importance and as regarded as way of management and in more importance sense is regarded as a basic techniques of decision making and is given the name “Profit Planning and Control Programme”

A well established and a well understood profit planning and control leads an organization to ultimate successes. But a failure to grapes this concept leads to choose for a business . So ,just to understand this concept better consideration should be given to following point.

### **2.6.1 The Mechanism of Profit Planning.**

The mechanism of profit planning includes the matter related to design of budget schedules circle computation of such schedules and routine computation and check of such schedules.

### **2.6.2 The techniques of profit planning:**

The techniques are special approaches and methods of developing information for managerial use in the decision making process. The techniques are made varying from the simple to sophisticated. Some of the most commonly used techniques are methods of forecasting sales volume, approaches in resolving the sales –resources,inventory problem,breakeven analysis, resource determination ,cash flow analysis variance budgeted procedure.

### **2.6.3 The Fundamental of Profit Planning:**

The fundamental are concerned with effective application of the theory at management process. It is applied for desirable management orientation these fundamental need to established as a foundation of managerial commitment. Following are the some of the important fundamentals of Profit Planning.

#### **) Managerial Involvement and Commitment**

Managerial involvement entails managerial support, confidence and participation and performance orientation.In other to engage completely in comprehensive Profit Planning and Control,all levels management especially top management must consider the following points.

- ) Understand the nature and characteristics of Profit Planning.
- ) Be willing to develop the effort required to make it operative.
- ) Be convinced that this particular approach to managing is preferable for their situation.
- ) Support the program in all its ramification.
- ) View the results of the planning process as performance commitments.

Top management has much broader planning responsibility than the lower management and yet each level of management should have definite planning responsibilities.

Modern concept of comprehensive profit planning has highly emphasize on managerial involvement because modern PPC believes on “Performance expectation” rather than on fiscal expectation. Because modern business believes on the set objectives or goals rather than the earning short run more monetary profit.

### ) **Organization Adaptation**

A success of the Profit Planning Program must rest upon the sound organization structure for the enterprise and a clear cut designation of lines of authorities and assignment of authorities is of establish a frame work in which enterprise objectives may be attained in co-ordinate and effective way on a continuing bases. Clear cut designation in organization terminates duplication of actions and creates continuous flow of work.

### ) **Responsibility Accounting**

The accounting system must be designed in such a way that provides financial information separately from each organization units and subunits because this information is used as historical data to analyzer determine variance. Moreover ,this financial information can be used to with objects, goals and standards for some above mentioned purpose for the present period also.

### ) **Full Communication**

Communications can be broadly defined as an interchange of thoughts or information to bring about the mutual understanding between two or more parties. It is needed for both the feed forward feed backward process which is most important for operation of any organization. Communication may include a combination of words,

symbols, message and subtleties of understanding that comes from working together. Effective communications for profit planning comprise that all people of organization should have same degree of understanding about responsibilities, objectives and goals. Flow of information may be downward or horizontal as per requirement.

### ) **Realistic Expectation**

Profit Planning and Control must be based on realistic approach or estimation management must not take either irrational optimism or unnecessary conservatism. The objectives and goals should be capable of attainment. Goal set a high as to be practically impossible of attainment discourage series effort to achieve them. To be realistic expectation must be related:

1. To their specific time dimension.
2. To as assumed external and internal environment that will prevail during that time span.

### ) **Time Dimension**

Effective implementation of the Profit Planning and Control concept requires that the management of enterprises establishes a definite time solution for certain types of decision. Whether an individual or entity remains busy time passes at the same rate. So, the problem of manager in one hand is to accomplish the planned activities in a given time and in other hand is to prepare plan itself. The most difficult part is phasing of the planning are of two types:

1. Timing of planning horizon.
2. Timing of planning activities.

Planning horizon is the time for which the planning is done for any enterprises there use to be many planning horizons to maintain the continuity of planning

activities. The decisions made by the managers for the future activities reflect the managerial planning in other words managerial decision which reflects planning activities always use to have effects on future activities.

For effective implementation of planning management of an enterprise must establish a definite time dimension types for each activities. In other words for each activities related with planning would be given definite time for implementation followed by other activities.

From the view of point time dimension a manager should maintain clear cut distinction between horizontal and future consideration. Because the result derived from horizontal activities should be considered as platform for decision making.

### **) Flexible Application**

Profit Planning and Control programme or any other management techniques should not dominate management slowly. Any of such techniques of management must not be flexible or rigid. These are the techniques or means which is not only the end of the management is to use the resources in the most effective way and earn high return on investment and for this purpose profit planning and control or other techniques are used as means only. The principle of flexibility is especially important cost control. Expenses and cost budget must not constrain rational decisions that should be made with respect to expenses morally because expenditure was anticipated.

### **) Behavioral View Point**

The human relations angle in setting up budgets must not be forgotten. Actually a budget coordination the budget and the supervisor of each shop and ultimately between three two men and top management.

The most carefully drawn budget, best in the word from the technical point of view is doomed to failure if the human element is not taken into account .So ,for implementing the PPC programme effectively ,these should be a proper co-ordination between individuals goals needs and organization goal need

## **) Follow Up**

The importance of follow up action on profit planning and control approach is more .Follow up action after a careful study is 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 bases of the study and evaluation to provide a sound basis for future profit planning and control programme.

## **2.7. Process of Profit Planning & Control**

A Comprehensive Profit Planning and Control program encompasses the application of the broad concept of profit planning and control to all phases of operations in an enterprise. “The planning process should involve periodic consistent and in depth in re – planning so that all aspects of operations are carefully re-examined and re-evaluated this prevent a budget planning approach that involves only justification of increase over the prior period ,the concept of re-evaluation and necessary justifiers all aspects of the plans periodically finds its strongest support in what has been called zero based budget.”

According to Welsch ; Hilton and Gordon ,sequential phase of pofit planning and control process are as under:

### **2.7.1 Identification and Evaluation of External Variables.**

Every business organization is directly or indirectly influenced by the external variables. So ,external variables should be identified and analysed. These variables may be controllable or uncontrollable. Most of the external variables are not controllable and non controllable. Variables how to gain the potential favorable impacts should be well considered.

### **2.7.2 Development of the Broad Objectives of the Enterprise**

After identifying the relevant variables and finding the strength and weakness of the organization ,executive management can specify broad objectives of the enterprise. The statement of broad objectives should express the mission ,vision and ethical character of the enterprise are as under:

- i. To define the purpose of the economy.
- ii. To clarify the philosophy character of the company.
- iii. To create a particular climate within the business.
- iv. To set a guide for managers so that the decision they mark will reflect the best interests of business and justice to those concerned.

### **2.7.3 Development of Specific Goals for the Enterprises**

The purpose of the goal, phase of the profit planning process is to bring the statement of broad objectives in to spear focus and to move from the realm of general information to more specific planning information it provide both narrative and quantitative goals that are related to the enterprises as a whole and to the major responsibility center. Executive management develops these goals so that there will be realistic and clearly articulate frame work within which operation will conducted towards common goals.

#### **2.7.4 Development and Evaluation of Enterprise Strategies**

Companies strategic are the basic thrust ways and tactics that will use to attain planet objectives and goals .A particular strategic may be short term and long term;here are some actual examples of basic strategic:

- ) Increase long term market penetration by using the technology to develop new products and improves current products.
- ) Emphasize product quality and price for the top of market.
- ) Expand marketing to all status.
- ) Market will low price to expand volume (units)
- ) Use both institutional and local advertising programs to build market share.
- ) Improve employee's morale and productivity by initiating a behavior management problem.

#### **2.7.5 Executive Management Planning Instructions**

This phase involves communication to middle and lower management levels ;it explains the broad objectives ,enterprise goals,enterprise strategies and other executive management instruction needed to develop the strategic and tactical profit plans.It is also called the statement of planning premises or the statement of planning guidelines.

#### **2.7.6 Preparation and Evaluation of Project Plan**

Periodic plans and project plans are different in nature and function. Profit plans encompass variable time horizon because each project has a unique time dimension.Project plans encompass such items as plan for improvement of present products, new and expanded physical facilities ,and entrance into new industries, exit from products and industries, new technology and other major activities that can be separately identified for planning purpose, the nature of project is such that they must be planned as separate units.In planning for a project , the time span considered must

normally be the anticipated life span of the project . Project approved must then be timed into the strategic and tactical profit plan.

### **2.7.7 Development and approval of strategic Tactical Profit Plans**

The managers of the various responsibility centers in the enterprise can begin intensive activities to develop their respective strategic and tactical profit plans after receiving the executive. Management planning instructions and the project plans. Assuming participating planning and receipt of the executive management instructions the manager of each responsibility center will develop the strategic and tactical profit plans .Certain format and procedural instructions should be provided by a centralized source. Normally the financial function to establish the general format, amount of detail and other relevant procedural and format requirements essential for aggregation of the plans of the responsibility centers into the overall profit plans. All of this activity must be co-ordinated among the centers in conformity with the organization structure. The manager of each responsibility center will immediately initiate activities within his or her responsibility center to develop a strategic long term profit plan (five years) and tactical short term plan (one year)

### **2.7.8 Implementation Profit Plan**

Implementation of management plans have been developed and approved in the planning process involves the management function of leading sub ordinates initiating enterprises objective and goal. Thus effective management at all levels requires that enterprise objectives ,goals strategies and policies be communicated and understood by sub ordinates there are many facts involved in management leadership. However, comprehensive profit planning and control program may aid substantially in performing the function , plans ,strategies and policies developed through significant participation establish the foundation for the effective communication the plan should have been developed with the managerial conviction that they are going to be met or exceeded in all major results. If these principles are effective in the development process the various

executives and supervisor with have a clear understanding of their responsibilities and the expected level of performance.

### **2.7.9 Use of Periodic Performance Report**

Periodic performance reports are needed after implementing the profit plan. Accounting department on monthly basis prepares this performance reports .Also same special performance reports are prepared more after on as needed basis .These performances (a)Compare actual performance with planned performance and (b)Show each difference as favorable or unfavorable verities.

### **2.7.10 Use of Flexible Expanse Budget**

The flexible expanse budget is also referred to as the variable budget sliding scale budget expenses control budget and formula budget. The flexible budget concept applies only to expenses.It is completely separate from the profit plan but it is used to complement if many companies does not used flexible budget procedures. Flexible budget give realistic information about expanses that makes it possible to compute budgeted amount for various output volumes or rate of activity in each responsibility center.

### **2.7.11 Implementation of Follow Up**

Follow up is an important part for effective control .Because performance reports are based on assigned responsibilities ,they are basis for effective follow up actions. It is important to distinguish between cause and effect.The performance variations are effects (the results) the management must determine the underlying causes.The identification of causes primarily or responsibility of line management . The cause of the favorable and unfavorable performance variances should be given immediate priority. In case of unfavorable variances the alternative for corrective actions must be selected and then implemented.

## 2.8 Importance of Profit Planning.

Profit planning means the development and acceptance of objective and goals and moving an organization efficiency to achieve the objectives and goals by substantive financial plan techniques ,profit is very important to emphasis on developing positive reinforcement ,improving , motivation, developing ,goals with the effect of budgeting pressure resolving budgeting padding problem and using budget of control.

The profit planning control can be adopted any (profit or nonprofit services or manufacturing) regardless of size special circumstances or condition ,so that a business enterprise has always thinking about sound profit planning and control. Following major points that shows the importance of profit planning control in enterprise.

1. It forces early consideration of basic policies.
2. It requires adequate and sound organization structure.
3. It compels all members of management from the top down to participate in the establishment of goals and plans.
4. It compels departmental make plan in harmony with the plans of other department and of the entire enterprise.
5. It requires that management put down in figures what is necessary for satisfactory performance.
6. It adequate and appropriate historical data.
7. It compels management to plan for the most economical use of labor material and capital.
8. It instills at all levels to management and habit of timely careful and adequate consideration of the relevant factors before reaching important decision.
9. Produces cost by increasing the span of control because few a supervisors are needed.
10. It frees executives from many day to day internal problems through predetermined policies and clear cut authority relationship .It there by provides more executive for planning and creative thinking.

11. It tends to return the cloud of uncertainty that exists in many organization especially among lower levels of management, relative to basic policies and enterprises objectives.
12. It pin points efficiency and inefficiency.
13. It promotes understanding among member of management of their to works problems.
14. It forces management to give adequate attention to the effect of general business condition.
15. It forces a periodic self analysis of the company.
16. It aids in obtaining bank credit.
17. It checks progress or lack of progress towards the objective of the enterprise.
18. It forces recognition and correctives action.
19. It rewards high performance and seeks to correct unfavorable performance .
20. It forces management to consider expected future trends and condition.

## **2.9 Limitation of Profit Planning.**

Profits are the indispensable element in a successful business enterprise. A firm making inadequate profit will not only service but will perhaps becomes a social or economic disaster to the every society that is expected to support social responsibility is a fair weather concept ,management cannot begin to think in term of philanthropy unless profit are adequate.

The usefulness of comprehensive profit planning and control has been emphasized .However , it should not be assumed that the concept is fool proof or that free of problem. The following limitation should be considered while developing profit planning and control program.

- i.The profit planning is based on estimate.

- ii. PPC program must be tailored to fit the changing environment circumstances.
- iii. Execution of a profit plan will not occur automatically.
- iv. The profit plan is not a substitute for management.

## **2.10 Basic Elements of Profit Planning.**

Basic elements of profit planning are as follows:

### **a. It is Expressed in Financial Term**

All activities covered by budget are related with funds so the budget have to be expressed in monetary units i.e. rupees , dolor , or pounds.

### **a) It is a future Plan for Specific Period**

Time dimension must be added to budget. A budget is meaning full only when it is related to specific time. The budget estimation will be relevant only for some specific time.

### **b) It is plan for the firm's operating and resources.**

Budget is a mechanization to plan for the firm's operations or activities. The two aspects of every operation and revenue and expenses. The budget must be planned for the quality revenue and expenses related to specific operation . Planning should not be made for carry out the operations the planning for resources will include the planning for assets and sources of funds.

### **c) The budgets preparation by different departments inside the organization have to coordinate:**

The profit planning considered all activities and operation of an organization. The budget prepared by different department inside the organization have to be compelled or coordinated and it is done by profit planning so before preparing a profit planning. Firstly

all the departments have to be compelled and that budget is known comprehensive budget profit planning.

## **2.(B) REVIEW OF RELATED LITERATURE**

Here are very few dissertations have been submitted in the topic of Profit Planning in Nepal. Whatever, the research in the area of profit planning has been made also not in depth and in detail. However, those researches work directly or indirectly influence the concerned authorities to adopt profit planning to improve the profitability and to fulfill the social expectations. Here, some of the research work have submitted in Profit Planning and Control in the context of Nepal will be reviewed.

### **2.1 Shiv Prasad Nepal**

A research paper conducted by Mr. Shiv Prasad Nepal on the topic . **“Profit Planning in Nepalese Manufacturing and public enterprises. A Case Study of Lumbini Sugar Mills Limited” Submitted to central department of management,T.U ,Kathmandu ,in 1995**,has the main objectives of to examine the degree of sales realization in respect to budget figure, to high light the planned production and actual trends , to examine the costs structure and to analyze the profit pattern of the company . To fulfill the objective Mr. Nepal has used both primary and secondary source of data.The time prfioid covered by the study was 5 years from FY 2046\47 to FY 2050\51 .Some major findings of the study on the analysis of available data are pointed out as follows:

- a There is no executing management planning instructions effective communication system in Nepalese Manufacturing public enterprise.
- b Sales plan is the infrastructure of profit plan other plans of profit plan depends upon sales plan but in Nepalese Manufacturing public enterprises the infrastructure of profit plan is production plan.

- c In Nepalese Manufacturing public enterprises there is no detail expenses plan which is necessary element of profit planning.
- d In developing countries like Nepal supply side is important than demand side because the country cannot fulfill the national element by internal production.

Mr. Nepal has recommended the suggestion to improve the profit plan in following:

- a) Top management should co-ordinate with all levels of management for setting goals for sub division.
- b) Sales plan is a primary plan of profit planning so it should prepare the strategic long range and tactical short range plan.
- c) It should prepare plan of material inventory ,direct labor ,variable cost and other expenses there are vital requirements of profit planning.
- d) Cost control is important in evert Manufacturing public enterprises, cost control is impossible through standard cost technique so that the Lumbini Sugar Mills Limited should implements the standard costing approach.

## **2.2 Bhim Narayan Upadhya**

Mr. Bhim Narayan Upadhaya has submitted a dissertation of the topic of “**Profit Planning and Control in Manufacturing public enterprise of Nepal. A Case Study of Birgunj Sugar Factory Limited.**”Submitted to the Faculty of Management central department of T.U.,Kathmandu in 1998. In case of partial fulfillment of M.B.S ,he has explored the data of seven years from .FY 2047/48 to FY 2053/54. Research

methodology was followed through secondary sources of data for data gathering procedure. But for other essential information primary data were also used.

Mr. Upadhaya has pointed here various findings based on the analysis of data and information . Few major findings regarding to BSFL are as follows:

- a) The financial performance of Manufacturing Public enterprises has quite dismal and not be hoped to improve the situation of the enterprises in the near year.
- b) There is no well developed system of performance evaluation for employees and there is no fair and appropriate system of motivational enforcement to employees on the basis of their task performance.
- c) Cost volume profit relationship are not considered while developing sales plan and pricing strategy.
- d) The plans are prepared from top level and later it is communicated to the lower level.
- e) There is no adequate and clear out responsible a money various management level and departments.

Major recommendation stated by Mr.Upadhaya to develop implement and improve the process of profit planning in PE from the initial stage to the to the end as follows:

- a) Profit Planning manuals should be communicated from top level to lower levels.

- b) Trained and qualified manpower of budgeting and planning should be fixed and present manpower should be trained.
- c) Sales forecasting should be made on realistic ground.
- d) The production budget should be prepared by interim time period and for responsibility centers.
- e) The statement of specific goals should be clear about the specific goals for which company and for its major sub division.

### **2.3 Gopi Bhandari**

Mr. Gopi Bhandari has tried to point out some features and problems in the context of Nepalese Manufacturing Company in his research work. **“A Profit Planning in Nepal , A Case study of Royal Drugs L.td”**.Submitted to the Faculty of Management central department of T.U.,Kathmandu, IN 1998,In course of partial fulfillment of M.B.S .he has explored the data of six years from 046/47 to 051/52. Research methodology was followed through secondary sources of data for data gathering procedure.But for the other essential information primary data were also used.

Mr. Bhandari has pointed out various findings based on the analysis of data and information .Few major findings according to Mr. Bhandari are as under:

- a) Royal Drugs Ltd has not adequately considered controllable and non controllable variables affecting the company.

- b) Objectives are not clear, conflict between social objectives and profit objectives.
- c) They have no satisfactory achievement of specific goals that were targeted.
- d) Conflicting role due to lack of co-ordination among department manager in Royal Drugs Ltd.
- e) Failure in achievement due to inadequate evolution in internal and external variables.
- f) Red-tapism in decision making and implementation of profit plans and program.
- g) Failure due to inadequate forecasting system.

Mr. Bhandari has recommended various recommendations to improve the Profit Planning system of Royal Drugs L.td. The major recommendations are:

- a) It seems necessary to develop implement and improve the process of profit planning from the very beginning to the end.
- b) Cost volume profit analysis should be taken into consideration while developing sales plan and pricing strategy.
- c) Identification and evaluation of external and internal variables is must to know the company's strength and weakness.
- d) A systematic approach to comprehensive profit planning should be adopted.
- e) Program to be improving the employees productivity should be made effective.
- f) Sales forecasting should made on realistic basis.

- g) Trained and qualified manpower of budgeting and planning should be hired.
- h) System of periodical performance report should be strictly followed.

#### **2.4 Ram Krishna Dhakal**

Mr. Ram Krishna Dhakal has conducted thesis on the topic **“Profit Planning in Manufacturing Company.A Case Study of Gorkhali Rubber Udhog Limited .Submitted to the Faculty of Management central department of T.U ,Kathmandu in 1999,**in case of partial fulfillment of M.B.S the main objectives of the study are to analyze the effectiveness of profit planning in GRUL, to study the various budget used by the company and to cover seven years period of time from 2049/50 to 2055/56 .Primary and secondary sources have been adopted through analysis he found the following major findings:

- a) GRUL has been suffered from a number of internal and external problems in formulating and implementation of profit plans and strategies.
- b) The budget maker seems to be more ambitions because of the achievement is very low.
- c) Flexible budget and CVP analysis show that the industry will be in negative profit even it utilize the hundred percent capacities.
- d) No competitor within the country but export market is not profitable.
- e) Lack of raw material in domestic market and low productivity of manpower.
- f) Lack of strategy long range planning.

- g) Under utilization of available capacity.

Finally Mr. Dhakal has stated several recommendations to improve the performance of GRUL. The main suggestions are as follows:

- a) SWOT analysis should be defined and adopted .
- b) GURL must restructure its capital structure and minimize the burden of high interest and bank charge in long term by issuing shares and refund the dept.
- c) Profit Planning concept should be communicated from top to lower levels .All members of the company should be participated on planning process.
- d) Company should formulate appropriate strategies long range plan as well as tactical short range plan.
- e) Record and punishment system should followed to motivate personnel.

# CHAPTER -3

## RESEARCH METHODOLOGY

### 3.1 Introduction

Research means to search the things going in depth of the subject and methodology means the techniques ,procedure o method of search .Hence ,it is called , “research means to search the problem again and again to find out something more about the problem.”. Similarly ,methodology refers the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind it. Thus, research methodology is a way to search the problem systematically .This chapter deals mainly with the research methodology ,which are used in the period of research.

Research methodology may be defined as a systematic process that is adopted by the researcher in studying a problem with certain objectives in view .In other words research methodology describes the methods and process applied in the entire study. The basic objectives of the present research is to highlight the current practice of Profit Planning in Manufacturing Company (DNPL) and focus on the relationship between performance and management system achieve these objectives. Following are the major context this study.

### 3.2 Research Design

Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. Research design is a plan ,structure and strategy of investigation. It is a blue print for the collection, measurement and analysis of data. This study analyzes, examines

and interprets different functional budgets applied as tools for Profit Planning in Dabur Nepal Pvt.Ltd. This research highlights the degree of Profit Planning concept and it is mainly related with the qualitative plans and accounts of Dabur Nepal Pvt. Ltd.

### **3.3 Population and Sample**

This research work is designed with profit planning and control in Nepalese Manufacturing Companies. The total number of manufacturing company in Nepal is the population of the study.Among the total population of Dabur Nepal Pvt. Ltd. Has been choosen randomly for case study purpose.

### **3.4 Sources of Data**

To attain the objectives of this study primary as well as secondary data have been used.Primary data is collected from sources such as personal approach ,unstructured dialogue e.t.c.Likewise secondary data is collected from sources such as publication of Dabur Nepal Pvt.Ltd,published and unpublished documents related to Dabur Nepal Pvt. Ltd.

### **3.5 Period Covered**

This study has been covered a period of two years from 2010 to 2011. the strength and weakness of Managerial planning and Profit Planning of Dabur Nepal Pvt. Ltd.are identified.

### **3.6 Data Analysis Tools**

The availed data from primary and secondary sources are presented and analysed as per required table and formats.As per requirements, such table and stastical tools are used in interpreted. Financial tools and stastical tools are used in course of study.

# Chapter-4

## DATA PRESENTATION AND ANALYSIS

### 4.1 Introduction

“Profit Planning is a predetermined detailed plan of action development and distributed as guide to current operations and as a partial basis for subsequent evaluation of performance. It is a systematic approach for attaining effective management performance. Since the profit planning is a primary purpose of profit planning in business then is to increase the chances of making a profit comprehensive profit planning and control is a newly developed concept as a crucial way in business organization. It is a recent phenomenon used extensively in the literature of business enterprises. Thus we can say the Profit Planning and Control is a tool which may be used by the management in planning the future course of actions and in controlling the performance.”

This research work is prepared to verify the present comprehensive Profit Planning system applied by the Dabur Nepal Pvt. Ltd. This chapter will analyse the various functional budgets and their actual performance in comparison to budgeted amount to achieve the objectives. Profit Planning and Control is a systematic and formalized approach for accomplishing the planning, coordination and control responsibilities of management. A comprehensive Profit Planning and Control continues to be of prime importance in virtually all organizations. Planning involves the control and manipulation of relevant variables (i.e. controllable and non-controllable) and it reduces the impact of uncertainty. So, that enterprise could be saved from the chances of losses. Profit planning should exploit opportunities by using the limited resources. The heart of management's responsibility is the optimum use of limited resources by using the linear programming and it provides systematic profit planning programme.

#### **4.2 Defined Objectives and Goals as a Basic Element of Profit Planning.**

Every organization should formulate goal or objectives because objectives are those ends which organization seeks to achieve through its existence and operations. Without setting objectives and goals ,no organization can move systematically and smoothly .All level of management should be well known about their enterprises goals and target. Goals and target should be communicated to lower level management ,which is prime importance to achieve enterprise objective. The success or failure of an organization largely depends up on lower level management.Actually management helps to coordinate human effots and enterprise's objectives to accomplish the goals by utilizing the effort of people.

In Nepalese Manufacturing enterprise, goals and objectives are established in formal way.Most of people working in the organization have very little knowledge their company's situation, goals and objectives. In such condition, effective planning cannot be formulated. In absence of effective planning , it will be impossible to run business successfully.

Dabur India Pvt. Ltd. is one of such industries which play's a vital role in uplifting the country's economy . Dabur India Pvt .Ltd. has come into existence in year 1884 A.D. with Dabur brand by subtly transforming the tree while it retains the essence of banyan tree,the tree is symbol of nature,is indelibly regardedas a provider of shelter, food and protection, the tree is regardedas sacred trust worthy and a symbol of nature,is indelibly regardedas a provider of shelter, food and protection, the tree is regardedas sacred trust worthy and a symbol of fertility. In India , the tree is symbol of life. It gives fuel, food and protection.

The company was established by Dr. S.K.Burman at Kolkata.The first production unit was established at Garhia in 1896 A.D. the company established first Rand D unit. Till further the company has expanded its presence in different field like Ayurvedic Medicine ,Personal care through Ayurvedic .In 1972A.D. the company shifted its head

quarter from Kolkata to Delhi ,Dabur enters into food business in 1996A.D. with launch of real fruit juice.

Sister concern of Dabur:

- Dabur foods
- Dabur Nepal
- Dabur Egypt
- Dabur Oncology
- Dabur Pharma

The guiding force behind Dabur's growth and success has been the wealth of nature and limitless capacity to support life.Dabur has constantly taken care to preserve and protect the nature bounty with its overall vision,eco-substances and expand Dabur resources.

Dabur Nepal Pvt. Ltd. Was established as an independent group company in 1992 A.D.It has been a reputed and fast growing multi product ,multi division joint venture FMLG Company.All the department of DNPL are well served with computers .The factory uses very advance software 'Baan' for record keeping but in the same time 'SAP'and data communication.There is good management system as well as security ,sanitation,water storage ,transportation and other facilities are present within the factory.

]

### **4.3 Loan**

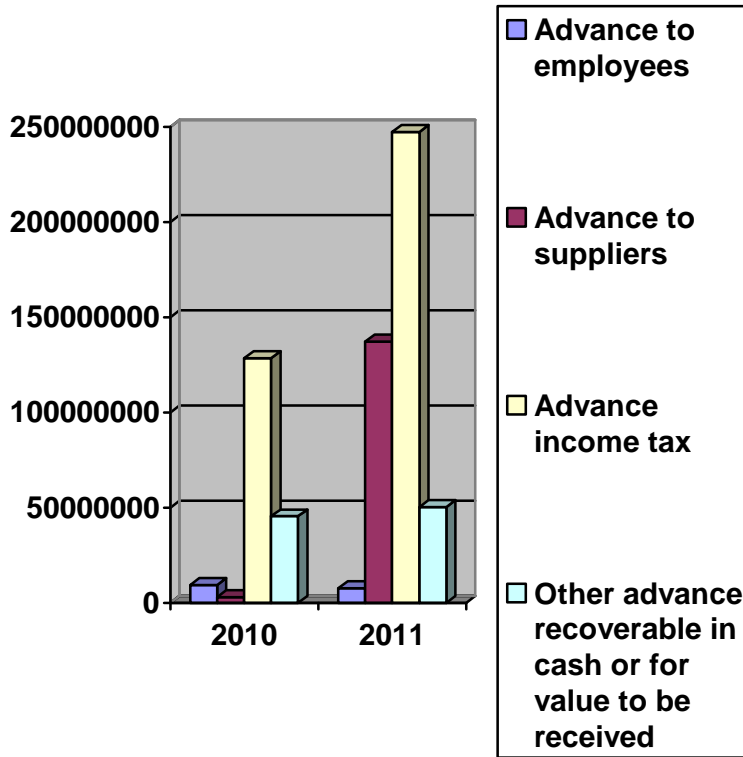
Due amount of loan which was taken from the individual ,bank and other financial institutions is known as loan.Such loan is taken as permanent basis.

**Table No-1**

**Loan composition**

**Amt.in lacs**

<b>Particular</b>	<b>Current year(2011)</b>	<b>Previous year(2010)</b>
Advance to Employees	76.47	94.74
Advance to Suppliers	1373.48	291.4
Advance Income Tax	2472.97	1286.62
Other Advance Recoverable in cash or for value to be received	504.03	454.69



#### 4.4 Inventory Budget

Every Management should maintain certain level of inventory for smooth sales activities . Inventory includes raw material, work in progress and daily consuming goods. Finished goods inventory is the cushion between sales and production .When sales exceeds production then inventory is used for sales and the level of inventory is decreased and on the other hand when production exceeds production is kept into store hence the level of inventory is increased.Different companies have different inventory policies according to thir nature.Generally inventory level of product depends upon the product etc.

There are some policies in maintaining inventory.

- i) Unstable inventory policy v/s Stable production policy.
- ii) Stable inventory policy v/s Unstable production policy.
- iii Flexible in both policy and production.

There are some consideration in setting inventories policies for materials and parts.

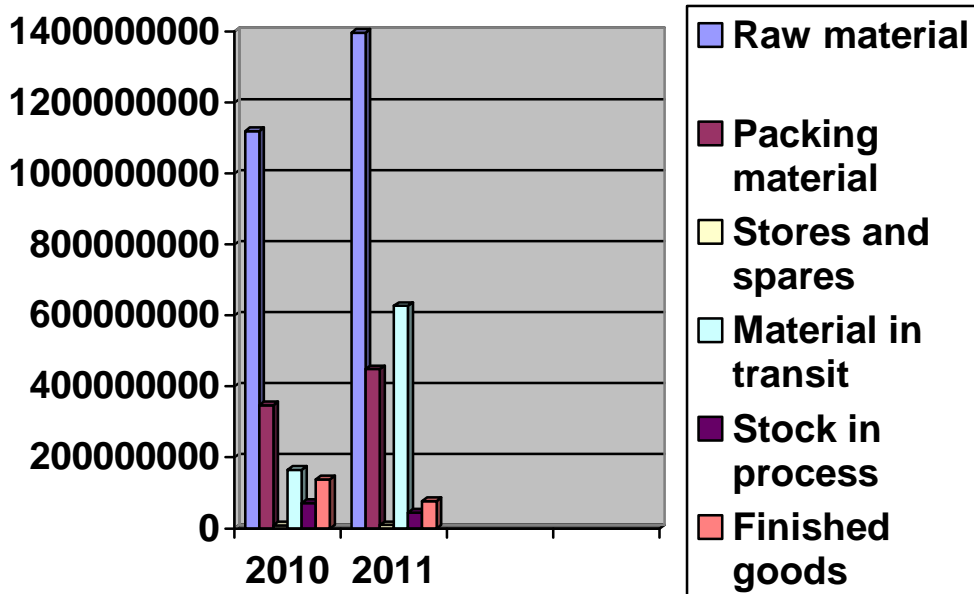
- i Timing and quantity and Manufacturing needs.
- ii Economics in purchasing through quantity discount.
- iii Availability of material and parts.
- iv Lead time ( order and delivery)
- v Permissibility of material and parts.
- vi Store facility needed.
- vii Capital requirements to finance inventory.
- viii Cost of storage.
- ix Risk involved in inventories.
- x Opportunity costs.

**Table No. 2**

Inventory budget

Amt in lacs

Particular	Current year(2011)	Previous year(2010)
Raw material	13968.83	11192.02
Packing material	4486.04	3469.08
Stores and spares	94.06	90.56
Material in transit	6270.23	1653.24
Stock in process	441.69	710.66
Finished goods	772.18	1376.75



#### 4.5 Material Budget

Material portion is the main factor of cost. So, it's separate study is needed. About 60% or more of all cost of production covered by cost of material so, it is considerable. Raw material budget is prepared after the planned production. Planning and controlling of material is comprehensive profit planning and control of raw material.

#### Purpose/Objectives of Material Budget

1. To find out material requirement.
2. To maintain proper coordination between material usage, purchase and inventory.
3. To provide inputs needed for cash budgeting.
4. To provide inputs for material control.

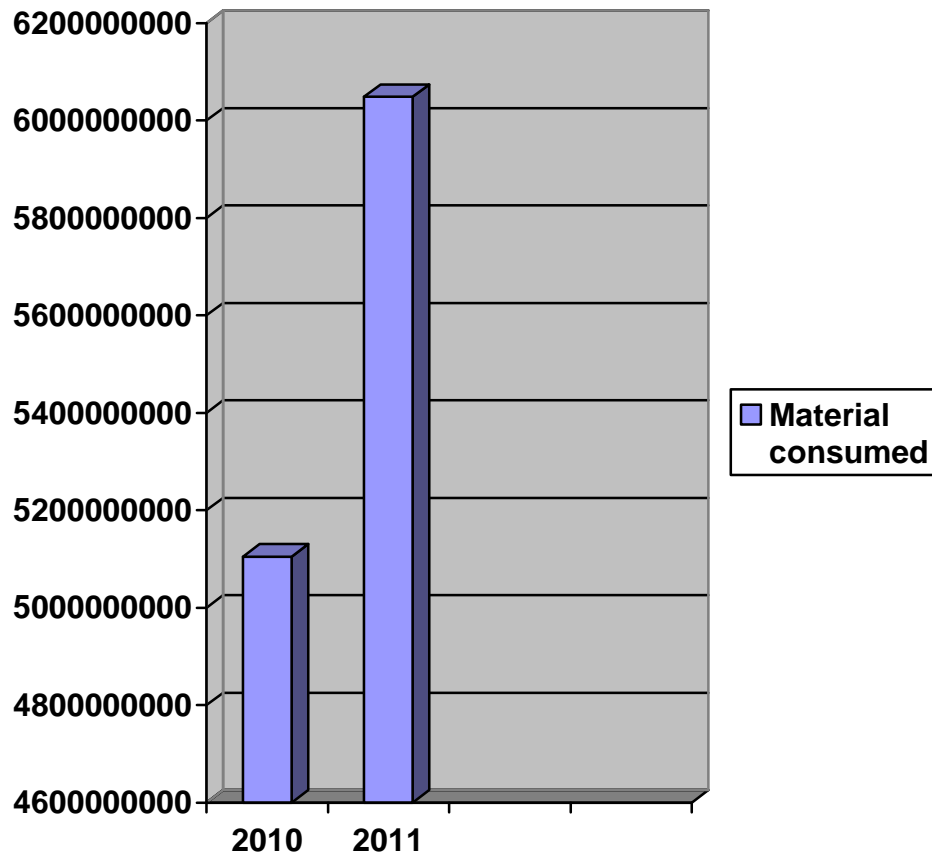
**Table No.-3**

#### Material Budget

**Amt.in lacs**

<b>Particular</b>	<b>Current year(2011)</b>	<b>Previous tear(2010)</b>
<b>(A) Raw Material Consumed</b>		
Opening Stock	11192.02	7838.41
Add:Purchase	43076.25	36135.42
	54268.26	43973.83
Less Closing Stock	13968.83	11192.02
	40299.43	32781.81
<b>Raw Material Consumed</b>		
<b>(B) Packing Material Consumed</b>		
Opening Stock	3469.08	2130.51
Add: Purchase	20331.71	19754.09
	23800.79	21884.7
Less:Closing Stock	4492.04	3469.08
<b>Packing Material Consumed</b>	19308.75	18415.62

<b>(C) Adjustment of Stock in Process and Finished Goods.</b>		
Opening Stock-Stock in Process	710.66	526.7
Opening Stock- Finished Goods	1376.71	1413.7
	2087.37	1940.4
Closing Stock- Stock in Process	441.69	710.66
Closing Stock –Finished Goods	772.18	1376.75
	873.53	(147.01)
Increase(-)/Decrease in Stock in Stock in Process and Finished Goods		
<b>Total Cost of Material Consumed (A+B+C)</b>	<b>60481.71</b>	<b>51050.43</b>



#### 4.6 Selling and Administrative Expenses

Selling expenses related to those expenses which incurred in the process of selling ,distribution and delivery of product to customers. When selling activities are increased naturally selling expenses will be increased. It covers significant portion of total expenses.

Administrative expenses are related to those expenses which incurred in administration department .In the other words, Administration expenses mean those expenses other than the manufacturing and selling and distribution expenses. Mostly

administrative expenses are fixed in nature. More or less, these expenses do not change as per production volume.

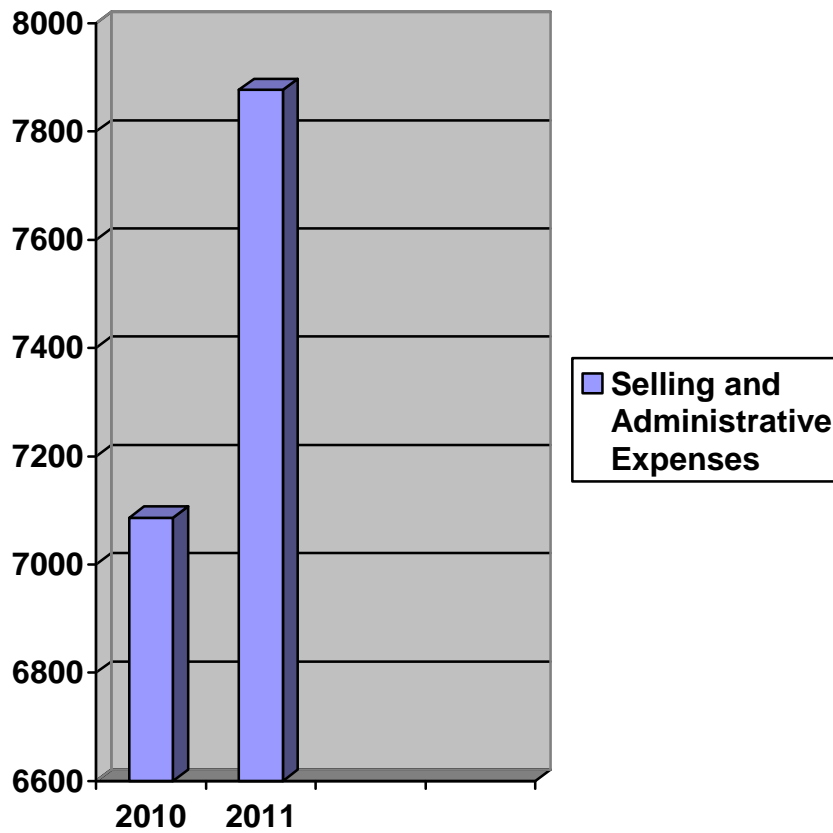
**Table No-4**

**Selling and Administrative Expenses**

**Amt.in lacs**

<b>Praticular</b>	<b>Current Year(2011)</b>	<b>Previous Year(2010)</b>
Distribution Expenses	4177.5	3738.72
Advance and sales promotion	1353.95	1329.27
Royalty	290.66	236.92
Postage ,Telephone and Telegram	260.37	247.62
Travelling Expenses	671.42	572.9
Vehicles running Expenses	134.74	121.97
Legal and Professional charges	168.11	104.78
Board Meeting fees	-	-
Insurance	289.04	267.93
Auditor's Remuneration and Out-of –pocket expenses	4.06	4.06
Statutory Audit Fees	2.44	2.44
Audit Fees Other matter	.98	.65
Tax Audit Fees	2.03	2.6
Out –of –pocket Expenses		
Rent ,Rates and Taxes	154.05	136.42
Electricity ,Fuel and Water	31.43	26.75
Repairs and Maintenance –others	31.91	27.45
Printing and Stationery	57.94	44.07
Books and Periodicals	2.21	2.03

Entertainment Expenses	35.7	52.94
Donation	.49	1.07
General charges	58.88	46.02
Watch and Ward expenses	148.75	120.41
Total	7876.66	7086.72

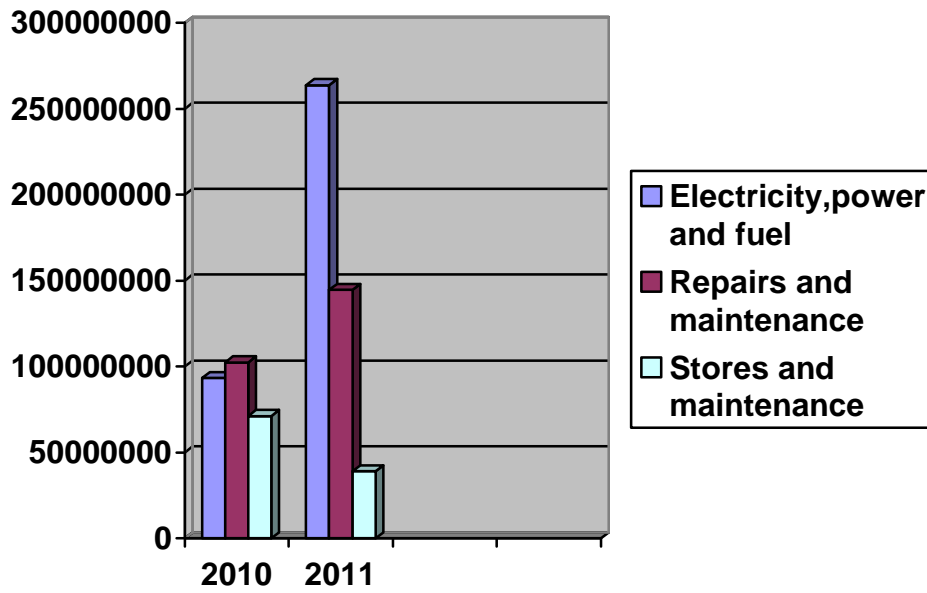


## 4.7 Manufacturing Expenses

Expenses which are incurred inside the factory for the production of goods are known as factory expenses. Some examples of such expenses are motive power ,gas, fuel, light for factory, heat, foeman’s salary, wages, royalty etc

**Table No-5**

<b>Manufacturing Expenses</b>	<b>Amt. in lacs</b>	
<b>Particular</b>	<b>Current year(2011)</b>	<b>Previous Year(2010)</b>
Electricity,Power and Fuel	2637.96	933.21
Repairs and Maintenance	1447.13	1023.51
Stores and Spares consumed	391.07	712.29
<b>Total</b>	<b>4476.16</b>	<b>2669.01</b>



#### 4.8 Other incomes

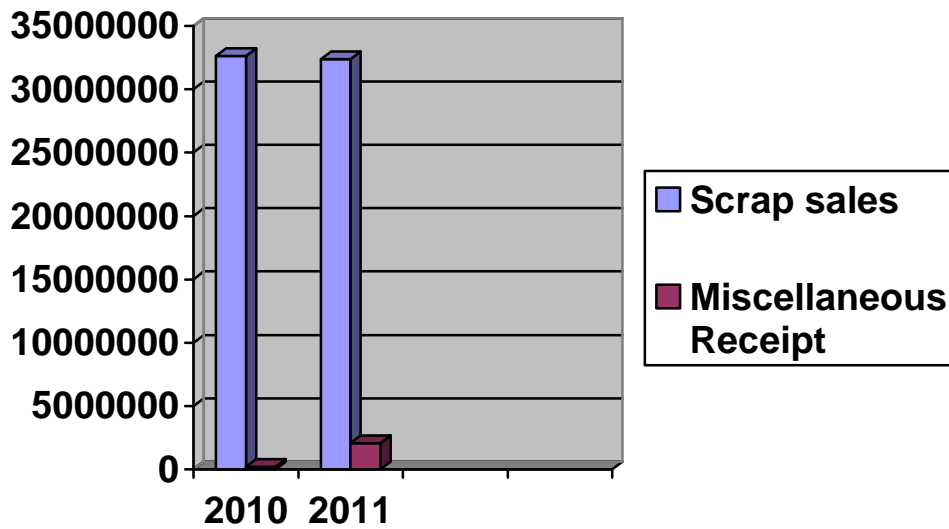
It includes income received from other sources except sales. They are discount received, bad debt recovered, interest received from banks, interest received from loan provided, interest on investment, scrap sales, miscellaneous receipt etc

**Table No-6**

**Income Composition**

**Amt in lacs**

<b>Particulars</b>	<b>Current Year(2011)</b>	<b>Previous Year(2010)</b>
Scrap sales	324.12	326.58
Miscellaneous Receipt	20.64	1.83
<b>Total</b>	<b>344.76</b>	<b>328.41</b>



#### 4.9 Deposits and Other Receivable

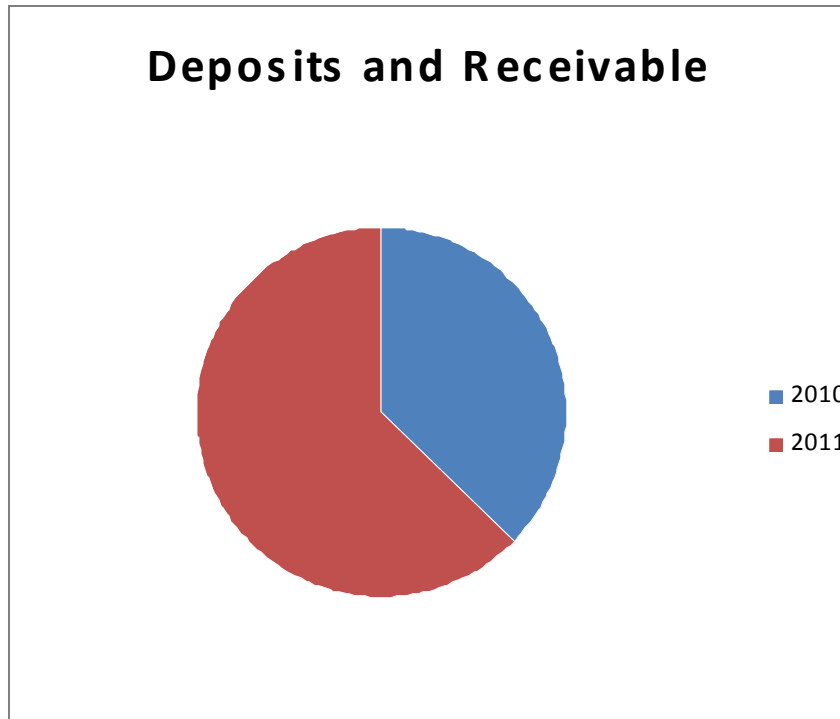
Deposits and other receivable includes security deposit, margin money with banks ,vat, custom duty, and other duties receivable, etc.

**Table No-7**

**Deposits and Other Receivable**

**Amt in lacs**

<b>Particular</b>	<b>Current year 2011</b>	<b>Previous year 2010</b>
Security deposit	50.51	57.05
Margin money with banks	92.06	3.15
Vat, custom duty and other duties receivable	4391.63	2657.59
Other receivable	19.35	9.1
	<b>4553.55</b>	<b>2726.89</b>
Less:Provision for doubtful receivable	50.31	65
	<b>4503.24</b>	<b>2661.89</b>



#### 4.10 Profit and Loss account

Profit is the major element of each and every business endeavors for survival, further development and fulfilling social expectation.

After preparing all function budgets ,Budgets profit and loss a/c prepared. Profit and loss a/c is developed to report the financial results of the various functional sub plans and commitments.P/L/ a/c shows the operating efficiency of the organization of an accounting year.

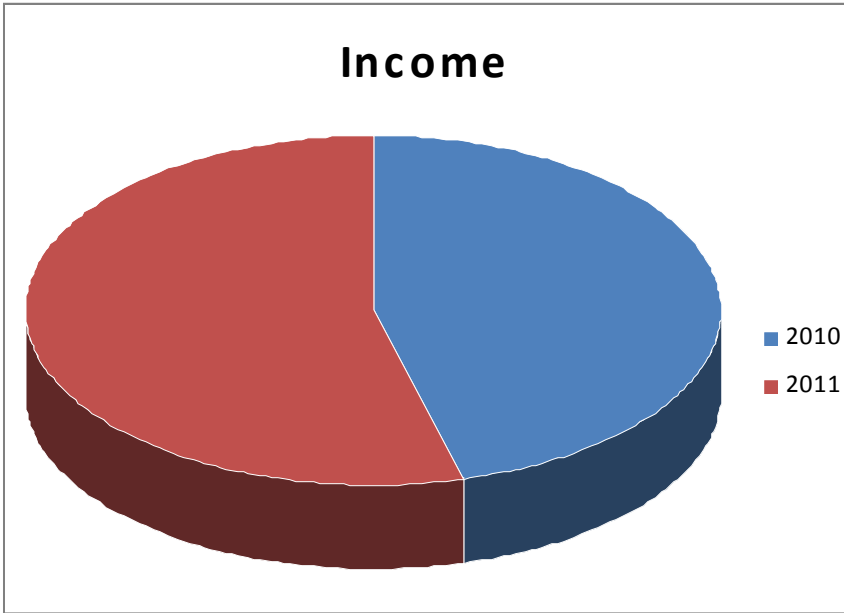
Advantages of profit and loss a/c:

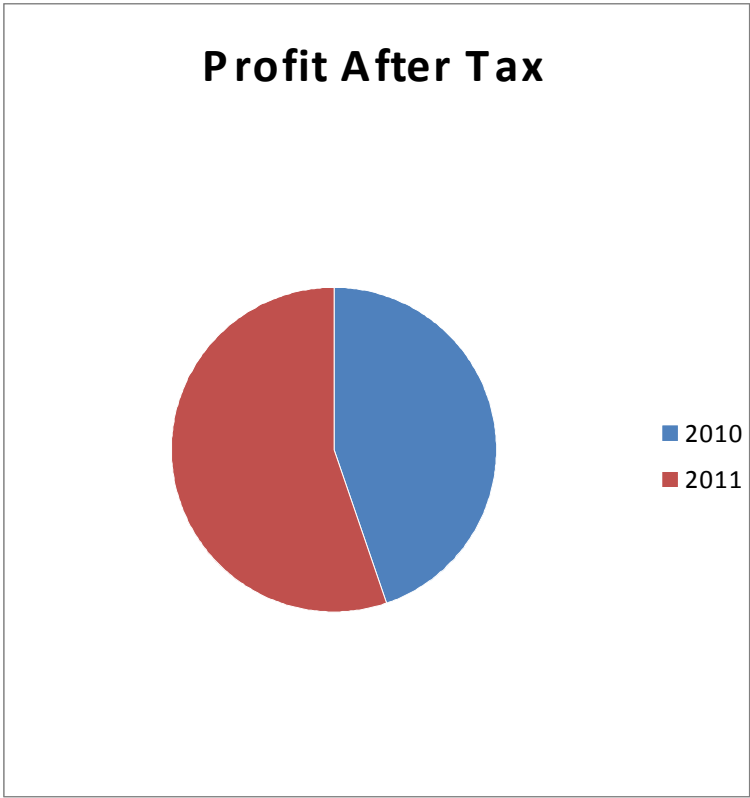
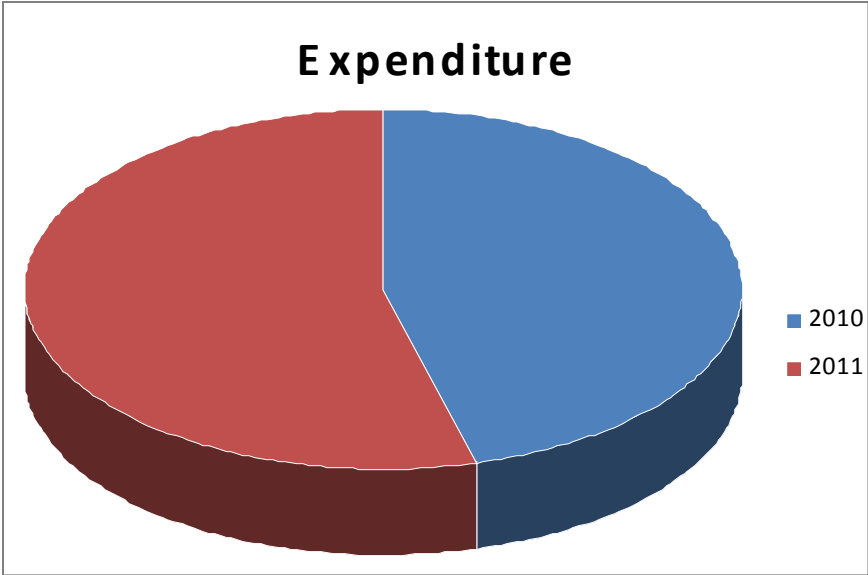
- a To know net profit or net loss of particular period.
- b To calculate the ratio of direct and indirect expenses.
- c To have comparative study of income and expenditures of various heads.
- d To find out the reasons of profit earned and loss suffered.
- e To prepare plan for future.

**Table No-8****Profit and loss account****Amt in lacs**

<b>Particular</b>	<b>2011</b>	<b>2010</b>
<b>Income</b>		
Sales return	85045.11	71935.92
Other income	344.78	328.41
<b>Total income</b>	<b>85389.89</b>	<b>72264.33</b>
<b>Expenditure</b>		
Cost of material	60481.71	51050.43
Exercise duty	370.91	447.65
Manufacturing expenses	4476.16	3669.01
Payment to and provision for employees	4711.2	4280.63
Selling and administrative expenses	7875.63	7087.02
Financial expenses	1033.44	827.55
Exchange (Gain/loss(Net))	(148.9)	(1189.49)
Depreciation	2302.32	2459.24
Miscellaneous expenses written Off (Back)	(14.85)	(0.00)
Profit /loss on sale of assets	1.92	(8.66)
<b>Total expenditure</b>	<b>81090.52</b>	<b>68623.38</b>
Operating profit	4299.36	3640.96
Provision for doubtful receivable	-	24.38
<b>Profit before provision for housing and bonus</b>	<b>4299.36</b>	<b>3616.59</b>
Provision for housing	214.97	180.86
Provision for bonus	371.31	312.41
<b>Profit before tax</b>	<b>3713.08</b>	<b>3123.31</b>
Provision for taxation:	-	-
Current	742.61	624.81
Deferred	(50.38)	45.13
<b>Profit after tax</b>	<b>3020.84</b>	<b>2456.37</b>
Profit brought forward from previous year	16451	13997.62
Deferred tax adjustment	-	-
Balance carried over to balancesheet	19471.84	16451

Earning per share (in NRs)(Face value Rs 100each)		
Basic	378.3	307.24
Diluted	378.3	307.24
No .of shares		
Basic	1597040	
1597040		
Diluted	1597040	
1597040		
Significant Accounting Policies and Notes to Accounts		





#### 4.11 Balancesheet

Balancesheet is prepared at the end of the fiscal year.It is prepared after completing all functional budgets as well as budgeted P/L a/c and cash budget.Budgeted balancesheet reflects the true picture of assets ,liabilities and capital of the company according to plan.Balance sheet shows the real financial position of the firm .It simply a statement of assets and liabilities.

Advantages of Balance sheet:

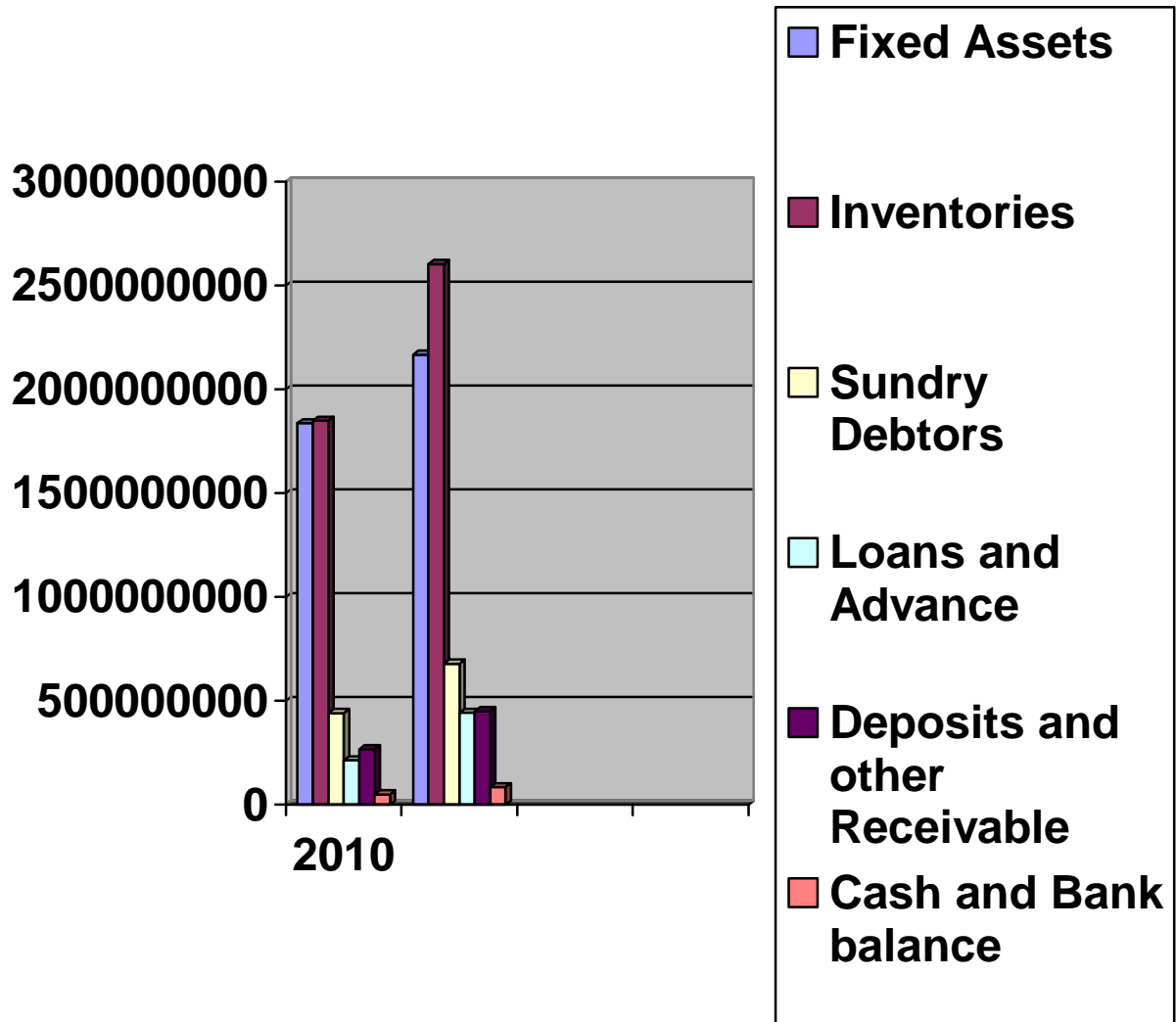
- 1 The main advantages of balance sheet is to know the financial position of a firm.So,it gives the information of assets ,capital and liabilities of a firm.
- 2 It gives a valid document; so it can be presented as proof for the settlement of cases given in court.
- 3 It gives clear information of profit and loss as it is mentioned in it.
- 4 It helps to liquidate the firm .Buyer decides whether to purchase the firm or not with the study of balance sheet.
- 5 It provides information about the debt paying capacity of the firm. We can get such information by comparing assets and liabilities.

**Table No-9**

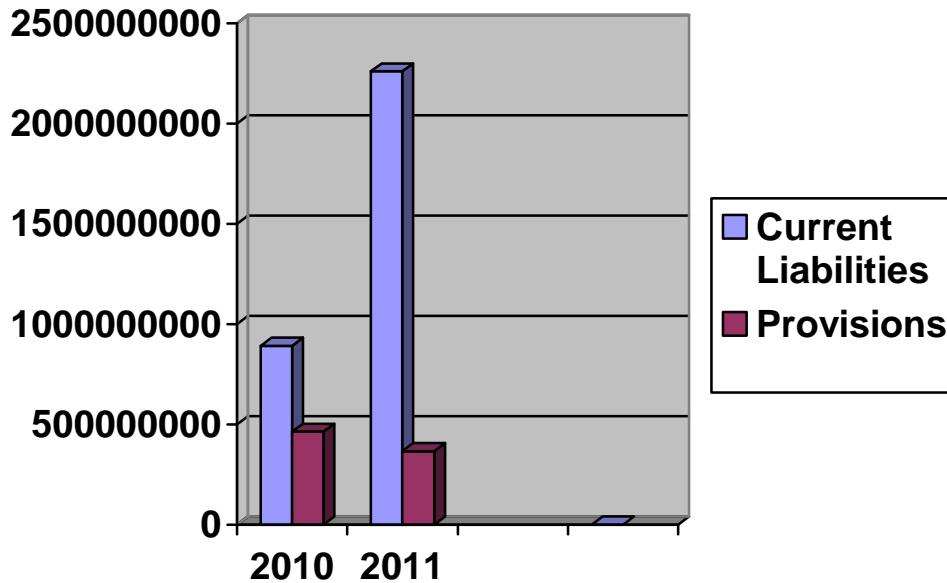
<b>Balancesheet</b>	<b>Amt. in lacs</b>	
<b>Particular</b>	<b>Current Year 2011</b>	<b>Previous Year 2010</b>
<b>SOURCES OF FUNDS</b>		
Shareholder's Funds:		
(A) Share Capital	1297.6	1297.6
(B) Reserve and Surplus	21843.2	18822.36
	23140.8	20119.96
Loan Funds:		
(A) Secured Loans	572.83	8650.96
(B) Unsecured Loans	12653.55	5161.98
	13226.38	13812.94

Deferred Tax Liability	333.17	383.55
<b>Total</b>	<b>36700.35</b>	<b>34316.45</b>
<b>APPLICATION OF FUNDS</b>		
Fixed Assets		
(A) Gross Block	44191.27	38649.53
(B) Less:Accumulated Depreciation	22512.98	20274.82
(C) Net Block	21678.29	18374.71
Current Assets Loans and Advance		
(A) Inventories		
(B) Sundry Debtors	26039.03	18494.31
(C) Loans and Advances	6790.43	4411.16
(D) Deposits and Other Receivable	4426.97	2127.45
(E) Cash and Bank Balances	4503.25	2661.9
Total Current Assets	498.11	829.66
	42257.79	28524.48
Less: Current Liabilities and Provision		
(A) Current liabilities	22591.26	8918.96
(B) Provisions	4644.48	3664.28
Total Current Liabilities		
Net Current Assets	27235.74	12583.24
	15022.05	15941.24
<b>Total</b>	<b>36700.35</b>	<b>34316.45</b>

### CURRENT ASSETS



## CURRENT LIABILITIES AND PROVISIONS



### 4.12 Cash Budget

Cash budget is the most essential tools of cash management . It is an integral part of Cash planning. The Cash budget is a plan of future cash receipt and payment.Cash budget is known as the statement showing the estimated cash income (Cash inflow) and expenditure (Cash outflow)over a projected tome period .It presents the planned cash inflows, outflows and ending cash position by interim period for a specific time.Cash budget plays vital role to co-ordinate among working capital, sales revenue ,expenses,investments and liabilities.

To maintain a sound cash position is the great challenges of financial manager. So, he should keep other functional budget in mind before preparing cash budget. The level of cash position should neither less or more because deficiency of cash creates problem in manufacturing operation while excess creates the problem of over capitalization means idle finance.

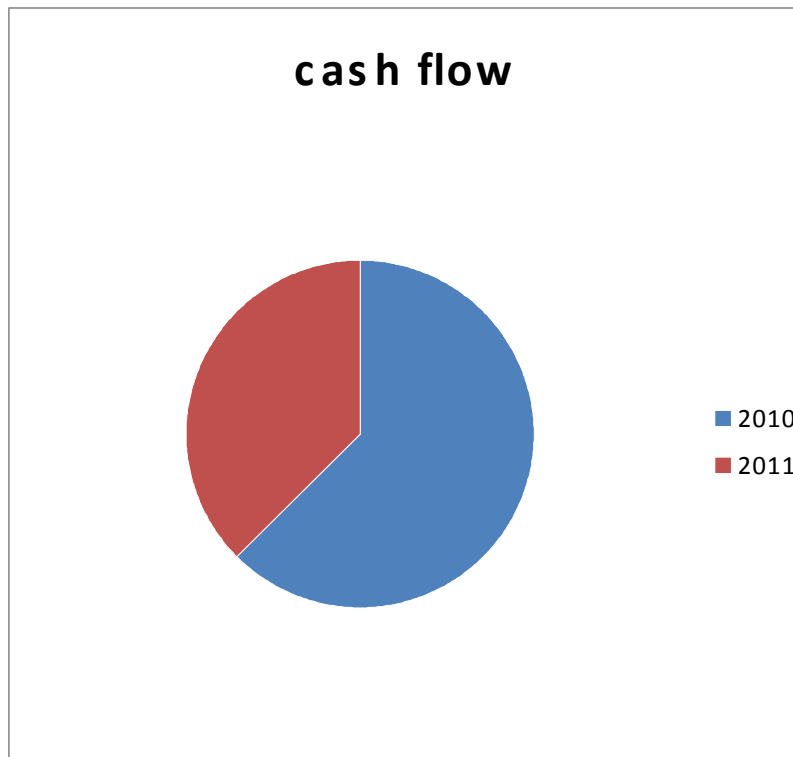
**Table No-10**

**Cash Flow Statement**

**Amt.in lacs**

<b>Particular</b>	<b>Current year(2011)</b>	<b>Previous year(2010)</b>
<b>A: Cash flow from operating activities</b>		
Profit before tax	3713.08	3123.31
Add:		
Depreciation	2302.32	2459.24
Micellaneous Expenses Written off(Back)	(14.85)	(0.00)
Profit/loss on sale of assets	1.92	(8.66)
Unrealized (Gain/loss Revaluation of Foreign Currency)	(148.9)	(514.57)
Interest	782.32	635.16
Provision for Doubtful receivables	-	24.38
Provision for Housing	214.97	108.86
Provision for bonus	371.31	312.41
<b>Operating profit Before Working Capital Changes</b>	<b>7222.17</b>	<b>6212.13</b>
Working capital changes		
Decrease/(Increase)in inventories	(7529.86)	(4150.18)
Decrease /(Increase) in debtors	(2378.77)	6349.97
Decrease /(Increase)in loans and advances	(1113.16)	(277.31)
Decrease/(Increase) in deposit and other Receivable	(1841.35)	(836.27)
Increase /(Decrease)in trade payables	13472.5	(7498.91)
Cash generated from operating activities	7831.52	(20.57)

Tax paid	(1186.47)	(653.92)
<b>Cash generated (used)from/for Operating Activities</b>	<b>6645.15</b>	<b>(854.49)</b>
<b>B: Cash flow from Investing Activities</b>		
Purchase of fixed assets	(5635.26)	(1220)
Sale of fixed assets	27.44	25.26
<b>Cash generated/(used)from/for Investing Activities</b>	<b>(5607.82)</b>	<b>(1194.74)</b>
<b>C: Cash flow from Financing Activities</b>		
(Repayment)Proceeds of secured loans	(8078.13)	(2196.69)
(Repayment)Proceeds of unsecured loans	7491.57	5036.85
Interest paid	(782.32)	(635.16)
<b>Cash generated/(used) from /for Financing Activities</b>	<b>(1368.88)</b>	<b>2205</b>
Net Increase/(Decrease) in cash and cash equivalent(A+B+C)	331.55	155.77
Cash and Cash Equivalents-Opening balance	829.66	673.89
Cash and Cash Equivalents-Closing balance	498.11	829.66



# Chapter-5

## 5.1 Summary

Profit planning is one of the most important managerial tools used to earn profit and to control cost of business operations. This managerial device is very essential to step away on the way of success. Management remains incomplete without application of profit planning and control because profit planning is the life blood of organization. The enterprise which has been established in social sector should also generate profit at least for its survival in business society. Profit plan can be divided into two groups as functional plan and financial plan. Functional plan includes sales budget, production budget, raw material budget, direct labor budget, and expenses budget etc. Financial plan includes cash flow, capital expenditure, plan budgeted income statement and budgeted balance sheet.

From the point of view of time profit plans are divided into strategy long range profit plan for 5-10 years and tactical short range profit plan for one year detailed by interim periods. Profit planning is an artistic work. It should be net, clean, achievable and comprehensive. Data and information collected for both primary and secondary sources are analyzed with the help of financial tools.

This research paper is designed to examine that to what extent Dabur Nepal Pvt.Ltd. is applying comprehensive profit planning system. The practices and effectiveness of profit planning is reviewed of the company with the help of functional plan and financial plan having prepared a plan it is equally important to implement effectively and to evaluate performance appraisal.

This study has been divided in five chapters consisting of Introduction , Conceptual Background of Profit Planning and Review of the Literature, Research methodology , Data presentation and Analysis and Summary Conclusion and Recommendations.

## **5.2 Conclusion**

After analyzing in detail the present practice of profit planning process in Dabur Nepal Pvt. Ltd. The following conclusion have been drawn.

- 1 .Budgets are prepared on annual basis.
- 2 .The company's overall profit and investment are increasing every year.
- 3 .There is fair working environment and fair system of reward and punishment to employees on the basis of their work performance.
4. The basic objectives of the company are clearly specified in annual target.
- 5 .Capacity utilization of Dabur Nepal Private Limited is high due to availability Of raw material and competitive market position.

## **5.3 Recommendations**

After the detailed analysis of profit planning in Dabur Nepal Pvt. Ltd. Some suggestions have been recommended in the basis of profit planning system of the company .

- 1 Climbing of the ladder and reaching up the top is easy, but remaining at the same position is difficult task. So ,DNPL has to be more aware of it's competitors and must be one more step ahead.
- 2 All members of company should be participated while formulating plans and policies . Profit planning concept is communicated from top level to lower levels. Adequate budget educations should be provided to improve profit planning system.
- 3 DNPL should analysed SWOT (strength , weakness , opportunities and threat) to strengthen its capability and reduce its weakness.
- 4 Flexible budget system should be considered while formulating profit plan.
- 5 Performance evaluation system should be followed strictly to improve poor performance or to take corrective action.
- 6 Finally , the company should adopt comprehensive profit planning approach . Basic fundamentals of profit planning should be considered while formulating and implementing the profit plan.

## BIBLIOGRAPHY

1. Bhusan, Y.K., **Fundamentals of Business Organization & Management** Sultan chand & sons Publishing House 1976
2. Dangol , R.M., **Management Accounting Principle & Practice**.Taleju Prakashan .Kathmandu, 2052
3. David N .Ewing . Long Range Planning for Organization New York :Haper & R%aw Publishing 1964.
4. Dr. S.N. Maheswori **Management Accounting & Financial Control** .10<sup>th</sup> revised & enlarged edition 1995.
5. Gureeier/Habin /Hoyt/ Turner.**Accounting for Management** .Mac Millan Graw Hill 1996.
6. Gupta ,S.P., **Management Accounting** ,Agra Sahitya Bhawan 1992.
7. Hampton John J.**Financial Decision Making** ,Virginal Reston Publishing Inc. Reston 1976.
8. R.M lynch & R.W Willianson, “ **Accounting for Management Planning & Control**”3<sup>rd</sup> edition.
9. A.W.Willsmore, “**Business Budget & Budgeting Control** 1986.
10. Shyam Joshi , “**Management Economics**” Kathmandu,Taleju Prakshan 2050.
11. P.V Kulkarni , “**Financial Management**”
12. R.K.Lekhi ,”**The Economic of Development & Planning**”1998.
13. George R. Terry ,”**Principle of Management**”
14. Harold Koontz 7 C.O Donnel., “**Long Range Planning for Management**”1964.
15. Jawahar Lal “**Cost Accounting**” 2<sup>nd</sup> edition TATA M.C Graw Publishing Co. Ltd. New Delhi.
16. Man Mohan & S.N Goyal , “**Principle of Management Account**”India.

## **Dissertation**

1. Bhandari ,Gopi “ Profit Planning in Nepal : A Case Study of Royal Drugs Limited . Submitted to Central Department of Management ,T.U.Kathmandu.1998
2. Dhakal, Ram Krishna , Profit Planning in Manufacturing Company : “A Case Study of Gorkhali Rubber Udyog Limited .”Submitted to Central Department of Management ,T.U.Kathmandu.,1999 .
3. Nepal ,Shiv Prasad , “Profit Planning in Nepalese Manufacturing & Public Enterprises: A Case Study of Lumbini Sugar Mills Ltd.” Submitted to Central Department of Management , T.U.Kathmandu. 1995.
4. Upadhya , Bhim Narayan , “Profit Planning & Control in Manufacturing Public Enterprises of Nepal: A Case Study of Birgunj Sugar Factory Limited. “Submitted to Central Department OF management , T.U. Kathmandu. 1998.

## Appendix-1

### Dabur Nepal Pvt. Ltd.

Inventory Budget for fiscal year 2010-2011

Amt in lacs

Particular	Current year(2011)	Previous year(2010)
Raw material	13968.83	11192.02
Packing material	4486.04	3469.08
Stores and spares	94.06	90.56
Material in transit	6270.23	1653.24
Stock in process	441.69	710.66
Finished goods	772.18	1376.75

## Appendix-2

### Dabur Nepal Pvt.Ltd.

Material Budget for fiscal year 2010-2011

Amt.in lacs

Particular	Current year(2011)	Previous tear(2010)
<b>(D) Raw Material Consumed</b>		
Opening Stock	11192.02	7838.41
Add:Purchase	43076.25	36135.42
	54268.26	43973.83
Less Closing Stock	13968.83	11192.02
	40299.43	32781.81
<b>Raw Material Consumed</b>		
<b>(E) Packing Material Consumed</b>		
Opening Stock	3469.08	2130.51
Add: Purchase	20331.71	19754.09
	23800.79	21884.7
Less:Closing Stock	4492.04	3469.08
<b>Packing Material Consumed</b>		
	19308.75	18415.62
<b>(F) Adjustment of Stock in Process and Finished Goods.</b>		
Opening Stock-Stock in Process	710.66	526.7
Opening Stock- Finished Goods	1376.71	1413.7
	2087.37	1940.4
Closing Stock- Stock in Process	441.69	710.66
Closing Stock –Finished Goods	772.18	1376.75
	873.53	(147.01)
Increase(-)/Decrease in Stock in Stock in Process and Finished Goods		
	873.53	(147.01)
<b>Total Cost of Material Consumed (A+B+C)</b>		
	<b>60481.71</b>	<b>51050.43</b>

### Appendix-3

#### Dabur Nepal Pvt. Ltd.

Profit and loss a/c for fiscal year 2010-2011

Particular	Amt.in lacs	
	2011	2010
<b>Income</b>		
Sales return	85045.11	71935.92
Other income	344.78	328.41
<b>Total income</b>	<b>85389.89</b>	<b>72264.33</b>
<b>Expenditure</b>		
Cost of material	60481.71	51050.43
Exercise duty	370.91	447.65
Manufacturing expenses	4476.16	3669.01
Payment to and provision for employees	4711.2	4280.63
Selling and administrative expenses	7875.63	7087.02
Financial expenses	1033.44	827.55
Exchange (Gain/loss(Net)	(148.9)	(1189.49)
Depreciation	2302.32	2459.24
Miscellaneous expenses written Off (Back)	(14.85)	(0.00)
Profit /loss on sale of assets	1.92	(8.66)
<b>Total expenditure</b>	<b>81090.52</b>	<b>68623.38</b>
Operating profit	4299.36	3640.96
Provision for doubtful receivable	-	24.38
<b>Profit before provision for housing and bonus</b>	<b>4299.36</b>	<b>3616.59</b>
Provision for housing	214.97	180.86
Provision for bonus	371.31	312.41
<b>Profit before tax</b>	<b>3713.08</b>	<b>3123.31</b>
Provision for taxation:	-	-
Current	742.61	624.81
Deferred	(50.38)	45.13
<b>Profit after tax</b>	<b>3020.84</b>	<b>2456.37</b>
Profit brought forward from previous year	16451	13997.62
Deferred tax adjustment	-	-
Balance carried over to balancesheet	19471.84	16451

**Appendix-4**

**Dabur Nepal Pvt.Ltd.**

Balancesheet for the fiscal year 2010-201

Particular	Amt.in lacs	
	Current Year 2011	Previous Year 2010
<b>SOURCES OF FUNDS</b>		
Shareholder's Funds:		
(C) Share Capital	1297.6	1297.6
(D) Reserve and Surplus	21843.2	18822.36
	23140.8	20119.96
Loan Funds:		
(C) Secured Loans	572.83	8650.96
(D) Unsecured Loans	12653.55	5161.98
	13226.38	13812.94
Deferred Tax Liability	333.17	383.55
<b>Total</b>	<b>36700.35</b>	<b>34316.45</b>
<b>APPLICATION OF FUNDS</b>		
Fixed Assets		
(D) Gross Block	44191.27	38649.53
(E) Less:Accumulated Depreciation	22512.98	20274.82
(F) Net Block	21678.29	18374.71
Current Assets Loans and Advance		
(F) Inventories		
(G) Sundry Debtors		
(H) Loans and Advances	26039.03	18494.31
(I) Deposits and Other Receivable	6790.43	4411.16
(J) Cash and Bank Balances	4426.97	2127.45
Total Current Assets	4503.25	2661.9
	498.11	829.66
Less: Current Liabilities and Provision		
(C) Current liabilities	42257.79	28524.48
(D) Provisions		
Total Current Liabilities		
Net Current Assets	22591.26	8918.96
	4644.48	3664.28
	27235.74	12583.24
	15022.05	15941.24
<b>Total</b>	<b>36700.35</b>	<b>34316.45</b>

## Appendix-5

### Dabur Nepal Pvt.Ltd

Cash budget for fiscal year 2010-2011

Particular	Amt.in lacs	
	Current year(2011)	Previous year(2010)
<b>A: Cash flow from operating activities</b>		
Profit before tax	3713.08	3123.31
Add:		
Depreciation	2302.32	2459.24
Micellaneous Expenses Written off(Back)	(14.85)	(0.00)
Profit/loss on sale of assets	1.92	(8.66)
Unrealized (Gain/loss Revaluation of Foreign Currency)	(148.9)	(514.57)
Interest	782.32	635.16
Provision for Doubtful receivables	-	24.38
Provision for Housing	214.97	108.86
Provision for bonus	371.31	312.41
<b>Operating profit Before Working Capital Changes</b>	<b>7222.17</b>	<b>6212.13</b>
Working capital changes		
Decrease/(Increase)in inventories		
Decrease /(Increase) in debtors	(7529.86)	(4150.18)
Decrease /(Increase)in loans and advances	(2378.77)	6349.97
Decrease/(Increase) in deposit and other Receivable	(1113.16)	(277.31)
Increase /(Decrease)in trade payables	(1841.35)	(836.27)
Cash generated from operating activities	13472.5	(7498.91)
Tax paid	7831.52	(20.57)
	(1186.47)	(653.92)
<b>Cash generated (used)from/for Operating Activities</b>	<b>6645.15</b>	<b>(854.49)</b>
<b>B: Cash flow from Investing Activities</b>		
Purchase of fixed assets	(5635.26)	(1220)
Sale of fixed assets	27.44	25.26
<b>Cash generated/(used)from/for Investing Activities</b>	<b>(5607.82)</b>	<b>(1194.74)</b>
<b>C: Cash flow from Financing Activities</b>		
(Repayment)Proceeds of secured loans	(8078.13)	(2196.69)
(Repayment)Proceeds of unsecured loans	7491.57	5036.85
Interest paid	(782.32)	(635.16)
<b>Cash generated/(used) from /for Financing Activities</b>	<b>(1368.88)</b>	<b>2205</b>
Net Increase/(Decrease) in cash and cash equivalent(A+B+C)	331.55	155.77
Cash and Cash Equivalents-Opening balance	829.66	673.89
Cash and Cash Equivalents-Closing balance	498.11	829.66