

CHAPTER-1

INTRODUCTION

1.1 Background of the Study

Nepal, officially the Democratic Republic of Nepal is a landlocked sovereign state located in South Asia with a population of approximately 27 million. Nepal is the world's 93rd largest country by land mass. It is located in the Himalayas and bordered to the north by the People's Republic of China, and to the south, east and west by Republic of India with per capita income of US \$742. Nepal is considered as least developed county in the world. The reason behind this may be various economic and non economic factors like, landlocked, rugged geography, few tangible natural resources and poor infrastructure, the ineffective post-1950 government and the long-running civil war is also a factor in stunting the economic growth and development

Nepal has a mixed economy. It is majorly dominated by agriculture. But in recent year the non-agriculture sector is contributing more in Gross Domestic Production (GDP) than the agriculture sector. Nepal's economic growth continues to be adversely affected by the political uncertainty. Nevertheless, real GDP growth is estimated to increase to almost 5 percent for 2011/2012. This is a considerable improvement from the 3.5 percent GDP growth in 2010/2011 and would be the second highest growth rate in the post-conflict era. Sources of growth include agriculture, construction, financial and other services. The rate of unemployment and underemployment approaches half of the working-age population. Thus many Nepali citizens move to other countries in search of work. To the national economy remittance has great contribution. Remittances are estimated to be equivalent to 25–30 percent of GDP. The proportion of poor people has declined substantially in recent years. The percentage of people living below the international poverty line (people earning less than US\$1.25 per day) has halved in only seven years. At this measure of poverty the percentage of poor people declined from 53.1% in 2003/2004 to 24.8% in 2010/2011. However, the income distribution remains grossly uneven as in other developing countries.

For the economic development of Nepal, public & private manufacturing industries were established with the objective of balanced regional development, public welfare, employment generation, import substitution and the export promotion for dissemination of the development activities according to national priority.

Nepal has already adopted economic liberalization policy. Both private and public sector are active in business and economic activities in the nation. For the proper growth of industries sufficient infrastructure is a must. Some private business houses are doing well and in quite satisfactory position in the nation. But various public enterprises established during the planning era are not in good condition. Frequent changes in government policies and unnecessary political intervention are the basic reasons for the negative performance of industries. Thus, clear and simple policies providing definite facilities for a longer period of time are the primary requisites for industrial development.

Here we are going to discuss about two trading enterprises Salt Trading Corporation Limited (Public Private Partnership) and National Trading Limited (Fully Government Owned) in the prospect of comparative study of the profit planning and control system of both trading organizations running under the control of Government of Nepal (GoN). This research study will focus on a systematic evaluation and comparing analysis of budgeting procedure of these two organizations. Thus, it can give clear picture to the corporate people to take correct decision for the wellbeing of business. Profit planning is the systematic and continuous process to achieve certain objectives in specific time. So it is considered as important management tool to manage profit in every type of business organization.

Salt Trading Corporation Limited

Salt Trading Corporation Limited (STCL) is one of the largest business organization in Nepal established as an experiment of the utility of Public Private Partnership (PPP) for a developing country under PPP act of Government of Nepal. About 48 years ago (established in 1963 AD), the corporation was launched with objective to avail iodized common salt (since salt is not produced in Nepal and depends on import from India and China) for all citizens throughout the country. In the long run of its dedicated service to the nation, STCL has great contribution to ensure proper supply and distribution of essential daily consumable goods (listed in Nepal

Government's Gadget), erode black-marketing (regulate market & artificial scarcity) and industrial development in Nepal. With the proportion of 79:21, investment from private- public, STCL is managed by joint effort of state (Government) and private (shareholders). In the business journey, Salt Trading Corporation is a brilliant example of success that provides its services through 93 offices (22 Offices and 71 liaison offices) that include nearly whole population of the country as customers. STC has over 400 staff and has provided opportunities for over 1000 workers and laborers. The group has branches in all major towns in Nepal. STCL has 5 production oriented factories.

Salt Trading Corporation Limited makes all efforts to provide goods and services to the common people that have made STCL a major catalyst in bringing about the desired economic changes and growth in Nepal. STCL is not only focusing on providing its services to urban people (residing in towns and metropolis), it also reaches out to the poor and needy people of remote districts of Nepal (e.g. Himalayan regions). Realizing the need of quality products throughout the country by following the Government of Nepal's policy, Salt Trading Corporation is moving towards business diversification by searching for new products, innovative thoughts and new markets. The organization engaged itself in corporate activities such as trade, import, export, manufacturing (production), processing, supply and distribution of a vast diversity of goods and services. Food products, agricultural products, construction materials, machinery and tools, paper products and other goods are the main commodities for trade and business. The central corporate office of Salt Trading Corporation is located at Kalimati, Kathmandu, with its zonal, branch, sub-branch and depot offices in different other parts of the country.

STCL ensures comprehensive product portfolio and continuous improvement by providing products that match customers demand, requirements and aspirations within an appropriate price range according to time. STC made proper utilization of its excellent distribution network existing all over the country. STC offers wide range of daily consumable goods (Salt, sugar, Rice, Pulses and beans including Lentil, Oil, wheat and derived products) as well as Paper and allied products, Gas and allied products (including Gas Regulator & Hose Pipes), Coal, Cement etc. We seek to ensure proper supply and distribution of edible iodized salt and other essential consumer goods throughout the country. Team effort, technological expertise, terms of service, quality issues and consumer awareness programs are the main achievements of STC making

buyers feel that the corporation has made effective way to differentiate STC from other competitors.

All the products in STC undergo through quality control and certifications (such as NS) for the benefit of consumer and allow for an increased level of trust. This is our pleasure to inform our buyers of the quality control procedures that we have in place and we use to handle QC operations. Salt Trading Corporation sale its product & services under STC Brand. STC provides the guarantee of all its products in terms of quality and price.

Following are the products available in STC.

- Salt: Available in the brand name of Ayo, Bhanu, Shakti and Tej.
- Sugar: Available in different grades and packs.
- Rice: Available in different varieties and packs.
- Pulse: Different varieties of pulses are available in different packs.
- Wheat & Allied Products: Wheat, Wheat Flour, Semolina is available.
- Oil: Available in Pouches and Jars.
- Spices: Available in different packs.
- Paper & Allied Products: Available in different gauze and variety.
- Cement: Udaypur and Hetauda cement available.
- Coal: Available in different specifications.
- LP Gas & Allied Products: LP Gas available under STC Brand, Hose Pipe & Regulator available in Agni Brand.
- Tyre & Allied Products: Different sized trucks and non-trucks tyres and tubes are available

STC has the following objectives:

The main objective of STCL is to provide highly qualitative salt with reasonable price to its people all over the country whole year. Corporation is importing salt from India annually and is selling to her customer in 40% less price than in India. Besides salt, corporation has supplied other various products to its customer.

- Import salt at reasonable rates and manage its distribution all over Nepal.

- Import, export and distribute other daily consumer goods and items as per the need of the country.
- Open and operate branches sub-branch depots and offices in different parts of the country for purpose of import, export and distribution activities.
- Expand offices in all districts of the country.
- Invest in foreign companies, work in joint venture with foreign companies, and do business and trade by registering company abroad.
- Work as agent and representative of the corporation for export, import and trade.
- Establish, develop and expand its factories, machineries, vehicles and raw materials including other goods, semi- processed materials and processed materials.
- Establish new industries and reinvest in old established industries.
- Produce, import, sell and distribute chemicals and fertilizers.
- Purchase land and get involved in sales and distribution of housing and leasing, construct housing units, plot and plan Real Estate assets and related works. It is evident objectives mentioned above that STC was formed not as a commercial profit making enterprise, but as an inherently service oriented organization.

National Trading Limited

National Trading Limited (NTL) was established as a public limited company in March 1962 A.D. under the Nepal Company Act, in public sector completely owned by Government of Nepal (GoN). NTL was created in order to canalize commodity aids from the People's Republic of China and USSR with a view to meet the local cost of development projects initiated by these countries through the sale of aids goods in the domestic market. Previously, this function was handled by the Department of Commerce, GoN.

NTL is under the Ministry of Commerce of GoN. It has a Board of Directors, which consists of five members, is responsible for formulating short and long-term policies on NTL's periodical plans, programmers and policies. The Chairman and the General Manager are responsible for the appropriate execution of the plans, programmers and policies formulated and decided by the Board. The chairman and the board member are all appointees of GoN.

NTL's organization structure has undergone continuous as per the increasing volume of trading activities, which are also guided by the growing development works under various plan periods as well as because of the ever increasing needs of the people in general for consumer goods. As a result, NTL has a diversified organization structure consisting of eight different departments at central office; it has five regional offices, ten branch offices, and one foreign based office in Calcutta, besides the NTL head office in Kathmandu.

NTL through its trading activities has to fulfill economic and social responsibilities entrusted to it in the country. NTL has its social responsibility to maintain regular supply of daily necessity goods at reasonable price throughout the country. NTL again has the responsibility to fulfill the needs of the economic sectors like agriculture and industry by making available industrial machinery and raw materials and at a reasonable price. It has also rendered support services to the development of tourism by providing duty free goods like whisky, beer, liquors, cigarettes, tobacco, cigars, perfumes etc. through its bonded warehouse and duty free shop to persons with duty free privilege as well as to out-going and in-coming tourists.

NTL has assisted to various national development projects as roads, buildings, factories etc. directly/indirectly by making available of development goods (cement, iron rods, corrugated sheets, machinery's and so on) as well as it has established its business contracts with government and private trading entities in many other countries. Trade is one of the major aspects of the national economy. The efficient administration of trade is one primary responsibility of the national government. As trade sector involves imports and exports, both aspects assume importance for the economic development of the country. Imports materials and consumers' goods, which cannot be produce within the country, or which are not available adequately within the country. On the production for the purpose of earning the much needed foreign exchange. Naturally a developing country like Nepal would need the presence of several agencies both in the public and private sector to coordinate the above activities and manage its trade efficiently.

Currently NTL is trading for the following goods:

- 1) Construction Materials: Cement, Rod etc.
- 2) Machineries & Equipment:
- 3) Agro Processing Machineries such as rice mills.

- 4) Grain Milling Machineries: Grain processing Machineries and Pulverizes etc.
- 5) Wood working Machineries.
- 6) Domestic Water Pumps.
- 7) Irrigation Pumps.
- 8) Machine Tools, Power Tools and Hand Tools etc.
- 9) Electric Motor:
 - a) Three phase 380V 50Hz 6p & 4P
 - b) Single phase 220V 50Hz 6p & 4p
- 10) A/C Synchronous Generator of Single phase and 3 phases
- 11) Automatic Voltage Stabilizer & Regulators.
- 12) Bicycles:
 - a) Ladies & Gents
 - b) Mountain Bikes
- 13) Tractors.
- 14) Goods for Bonded Warehouse & Duty free shops:
 - a) Liqueur, Whiskies, Rum, Wine, Gin, Tequilas, Brandy, Cognac, Sherry, Syrup, Vermouth, Courvoisier, Beer & Bardinet.
 - b) Cigarettes
 - c) Perfumes
- 15) Industrial Raw Materials.
- 16) Domestic Electric Appliances: D-freeze, Chest freezer, Television etc.
- 17) Consumer Goods: Sugar.
- 18) Textiles/ Fabrics.

NTL has the following objectives:

- As the first leading trading organization at the national level, NTL was made to deal with both the import and export aspects of foreign trade for the purpose of rendering support service to the economic development of the country. In order to achieve this end, currently the NTL have had the following board objectives:
- To stabilize the price of construction materials and industrial raw materials needed for the country both by local purchase and import.
- To maintain stable price through increase in supply by importing the necessary consumer goods of general public.

- To supply bonded ware house and duty free goods.
- To act as an agent of Government of Nepal in the matter of import and distribution of the goods, which the GoN has to import, and distribution time to time and to handle the commodity-aids goods received for GoN.
- To engage in agencies business by getting the agent through producer for the products in which NTL is dealing.
- To earn reasonable profit in return of GoN's investment.

1.2 Statement of the Problem

In the context of Nepal corporations are still in infancy position. Through the government in respect of industrialization announces various attractive and liberal policies. But most of established public corporations are not in satisfied position. The financial performance of established corporations is poor. They are operating in losses. There may be various and different reasons for the poor performance of the public corporations. Such reasons should be investigated and taken corrective action for the improvement in their performance.

STCL is established under the joint public and private ownership as a service oriented trading business and NTL is the totally government owned trading organization. A huge amount of investment has been made but the performances are not fully satisfactory. Since it has passed a long journey as public enterprise, the profit trend or profitability portion of these two organizations is not in expected level. The ongoing insurgency in the country has adverse effect on the performance of the trade and commerce sectors. Some of the problems facing by the trading corporation are follows:

- Limited market opportunities.
- Insufficient emphasis on the effective planning.
- Lack of efficient resources utilization.
- Unsatisfactory financial performance.
- Inadequate HRD efforts.
- Open border with India.

- Political interferences.
- Limited infrastructure and facilities.
- Lack of sufficient capital and secure environment for investment.
- Low level of return.

Public and private trading enterprises have been suffering due to insufficient planning and ongoing insurgency. Trading enterprises are playing a dominant role in the Nepalese economy. Trade and business sectors are sick in financial progress and business activities. Among them some private trading companies are doing good business in their sector. But it is apparent that almost all the enterprises established in public sector are facing huge losses. STCL & NTL are the huge public enterprises in trading sector facing the similar problem of dismal performance and financial position and getting worse day by day. So this study is designed to identify the planning and control system for profit aspect of these companies. STCL and NTL are operating at a profit but the growth of return has not been improving. So, to solve the problem in the above context profit planning and controlling system is necessary.

The following are the problems to be taken into consideration in this study:

- a) Do they plan for profit?
- b) Do they have various functional budgeting systems as an integral part of profit planning?
- c) Is there appropriate planning system adopted by STCL and NTL?
- d) What is the Overall trend of profit in STCL and NTL?
- e) What is the basis for sales forecasting and its achievements?
- f) What steps should be taken to strengthen the profit performance of STCL and NTL?

1.3 Objectives of the Study

Normally, profit planning and control (PPC) is practiced in manufacturing concerns to plan desired profit and to control activities. But in this ever changing, complex business environment the importance of PPC is also realised in trading concerns. The main objective of the study is to find out practical application of Profit Planning and Control in trading enterprises.

The specific objectives of the study are as follows:

- To study and analyse the functional budgets of Salt Trading Corporation Limited & National Trading Limited on basis of actual data.
- To evaluate and forecast future sales and profit trend of Salt Trading Corporation Limited and National Trading Limited.
- To examine various accounting and financial ratios to measure the financial position, profitability and efficiency of the concerned organizations under study.
- To find out trading performances of both organizations then make comparative study on the basis of analysis findings.
- To point out some valuable recommendations and suggestions based on analysis findings.

1.4 Significance of the Study

The present study highlights about the application of detailed and systematic budgeting in Nepal, especially in NTL & STCL. The study also highlights and analyse the problems and prospects in budget application and implementation. The study also examine and review the present and historical literature to bridge the gap between the literature exploring to attain Public Enterprises (PEs) and private limited objectives to apply the comprehensive profit planning and control system in most practical way.

Without proper planning, profit will not just happen. So, every profit seeking enterprises should systematically plan for profits in a proper manner. Various functional budgets are the basic tools for proper planning of profit and control over them. It is only from profit that investors can be compensated for risking their capital. Profit planning processes and its elements considerably contributes to improve the profitability of an enterprise and to improve the overall financial performance of an organization by the help of best and effective utilization of resources and thereby an improvement in the industrialization process of a country.

Accomplishment of objectives in every organization depends upon the application of resources. This availability of resources is scarce and the financial performance of an organization depends purely on the use of its resources. Budgeting is the key to productive financial planning. So, all the organizations running under commercial principle have to give due regard to these most important single tools while managing their physical and financial targets. If the planning

process of an organization is effective and result oriented, the pace of development naturally steps forward.

A volatile environment seeks to achieve innovative, dynamic and more useful information about the approach and practice, so as to highlight the broad and specific facts to related fields. In the context of Nepal, very few studies and research have been made in respect of budgeting and profit planning of Nepalese public enterprises with the special case of NTL & STCL. We can be better informed from comparative study of NTL & STCL about budgeting procedure of government controlled organization, therefore this study holds some importance.

Besides this above all, the present study will help the general interest and minimise curiosity of various interested people and as well as this study will help to overcome the certain limited problems regarding budgeting activities.

1.5 Limitations of the Study

For every type of organization PPC is the important tool for planning and controlling. But it is not a substitute of management. It would be totally wrong, if we think PPC is the only tool to ensure success and to guarantee profit. An efficient management is required for implementation of PPC so, this study will be useful only in the context of large and efficient organizations. The study is confined to profit planning and control of National Trading Limited and Salt Trading Corporation Limited. Having reliable and sufficient data and necessary alternative constraints, the limitations of this study are as follows:

- This study covers the analysis of the last five years only from the fiscal year 2063/64 to 2067/68.
- Analysis is concentrated on some managerial, financial and accounting aspects and it doesn't cover the other areas of NTL & STCL.
- The study is mainly based on secondary data, so the limitation of the secondary data may exist.
- Application of PPC itself in any organization is not a free from any limitation so, limitation of PPC will remain in the study.
- Due to limited resources constraints and research experience, this study is neither the comprehensive nor the extensive.

- The main concern of this study is only to cover the present comparative managerial status in terms of their profit planning and control procedure of NTL & STCL.

1.6 Organization of the Study

This chapter will provide clear picture about whole research work chronologically.

The study is divided into the following five chapters:-

CHAPTER 1: Introduction

This chapter consists of background of the study, sort brief about NTL & STCL, statement of problem, objective, significance of the study.

CHAPTER 2: Literature Review

This chapter deals with introduction of NTL & STCL, application of planning, importance, scope & limitations of PPC, role of management, role of sales planning in PPC. Corporate planning and profit planning, strategic management and profit planning, role of forecasting in planning. Strategic & tactical sales plan and brief sketch of previous research work.

CHAPTER 3: Research Methodology

The third chapter of the study consists of research design. Sources of data, period covered data processing procedure, tools and techniques of analysis used.

CHAPTER 4: Data Presentation & Analysis

In the fourth chapter data presentation, interpretation & analysis of data is made with help of selected tools and techniques. Various data will gathered from the application of different methods. Major findings are drawn on the basis of analysis of data.

CHAPTER 5: Summary, Conclusion & Recommendations

This is the last chapter of the study. The whole picture of the study has been presented in a summary. This part consist current situation, issues and gaps, action plans and possible corrective actions to improve the existing situation as well as finding of this study.

CHAPTER-2

REVIEW OF LITERATURE

The scientific research must be based on existing and past knowledge because this gives the strong theoretical foundation to the current study. To explore more realities through research work, there has to be continuity in research to the topic of study. Linking between past and present study insures the continuity in research work. Here in this chapter, to give clear conceptual framework to the study topic profit planning and control, available literatures are reviewed such as books, journals, articles, previous theses, related websites and so on.

The present chapter i.e. the review of literature has been classified in to the following two categories;

- Conceptual Review
- Review of Previous Studies

2.1 Conceptual Review

Every one desires for rapid socio-economic development of the country by utilizing the scarce resources. Public enterprise is one of the most important means of socio-economic development of the country. The reason behind the establishment of public enterprises are basically to accelerate the rate of economic growth, to build infrastructures of development, to make provision of public utility, to generate employment opportunity, to supply essential commodities and service; and to reduce trade imbalance of the country. But in fact, operational efficiency of the Nepalese public enterprises does not seem satisfactory in accomplishing their objectives. In this context, a study of profit planning in trading public enterprises in Nepal with a special reference of Salt Trading Corporation and National Trading Limited are undertaken as a case study to analyze the various financial budgets that are prepared by these organizations, to sketch the trend of the profitability, to evaluate the variance between budget and actual of the concerns and to examine practical effectiveness of profit planning and control system of these

organizations. The reason, why profitability has not been improved for several years and the factors responsible for such situations has been explored.

Growth and survival of every organization depends up on the profit earned by it. There is a very popular saying in accounting theory that profit do not just happened it has to be managed. So, profit is the output of well managed activities. For earning profit when activities are planned or management acts in planned and organized manner that is called profit planning. Profit planning is the major part of the overall planning process in an organization. It is the plan of firms expectation through which firm can measure performance of the managers and there unit. Generally profit planning is called planning for profit. Profit planning is a coordinated and comprehensive plan expressed in financial plan for the operation and resources of an enterprise for some specific period in the future. Before knowing about profit planning it is essential to get some knowledge about profit and planning separately. So, these two different words are explained below with the help of previous literatures of different authors.

2.1.1. Profit

Profit is a life blood of any business enterprises. To grow and survive in competitive environment profit is a must. In profit motive organization, it is the main objective that is to be achieved. Although there is many other objectives in the modern organizations like market leadership, diversification, brand building and so on. But the profit maximization objective is the most important and essential one because without this objective other objectives cannot be fulfilled or achieved. So, no one can completely ignore the objective of earning reasonable profit. Profit is the main test of the business enterprise's position and its performance. Profit is simply a financial benefit that is realized when the amount of revenue gained from a business activity exceeds the expenses, cost and tax needed to sustain the activity. Any profit that gained goes to the business owners who may or may not decide to spend it on the business. And it can be said that profit is the excess of income over the cost of production.

The term 'Profit' is quite controversial because there are several definitions about it, an accountant defines it in one way, an economist defines in another way and next one can define it with the next definition. So, to be clear about profit some definitions are reviewed here, given by various scholars:

- Economist theories on profits may be put in three broad groups. The first looks upon profit as the reward for bearing risk and uncertainties; the second views of profit as the consequence of frictions and imperfection in competitive adjustments of the company to dynamic changes; the third sees profit as the reward for successful innovation. **(Dean J. 1977)**
- Profit is the reward for bearing risk, of enterprise, the risk of venturing in business, the risk of owning sometimes in hope of selling it later. **(Myres J. H. 1984)**
- Profit is the primary objectives of a business. In view of heavy investment, which is necessary for the success of most enterprises, profit in the account sense tends to become a long term objective, which measure not only the success of product but also of the development of market for it. **(Kulkarni P. V. 1985)**

It is quite clear that there is no exact definition of profit. Whatever the definition may be, profits are surplus remaining after total costs are deducted from total revenue. All the definitions are giving focus to the profit as final objective from different way of explanation. Profit is reflected in reduction in liabilities, increase in assets, or increase in owners' equity. It furnishes resources for investing in future operations, and its absence may result in the extinction of a company as an indicator of comparative performance.

The amount remaining after subtracting from the total income of a company, the total monetary cost of all business activities, as well as the opportunity cost of profit that could have been made by investing resources in alternative business activities. The economic profit measures both the financial status of the firm, and the effectiveness of the firm's decision-making strategies. The success of business depends largely upon the profit earn or surplus increased by the business. The efficiency of the management is reflected upon the volume of profits/surplus of the business. All enterprises activities directly or indirectly play the significant role for judging the managerial efficiency. In absence of profit nobody can think about the long-term survivability of the enterprises. Many firms unable to earn adequate profit are being out from market or industry because of their less competitive economic position. It measures how well a business performs economically. Profit is a signal for the better allocation of scarce resources towards objective achievement and yardstick for judging managerial efficiency.

2.1.2. Planning

Planning is the first essence of management and all other functions are performed within the framework of planning. Planning means deciding in advance what is to be done in future. Planning starts from forecasting and predetermination of future events. It is the whole concept of any business organization. No firm can accomplish its predetermined goals and objectives without proper and effective planning. Through planning manager can better communicate company goals and objective to supervisors and subordinates.

In organizations, planning is a management process, concerned with defining goals for company's future direction and determining on the missions and resources to achieve those targets. To meet the goals, managers may develop plans accordingly their field of responsibility. Planning always has a purpose. The purpose may be to achieve certain goals or targets.

Main characteristics of planning in organizations are:

- Planning increases the efficiency of an organization.
- It reduces the risks involved in modern business activities.
- It facilitates proper coordination within an organization.
- It aids in organizing all available resources.
- It gives right direction to the organization.
- It is important to maintain a good control.
- It helps to achieve objectives of the organization.
- It motivates the personnel of an organization.
- It encourages managers' creativity and innovation.
- It also helps in decision making.

The planning helps to achieve these goals or target by using the available time and resources. The concept of planning is to identify what the organization wants to do by using the four questions which are "where are we today in terms of our business or strategy planning? Where are we going? Where do we want to go? How are we going to get there?"

To be clear about the concept of planning, some definitions given by scholars are;

- To plan is to look ahead and chart out of future courses of operations. It is the determination of a course of action to achieve a desired result. **(Kulkarni P. V., 1985)**

- Planning is a process of developing enterprises objectives and selecting a future course of action to accomplish them. It includes establishing enterprises objectives and selecting a future course of action to accomplish them. It includes establishing enterprises objectives, developing premises about the environment in which they are to be accomplished, selecting a course of action for accomplishing the objectives including activities necessary to translate planning to be current deficiencies.

(Welsch, A. Glenn Ronald, W. Hiltons, Powt. N. Gordon (1992)

- Planning is the feed forward process to reduce uncertainty about the future. The planning process is based on the conviction that management can plan its activities and condition that state of the enterprise that determines its density. (Pandey I. M., 1991)

Planning is one of the most important resources and time management techniques. Planning is preparing a sequence of action steps to achieve some specific goal. If you do it effectively, we can reduce much the necessary time and effort of achieving the goal. A plan is like a map. When following a plan, we can always see how much we have progressed towards our enterprises goal and how far we are from our destination. Knowing where we are is essential for making good decisions on where to go or what to do next. Generally in business organizations, planning is divided in to three categories;

- Corporate planning
- Strategic long-range planning
- Tactical short-term planning

Corporate Planning: Corporate planning is a systematic approach to clarifying corporate objectives, strategic decision making and checking progress toward objectives. A corporate plan is a set of instructions to managers of an organization describing what role each department is expected to fulfill in the achievement of organization's objectives. From a company's perspective, corporate planning involves formulating long term business goals so that the strategic planning of an enterprise may be developed and acted upon. Corporate planning is designated by considering external environment components. It is the planning phase before drawing up plan for business. In this phase planner attempts to understand the systems of threats and opportunities the organization will face.

Strategic Long-Range Planning: Strategic planning is a top management function in which the organization's purpose, mission and overall objectives and policies are developed to position the organization advantageously in its operating environment. It is preparing in involvement of high level of executives and managers. Strategic long-range planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy. In order to determine the direction of the organization, it is necessary to understand its current position and the possible avenues through which it can pursue a particular course of action. Generally, strategic planning deals with at least one of three key questions:

1. "What do we do?"
2. "For whom do we do it?"
3. "How do we excel?"

In many organizations, this is viewed as a process for determining where an organization is going over the next year or—more typically—3 to 5 years (long term), although some extend their vision to 20 years. It is preparing on the basis of corporate planning and tactical and short-term planning is depends upon this planning phase. So, the long-range planning is more important for broad and long living enterprises.

Tactical Short-Term Planning: Tactical planning takes a company's strategic plan and sets forth specific short-term actions and plans, usually by company department or function. The tactical planning horizon is shorter than the strategic plan horizon. If the strategic plan is for five years, tactical plans might be for a period of one to three years, or even less, depending on what kind of market the business serves and the pace of change. Tactical planning is done at all level and involvement of line managers and supervisors is necessary because they more familiar with day to day problem that company faces at the time of business operation. In short, tactical short-term planning is a systematic determination and scheduling of the immediate or short-term activities in achieving the objectives of strategic planning. Some times to solve immediate problems front managers have to make tactical plans within a minute by considering company objectives and guidelines. Because of rationalized tactical business planning business operation gets smooth and through this company and strategic objectives and goals are achieved easily.

2.1.3. Role of Forecasting in Planning

Forecasting is an integral part of decision making activities of management. An organization establishes goals and objectives seek to predict the environmental factors. The need for forecasting is increasing as management attempts to decrease its dependence on change and become more scientific in dealing with its environment. Since each area of organization is related to others. A good or bad forecast can affect the entire organization. Planning or budgeting is not nearly forecasting although forecasts from the basis of budgeting. Forecasting is the estimate of the future environment within the company will operate. Budgeting or planning on the other hand involves the determination of what should be done, how the goals may be reached and what individual or units are to assume responsibility and be held accountable.

2.1.4. Profit Planning

Generally, profit planning is known as planning for profit, which is planned by the management of the concern. The task should be implemented according to plan, so it directs the organization toward achieving profit. Profit planning is the process of developing a plan of operation that makes it possible to determine how to arrange the operational budget so that the maximum amount of profit can be generated. There are several common uses for profit planning, with many of them focusing on the wise use of available resources.

The actual process of profit planning involves looking at several key factors relevant to operational expenses. Putting together effective profit plans or budgets requires looking closely at such expenses as labor, raw materials, and upkeep, and the facilities maintenance cost of sales and marketing efforts. By looking closely at each of these areas, it is possible to determine what is required to perform the tasks efficiently, generate the most units for sale, and thus increase the chances of earning decent profits during the period under consideration. Understanding the costs related to production and sales generation also makes it possible to assess current market conditions and design a price model that allows the products to be competitive in the marketplace, but still earn an equitable amount of profit on each unit sold. So, profit planning is essence in each business firm to evaluate the overall operation for efficiency. Some range of definitions over the profit planning is given here by different authors:

- Profit Planning is a comprehensive statement of intentions expressed in financial terms for the operation of both short and long period. It is a plan of the firm's expectation and is used as a basis for measuring the actual performance of organization as a whole and its

units. A profit plan has an immense value in management; it helps in planning and coordinating if used appropriately, but not a replacement for management. Profit planning is a comprehensive and coordinated plan expressed in financial terms for the operations and resource of an enterprise for some specific period in the future.

(Fremgen, J. M. 1973)

- A profit planning and control program can be one of the more effective communication networks in an enterprise. Communication for effective planning and control requires that both the executive and the subordinate have the same understanding of responsibilities, ensure a degree of understanding not otherwise possible. Full and open reporting in performing reports that, focus on assigned responsibilities likewise enhance the degree of communication essential to sound management. **(Welsch, et al., 2001)**
- Profit Planning is a predetermined detailed plan of action developed and distributed as a guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus it can say that profit planning is a tool which may be used by the management in planning the future course of actions and controlling the actual performance. **(Gupta, S. P. 1992)**

Profit planning can be defined as the set of steps that are taken by firms to achieve the desired level of profit. Planning is accomplished through the preparation of a number of budgets, which, when brought through, form an integrated business plan known as master budget. The master budget is an essential management tool that communicates management's plan throughout the organization, allocates resources, and coordinates activities. Normally profit does not just happen, it has to be managed. When a manager plans its profit performance, it is known as profit planning. Profit planning is a part of overall planning process of an organization. But profit planning and control (also called managerial budgeting) is an overall planning process of an organization.

2.1.5. Profit planning and control (PPC)

Profit planning and control is an essential function of the manager of any organization. PPC is a comprehensive and coordinated plan which is expressed in financial terms in some definite future period of time. For enterprises growth and survival profit is the most important element. So, to

earn desired level of profit operations inside the enterprises has to be planned and controlled. Profit planning is a part of overall planning process of an organization and process of preparing budgets and using them to achieve management objectives is called managerial budgeting or profit planning and control. We can define to PPC as a system and a tool to management which enables management to accomplish goals easily by providing guidelines and helps to correct policies. PPC is the continuous and phase wise function or which has to be performed in a certain process. Thus, it can be interpreted as a system. And it is a management tool because through this process management can perform its functions in the efficient way by planning and controlling its operations and resources effectively.

A profit planning and control program helps the management perform its planning function by developing a strategic (long-range) profit plan and a tactical (Short-range) profit plan. Both of these plans include monetary expectations (i.e. goals) for assets, liabilities, profits and return on investment. The foundation of the strategic profit plan (usually extending three, five or ten years into the future) includes the objectives, board goals, planning premises, and strategies of the enterprises as developed by the top management. The tactical profit plan can actually be viewed as the first years of the strategic profit plan. It is the detailed plan for the enterprises and for each of its responsibility centers.

A profit planning and control program helps management in its control function by providing realistic goals and standards that are implemented and are then compared with actual results to measure performance. Under profit planning and control this performance measurement extends from top to the lowest organizational level in the enterprise

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

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

Profit planning and control also known as comprehensive profit planning and control is a new term in the literature of business though it is a new term but it is not a new concept in the management. Comprehensive profit planning and control or PPC on other terms are business budgeting, managerial budgeting and budgeting. It is an integral and formalized approach for performing significant phases of management planning and control functions specially it involves,

- The development and application of the broad and long- range objectives.
- The specification of enterprises goals.
- A long range profit plan developed in broad terms.
- A short-range profit plan detailed by assigned responsibilities by divisions, products and projects.
- A system of periodic performance report by assigned by responsibilities and
- Follow up procedures

To have a good concept about PPC, review of some definitions is necessary by different authors:

- Comprehensive profit planning and control is systematic and formalized approach for accomplishing the planning, co-ordination and control responsibilities of management.
(Glenn A. Welsch)
- The concept of a comprehensive budget covers its use in planning, organization and controlling all the financial and operating activities of the firm in the forth coming period.
(R. M. Lynch and R. W. Williamson)
- Comprehensive profit planning and control is as a process designated to help management effectively perform significant phases of the planning and controlling

functions. The PPC model involves (1) development and application of broad and long-range objectives of the enterprises; (2) specification of enterprises goals; (3) development of a strategic long-range profit plan in broad terms; (4) specification of a tactical short-range profit plan detailed by assigned responsibilities (divisions, departments and projects); (5) establishment of a system of periodic performance reports detailed by assigned responsibilities; and (6) development of follow-up procedures. **(G. A. Welsch, R. W. Hilton and P. N. Gordon; 1992)**

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

Profit Planning & Control is an important approach, mainly in profit oriented enterprises. Profit planning is merely a tool of management; it is not an end of management or substitute of management. It facilitates the manager to accomplish managerial goals and managerial decision in a systematic way.

The management is efficient if it is able to accomplish the objectives of the enterprises. It is effective, when it accomplishes the objectives in minimum effort and cost. A systematic approach that facilitates way, a budgetary control system has been described as a historical combination of a goal setting machine for increasing an enterprises profit and goal-achieving machine for facilitating organizational coordination and planning while achieving the budget targets. PPC is a detailed plan for acquiring and using financial and other resources over a specified period of time. It represents a plan for the future expressed in formal quantitative terms. The act of preparing plan for profit is called profit planning. The use of budgeting to control a firm's activities for maximizing profit is called budgetary control or profit planning and control. Mainly PPC consist two types of budgets: (1) Operating Budgets: which includes sales budget,

production budget, purchase budget, and other expenses and income related budgets; (2) Financial Budgets: which includes income statement, balance sheet and other financial statements.

2.1.6. Fundamental Concept of Profit Planning and Control

The fundamental concept of profit planning and control includes the underlying activities or tasks that must generally be carried out to attain maximum usefulness from profit planning and control. These fundamentals have never been fully codified. Welsch, Hilton and Gordon presented an outline of the fundamental concepts of profit planning and control,

- A management process that includes planning, organizing, staffing, leading and controlling.
- Managerial commitment to effective management participation by all levels in the entity.
- An organization structure that clearly specifies assignments to management authority and responsibility at all organizational levels.
- A management planning process which includes the following phases: (1) establishing enterprises objectives and goals, (2) developing premises about the environment of the entity, (3) making decisions about course of action, (4) initiating actions to active the plans and (5) evaluating performance feedback for replacing.
- A management control process that consist the following phases: (1) compare actual performance for the period with the planned goals and standards, (2) prepare a performance report that show actual results, planned results and any differences between the two, (3) analysis the variations and the related operations to determine the underlying causes of the variations, (4) develop alternative courses of action to correct any deficiencies and learn from successes, (5) make a choice (corrective action) from the set of alternatives and implement it and, (6) follow up to appraises the effectiveness of the correction; follow with feed-forward for re-planning.
- A continuous and consistent co-ordination of all the management functions.
- Continuous feed-forward, feedback, follow up, and preplanning through defined communications channels (both downward and upward)
- A strategic (long range) profit plan.

- A tactical (Short range) profit plan.
- Responsibility accounting system.
- A continuous use of the exception principle.
- A behavioral management program.

2.1.7. Foundations for Profit Planning and Control

Profit planning and control program is based on some fundamental, which are given below;

- **Managerial Involvement and Commitment:** Managerial involvement and commitment involve the managerial support, confidence participation and performance orientation. All level of management especially top - level management should engage itself to comprehensive profit planning and control successful;
 - Understand the nature and characteristic of profit planning and control.
 - Be convinced that this particular approach to managing is preferable for their situation.
 - Be willing to devote the effort required to make it operative.
 - Support the program in all its ramifications.
 - View the results of the planning process as performance commitments.

Managerial involvement on comprehensive profit planning and control program is directly related to the confidence of management and its known ability to influence the future program and conviction with the idea of setting goal in advance. Managerial involvement also deals with the idea of the direct participation of the lower staff on the program. But one should not forget the fact that the ultimate decision should come from the top level and the idea of protect own self should be totally controlled.

- **Organizational Adoption:** A profit planning and control program must rest upon sound organizational structure for the enterprises and a clear-cut designation of lines of authorities and responsibilities. The purposes of organization structure and the assignment of authority are to establish a framework within which enterprise objectives

may be attained in a coordinated and effective way on a continuing basis. The scope and interrelationship of the responsibilities of each individual manager are specified.

For easy and effective control sometime the organizational structure are divided into different functional sub-units, and each sub-unit chiefs are assigned with specific responsibility centers. Sometimes these responsibility centers are use to be in form of a division or department or a sales district. However, in most of the cases these centers are use to be a functional area like:

- Cost Center: It is only responsible for controllable costs incurred in the sub-unit but not responsible for profit or investment.
- Cost and revenue center: It is responsible centers for cost and revenue and hence profit.
- Investment Center; It is responsible for cost revenue profit and amount of investment invested on assets.

Based upon the set of organizational structure the annual plan and programs are prepared. The activities are:

- Top - level management should furnish the information about the objectives, planning assumption to the managers of all functional subs - units.
- Based upon the information furnished to them each sub unit prepares the annual plan followed by sales and production plan.
- After reviewing and evaluating the plans submitted by the sub-unit, higher management prepare master plan for the enterprises as a whole which will known as profit plan or master plan.

- **Responsibility Accounting:** Planning is done with the help of the historical data supplied by accounting section and comparing actual data with projected or planed data does control. So, for this reason accounting system of any enterprise 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 responsible of the various division, then the relevant parameters of the cost, revenue and other financial data should be utilize for the preparing plan.

At its origin, cost accounting was giving emphasis only on costing of goods produced. But nowadays situation has changed and it is given more emphasis on cost planning than only to costing. This change in priority is based upon the responsibility accounting and principle of product cost has been given secondary importance. At first cost data generated from historical cost accounting are used for cost planning and control purpose then the same cost data used for costing purpose.

For evaluation and for accounting purpose responsibility centers prepare chart accounting parameters to be used for planning purposes and supply it with full instruction to respective unit then only the main objectives of the responsibility accounting can be fulfilled.

- **Full Communication:** Communication can be broadly defined as an interchange of thought or information to bring about a mutual understanding between two or more parties. It may be accomplished by a combination of words, symbols, message and subtleties of understanding that come from working together, day in and day out, by two or more individuals.

For comprehensive profit planning and control, effective communication means development of well defined objective, specification of goals, development of profit plans and reporting and follows up activities related to performance evaluation for each responsibility center. To have effective communication for comprehensive profit planning and control, both are the parties related with the planning activities must have some understanding responsibilities and goals, full participation in all matter, well-defined downward flow of information and well-defined reporting system is needed.

- **Realistic Expectation:** Profit planning and control must be based upon realistic approach or estimation. Management must be realistic assumption and must not take either irrational optimism or unnecessary conservatism. Perfection on setting goal or objectives of the future sales, production levels, costs and capital expenditure cash flow and so on determine the success of profit planning and control purpose, a realistic approach reared with the dimension and external internal environment that will during the time span should be considered. This is called expectation.
- **Flexible Application:** Rigidity of any comprehensive profit planning and control program is strictly undesirable because the managerial use of different implications.

Unless budget which imposes rigidity on any activity and puts constraint on the decision making freedom of managers, profit planning and control program permits freedom to all managers. This is possible in profit planning because in the course of preparation profit planning and control all level of managers are involved and hence the top management will have privilege to make necessary decision and delegate, the power of making favorable decision. For cost control also, the principle of flexibility is important. Finally, it can be said that for profit planning and controlling purpose budget should not be regarded as straight jacket and for management purpose the profit planning and control approach should not be regarded as the constraint for the management to seize the opportunities, flexibility is going to be most beneficial for enterprises in long run.

- **Time Dimensions:** Whether an individual or an entity remains idle or busy, time passes at the same rate. The problem of the manager in one hand is to accomplish the planned activities in a given time and on the other hand is to prepare the plan itself. Phasing of the planning is of two types: one is (a) timing of planning horizons and b) timing of planning activities.

Planning horizons is the time for which the planning is done or we can call it life span of the plan. For any enterprise there use to be many planning horizons to maintain the continuity of planning activities. The decision made by the manager for future activities reflects the managerial panning. In other words, managerial decision, which reflects planning activities, always effects on future activities only. It does not have any effects on present or past. Major decision should be made based on adequate supporting study, analysis, evaluation, and consolation. For effective implementation of planning, management of an enterprise must establish a definite time dimension types of activities. This is called planning activities.

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

- **Behavioral View Point:** Behavioral aspect of human is the field of study of the psychologist, educator and business person and finding was that there could be so many unknown misconceptions and speculation, which have to be considered for efficient management. A goal and dynamic leadership can resolve these problems by integrating

all the group efforts for betterment of the organization. These facts also have been well considered under comprehensive profit planning and control approach and focuses has been given to resolve the behavioral problems.

To motivate employees there should be a good harmony between their personal interest and organizational interest and goal have to be identified accordingly. More than monetary benefits personal satisfaction from the works counts a lot for the competent people. Finding of relevant study conducted by industrial psychologist has described about the effects of pressure on the human behavioral. Pressure on to moderate limit is needed to pursue the working staff to work but excess pressure will have negative effects. And behavioral recognition in terms of individual recognition of the work or right people in right place should be carefully done. The comprehensive profit planning and control approach has been developed on these principles.

- **Follow up:** This fundamental holds that both good and substandard performance should be carefully investigated, the purpose being three fold: (1) in the case of substandard performance, to lend in a constructive manner to immediate corrective action (2) in case of outstanding performance to recognize it and perhaps provide for a transfer of knowledge to similar operations and (3) to provide a basis for better planning and control in the future’.

2.1.8. Basic elements of profit planning and control

The basic elements of profit planning are as follows;

- **Comprehensive and co-ordinate plan:** The profit planning considers all activities and operations of an organization. The budgets prepared by different departments inside an organization are compiled. So, before preparing a profit planning firstly all the budgets prepared by departments have to be compiled to form comprehensive profit planning.
- **It is expressed in financial terms:** All activities covered by budgets are related with funds. Therefore the budget has to be expressed in money units i.e. in rupees, dollars, pounds etc.

- **Plan for firm's operating and resources of budget:** It is a mechanization to plan for the firm's all operations or activities. The two aspects of every operation are revenue and expenses. The budgets must plan for quantity, revenue and expenses related to specific operations. Planning should not be done for revenue and expenses only. The plan should be made to carry out the operations. The planning for resources will include planning assets and sources of funds.
- **Plan for specific periods:** Time dimension must be added in a budget. A budget is meaningful only when it is related to a specific time. The budget estimates will be relevant only for some specific period.

2.1.9. Components of profit planning and control

Welsh, Hilton and Gordon have presented the components of PPC. A PPC program should have all its components that are required to fulfill the objectives. Which are supposed to be fulfilled by PPC program? Following are the PPC components:

A. The substantive plan:

- a) Broad objectives of the enterprises
- b) Specific enterprise goals
- c) Enterprise strategies
- d) Executive management planning instruction

B. The financial plan:

a. strategic long-range profit plan

- i) Sales, cost and profit projections
- ii) Major projects and capital additions
- iii) Cash flow and financing
- iv) Personal requirements

b. Tactical short-range (annual) profit plan

1. Operating plan:

- Planned income statements
 - Sales plan
 - Production(or merchandise purchase) plan

- Administration expenses budget
- Distribution expenses budget
- Appropriation-type budgets (e.g. research and development, promotion, advertising)

2. Financial position plan

- Planning balance sheet
 - Assets
 - Liabilities
 - Owners equality

3. Cash flow plan

- a) Variable expenses budget output expenses
- b) Supplementary data (e.g. cost-volume-profit analysis)
- c) Performance reports (including any special reports) each month end and as needed.
- d) follow up, corrective action and preplanning reports.

2.1.10. Purpose of profit planning and control

The main objective of profit planning and control is to assist in systematic planning and in controlling the operations of enterprises. In fact, it is the best source of communication and an important tool in the hand of management. The purpose of budgeting and PPC is summarized as follows:

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

- To provide means of measuring and controlling the performance of individuals and units and to supply information based on which the correct actions can be taken.

2.1.11. Importance of profit planning and control

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

The following points show the importance of PPC:

- It forces early consideration of basic policies.
- It requires adequate and sound organization structure; that is, there must be a definite assignment of responsibility for each function of the enterprise.
- It compels all members of management, from the top down, to participate in the establishment of goals and plans.
- It compels departmental managers to make plans in harmony with the plans of other departments and of the entire enterprise.
- It requires adequate and appropriate historical accounting data.
- It requires that management put down in figures what is necessary for satisfactory performance.
- It compels management to plan for the most economical use of labour, material and capital.
- It installs at all level of management the habit of timely, careful, and adequate consideration of the relevant factors before reaching important decisions.
- It reduces cost by increasing the span of control because fewer supervisors are needed.
- It frees executives from many day-to-day internal problems through predetermined policies and clear- cut authority relationships. It thereby provides more executive time for planning and creative thinking.

- It tends to remove the cloud of uncertainty that exists in many organizations, especially among the lower levels of management, relative to basic policies and enterprise objectives.
- It pinpoints efficiency and inefficiency.
- It promotes understanding among members of management of their co-workers' problems.
- It forces a periodic self-analysis of the company.
- It forces management to give adequate attention to the effect of general business conditions.
- It aids in obtaining bank credit; banks commonly require projections of future operations and cash flows to support large loans.
- It checks progress or lack of progress toward the objectives of the enterprise.
- It rewards high performance and seeks to correct unfavourable performance.
- It forces management to consider expected future trends and conditions.

2.1.12. Limitation of Profit Planning and Control

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

- **The Profit Plan is based on estimates:** Profit planning is not an exact science. It is based on estimate. The success of a profit planning is depends to a degree on the accuracy with which the basic estimates are made. Therefore, estimates should be made on the basis of all the facts available. Using correct and modified statistical techniques and manager judgment can make the accurate estimates.
- **Danger of rigidity:** Profit plan and control is an estimation and quantitative expression of all relevant data. Therefore, there can be tendency to attach some sort of rigidity or finality to them. However, rigidness makes profit plan and control unless. For usefulness, the profit plan and control must be flexible. Various techniques must be tried, improved

or discarded and related with others. In other words, a profit plan and control program must be dynamic in every sense of the word.

- **Profit Planning and Control is application for long period:** The installation of a complete profit plan and Control is not possible in short period. It should be continuously used in the business and should be revised and modified with the changed situations in the business.
- **Execution of Profit Plan will not occurs automatically:** A skill prepared profit plan and control will not itself improved the management of an enterprise unless it is understand by the entire related person inside the enterprise. It is very much required that each executive must feel the responsibility and should make efforts to attain the budget goals. Departmental heads should seriously think that it is their individual responsibility to fulfill the target set up in their department budget. The success of a budgeting system totality depends upon the efficient management and administration.
- **The Profit Plan will not a substitute for management:** Profit plan and control is a management tool. It is not substitute for the management. It is totally wrong to think that the introduction of profit planning and control is alone sufficient to ensure success and to guarantee future profits. It is only for achieving the end.
- **Costly affairs:** The installation of profit and control system is an elaborate process involving too much time and costs. Normally it is so costly that small concern cannot afford to it. Even for a large concern, it is suggested that there should be some correlation between the cost of operating a budgeting system and benefits desired from it. The system should be adopted only when benefit exceed the cost.
- **Proper evaluation:** For finding out the inefficiencies, proper evaluation should be made. On the absence of proper evaluation, budgeting will hide inefficiencies. So, there should be continuous evaluation of the actual performance, standards also should be re-examined regularly.
- **Lower morale & productivity:** Unrealistic targets should not be set and used as a pressure tactic by doing it profit planning and control will lower moral and productivity. To some extent profit planning may be used as pressure device, but its extent must be carefully determined.

2.1.13. The Profit Planning and Control Process

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

The sequential phases of PPC are as follows:

- I. Identification and evaluation of external relevant variables.
- II. Developing and revising of broad objectives of the business.
- III. Developing specific enterprise goals.
- IV. Specifying major enterprise strategy to attain the objectives and goals.
- V. Specifying planning premises for managers.
- VI. Development and evaluation of project plans.
- VII. Developing strategic profit plan for 3, 5 or 10 years.
- VIII. Developing tactical profit plan for upcoming year.
- IX. Implementing profit plan throughout the budget year.
- X. Preparing monthly performance reports by responsibility and
- XI. Providing feedback, taking corrective action, and re-planning.

From serial numbers 1 to 8 it is related to the planning function of management. The serial number 9 is related to the leading and 10 and 11 is controlling function of management. Executive management level is responsible for carrying out the activities of serial numbers 1 to 5. The activities from serial numbers 6 to 8 are carried by middle management level. The activities of serial numbers 9 to 11 are responsible for all management levels. This PPC process is repeated each budget year. All the basic steps in the planning phase should be reviewed and evaluated annually.

2.1.14. Application of PPC

Some people say that comprehensive profit planning and control is applicable only to large and complex organizations. Comments like “comprehensive budgeting is a fine idea for most businesses, but ours is different,” or “it is impossible to project our revenues and expenses,” and so on. Such type of comments are common regarding non-manufacturing enterprises, service companies, financial institutions, hospitals certain retail business, construction companies, and real estate enterprises. To the contrary, profit planning and control can be adapted to any organization (profit or non-profit, service or manufacturing), regardless of size, special circumstances, or conditions. The fact that a company has peculiar circumstances or critical problems is frequently a good reason for the adoption of certain profit planning and control procedures. In respect to size, when operations are extensive enough to require more than one or two supervisory personnel, there is a need of profit planning and control applications. The smallest company certainly has different needs in this respect than a large one. As with accounting, a single profit planning and control system that is appropriate for all enterprise cannot be designed. A profit planning and control system must be tailored to fit the particular enterprise, and it must be continually adapted and the enterprise and its environment change.

2.1.15. Line and Staff Responsibilities Related to PPC

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

The chief financial officer should be assigned overall staff responsibility for the profit planning and control program. In view of the importance of an effective profit planning and control program, the position on the staff of the individual responsible for the program should be such

that it will command attention and respect throughout the firm. Staff executives should not be assigned the responsibility for “enforcing the budget”.

2.1.16. Budgeting a tool of Profit Planning and Control

Profit Planning and Control is accomplished through the preparation of various budgets and by the subsequent evaluation of how actual operating and other results compare with planned results. A budget is the formal expression of plans, goal and objectives of management that covers all aspects of operations for the designated time period. The budget is a tool providing targets and directions. Budgets provide control over the immediate environment help to master the financial aspect of the job and department and, help to dissolve the problems before they occur. Budgets focus on the importance of evaluating the alternative actions before decisions are actually implemented. About budget some statements given by scholars are as follows:

- A budget is a comprehensive and coordinated plan, expressed in financial terms, for the operations and resources of an enterprise for some specific period in the future.

(Pandey I. M. 1992)

- A budget is a detailed, quantitative plan to guide its operation in the near future. The concept of a comprehensive budget covers its use in planning, organizing and controlling all the financial and operating activities of the firm in the forthcoming period.

(Lynch R. M. & Williamson R.W. 1991)

- Budget is defined as a comprehensive and coordinated plan, expressed in financial terms for the operations and resources of enterprises for some specified period in the future.

(Fregmen, J. M. 1976)

- As regards the term 'Budget' it can be visualized as the end result of the budgeting. If Budgeting is the procedure for preparing plan in respect of future financial requirements, the plan when presented in written form is called budget. Budgeting in facts is a managerial technique and a business budget is such a written plan in which all aspects of business operations with respect to a definite future period are included. It is a formal

statement of policy, plan, objectives and goals established by the top-level management in respect of some future period. **(Gupta, S. P. 1981)**

A budget is the plan of the firm's expectations in the future. Planning involves the control and manipulation of relevant variables- controllable and non-controllable, and reduces the impact of uncertainty. A budget is a quantitative statement of an expected level of future performance against which actual performance is measured. The difference between expected performance and actual performance is known as variance. If variance is unfavourable, particularly if it is part of a growing trend, remedial action must be taken before the business is compromised. It is a comprehensive plan in the sense that all activities and operation are considered when it is prepared which assist management to plan profit and control the operations for achieving desired level of outcome.

2.1.17. Characteristics of budget

The main characteristics of a budget are:

- a. It is prepared in advance and is derived from the long- term strategy of the organization.
- b. It relates to future period for which objectives or goals have already been laid down.
- c. It is expressed in quantitative form, physical or monetary units, or both. Detailed plan in quantitative terms: a budget is a detailed plan, expressed in quantitative terms, that specifies how resources will be acquired and used during a given period of time. A budget is written plan for a specific period of time, typically a year. It is a quantitative expression for a set time period of a proposed future plan of action by management. A financial plan of the resources needed to carry out tasks and meet financial goals is the budget.
- d. Serves as a benchmark: A budget is a tool used in planning, communicating and coordinating the plans and views of various managers within an organization, allocating

limited resources among various programs and projects, controlling operations by serving as a standard against which actual results can be compared and evaluating performance.

2.1.18. Classification of Budgets

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

- **On the basis of time factor:**
 - **Short Term Budget:** This budget is usually for a period of a year or two, or less than a year such as half yearly or quarterly. Tactical planning focuses on the medium term, which can be anything from 6 to 18 months depending upon the type of company concerned and takes as its starting point an outline demand plan.
 - **Long Term Budget:** It is usually for five to ten years. Strategic budget is long-term budget that are usually focused for long term perspectives.

- **On the basis of flexibility:**
 - **Fixed Budget:**

Fixed budget targets are rigidly fixed and usually prepared for 1 to 3 months period. A fixed budget is based on a fixed volume of activity. It may lose its effectiveness in planning and controlling if the actual capacity utilization is different from what was planned for any particular unit of time e.g., month or a quarter.
 - **Flexible Budget:** The flexible budget is more useful for changing levels of activity as it considers fixed and variable costs separately. Fixed costs remain unchanged over a certain range of output. Such costs change when there is a change in capacity level. It portrays costs, revenues, and profits at the various level of budgeted activity. The flexible budget is also referred to as the variable budget, sliding scale budget, expense control budget, and formula budget. It is completely separate from the profit plan but it is used to complement it. Flexible

budget give realistic information about expenses that make it possible to compute budget amounts for various output volumes or rates of activity in each responsibility centre. The variable costs vary directly in proportion with change in output.

- **On the basis of Functions:**

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

- **Sales Budget:** All other parts of master budget are dependent in some way on the sales budget. It is the foundation on which all other budgets are built. The budget is based on projected sales to be achieved in a budget period. A sales budget is the projection of what the company can sell, upon which all other planning is based.
- **Selling and Distribution Cost Budget:** This budget includes all the expenses relating to selling, advertising, delivery of goods to customers etc. It is better if such costs are analyzed according to products, types of customers, territories and the sales departments. The preparation of the budget would depend on analysis of the market situation by the management, advertising policies, research programmes and the fixed and variable elements.
- **Production Budget:** A production budget is prepared in relation to sales budget. This budget is expressed in quantities only and is the responsibility of the production manager. The objective is to ensure that production is sufficient to meet sales demand and that economic stock levels are maintained.
- **Production Cost Budget:** There are three elements of costs, namely direct material, direct labour, and overheads. Separate budgets for each of three elements have to be prepared. The direct materials budget has two components, a) Materials requirement budget, b) Materials procurement or purchase budget. The former deals with the total quantity of material required during the budget period, while the latter deals with the materials to be acquired from the market during the budget period.

- **Purchase Budget:** This type of budget deals with the materials to be acquired from the market during budget period. The direct materials purchase budget is the responsibility of the purchasing manager. The objective is to purchase these materials at the right time at the planned purchase price. In addition, it is necessary to take into account the planned raw materials stock level.
- **Personnel Budget:** It refers to maximum utilization of manpower in productive activities. Once production needs are known, the direct labour budget must be prepared. The direct labour budget is the responsibility of the respective managers of departments. The direct labour budget is typically expressed in both direct labour hours and in amount.
- **Research Budget:** It is relation with new product and improvement of quality and quantity of the products. Research and development costs are to be incurred so that the products or the methods of the concern do not become out of date. The research and development budget is a forecast of all such expenses.
- **Overhead Budget/ Office and Administration Budget:** This budget mentions all administration and staffing cost. This budget covers the administrative expenses including the salaries of administrative and managerial staff. The overhead must also be analyzed according to whether they are controllable or non- controllable for the purpose of cost control.
- **Cash Budget:** The objectives of the cash budget is to ensure that sufficient cash is available at all times to meet the level of operations that are outlined in various budgets. The cash budget is a plan of future cash receipt and payment. The statement showing the estimated cash income (cash inflow) and cash expenditure (cash outflow) over a projected time period is known as cash budget. Cash budgets can help a firm to avoid cash balances that are surpluses to its requirements or cash deficiencies can be identified in advance.
- **Capital Budget:** Capital budget is for the acquisition of long-term assets. This budget provides guidance as to the amount of capital that may be needed for

procurement of capital assets during the budget period. It helps in the process of planning and controlling of the long-term and short-term expenditure for expansion, replacement and contraction of fixed assets. Capital budgeting is useful to earn future profit and reduce future costs.

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

2.1.19. Master Budget – Budgeting for Short Range

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

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

A (comprehensive) master budget is a formal statement of management's expectation regarding sales, expenses, volume and other financial transactions of an organization for the coming period. It covers both operating and financial budgets. The operating budget consist of all budgets that concern normal operating activities including, the sales, production, material, direct labour and overhead budgets. The financial budget normally includes the cash flow budget, budgeted income statement and budgeted balance sheet.

2.1.20. Constituents of PPC

2. 1.20.1. Sales Budget or Plan

The sales budget is the starting point of comprehensive budgeting. Profit plan starts with preparation of sales budget and rest of other budgets will be prepared in the basis of sales budget. Sales plan is the starting point in the preparation of the comprehensive profit planning and control. All other plans and budgets are depending on the sales budget. The budget is usually presented both in units and dollars of the sales revenue or sales volume. The preparation of sales plans is based on the sales forecast. A variety of methods is used to forecast the sales for the planning period.

Sales planning are the foundation of all other budgets. It is the most important but difficult to prepare. Sales plan provides basic management decisions about marketing. Marketing decisions are basic approaches for developing a comprehensive sales plan. Since, the sales planning process is a necessary part of profit planning and control.

A sales plan should be realistic. If it is not realistic, most other parts of the overall profit plan also are not realistic. Therefore, management develops a realistic sales plan. If management cannot develop a realistic sales plan, it will be little justified.

The Sales plans have three distinct parts:

- i. The planned volume of the sales price per unit for each product.
- ii. The sales promotional plan and
- iii. The sales or distribution expenses

The sales budget itself is an estimate of main three figures. They are;

- i. The income that will be earned from sales.
- ii. The costs and expenses of making these sales.
- iii. The sales surplus. The income from sales depends on the quantity and the price of the goods, which will be sold.

In the development of profit plan the process starts from sales budget. "Sales budget is one of the functional or operating budget and is especially forecast of sales to be effected in a budget

period. In fact sales budget defines the quantities and values of expected sales in a total as well as product wise and area during a defined future period. Sales budget forms the fundamental basis for other functional budgets and it is needed to co-ordinate the production function with expected demand for a particular product. The preparation of sales budget requires forecast of quantities to be sold and also the standards price sold."

- **The purpose of a comprehensive sales plan is as follows;**
 - To reduce uncertainty about future revenue.
 - To incorporate management judgment and decisions.
 - To facilitate management control of sales activities.
 - To provide necessary information for developing other elements.

- **Components of Comprehensive Sales Plan;**
 - Management policies and assumptions.
 - Marketing plan (sales and service revenue)
 - Advertising and promotion plan.
 - Distribution (selling) expenses plan.

- **Sales Planning and Forecasting**

Sales planning and forecasting often are confused. Although related, they have distinctly different purpose. A forecast is not a plan. It is a statement or a quantified assessment of future conditions about environment which influence to organizational activities. A forecast should always state the assumptions upon which it is based. A forecast should be viewed as only one input into the development of a sales plan. The management of a company may accept, modify or reject forecast. In contrast, a sales plan incorporate management decisions that are based in the forecast, other inputs, and management judgments about such related items as sales volume, price, sales efforts, production and financing. Forecasting normally must be prepared prior to management decisions or plans in such areas, plant expansion, price changes, promotional program, production scheduling, expansion or contraction of marketing activities, and other resource commitment. A sales forecast is converted to a sales plan when management has brought

to bear management judgment, planned strategies and managerial commitment to aggressive actions to attain the sale goals.

Long Range and Short Range Sales Plan

In harmony with a comprehensive profit plan, both strategic long - term and tactical short- term sales plan must be developed. Thus, the usual case is a five or ten- year strategic sales plan and a one year tactical sales plan. Many sales and product decisions commit a large amount of resources involving a life span of many years. Basic strategies and major decisions that involve commitments of resources and long life spans are difficult to stop. Sometimes it may be helpful to view the development of the long- range and short- range sales plan as separate. However, they must be integrated because the short - range sales plan should dovetail with strategic long -range plan in all major respects.

- **Long Range Sales Plan:** It is known as strategic sales plan. Long term sales plan uses board grouping of products (product line) with separate consideration of major and new products and services. Long - term sales plans usually involve in depth analysis of future market potentials, which may be build up from a basis foundation such as population changes, state of the economy, industry productions, and finally company objectives. Long-term managerial strategies would affect such area as long-term pricing policy, development of new products and innovations of present products, new directions in marketing efforts, expansion or changes in distribution changes, and cost patterns. The influence of managerial strategy decisions is explicitly brought to bear on the long- term sales plan primarily on a judgmental basis.
- **Short Range Sales Plan:** It is also called tactical sales plan. A common approach used for short time horizons in a company is to plan sales for twelve months into the future, dealing the plan initially by quarters any buy months for the first quarter. At the end of each month or quarter throughout the year, the sales plan is resulted and revised by adding a period in the future and by dropping the period just ended. Thus, tactical sales plan are usually subject to review and revision on a quarterly basis. The short-term sales plan includes a detailed plan for each major

product and for groupings units (or jobs) and in sales and /or service dollars. Short-term sales plans must also be structured by making responsibility (e.g. by sales districts) for planning and control. However, managerial judgment plays a large part in their determination. The amount of detail in a tactical sales plan is a function of the company's environment and characteristics. A short-range sales plan should include considerable detail, whereas a long-range plan should be in broad terms.

- **Development of Comprehensive Sales Plan**

There may involve many steps in development of sales plan, some specifies steps are given below:

- I. Develop management guidelines for sales planning:** The guidelines should be prepared for management in the sales planning. These guidelines should specify sales planning responsibilities. These guidelines help for co-ordination and uniformity in sales planning process. The guidelines should emphasize enterprise objectives goals and sales strategy. It also includes general pricing policies, major market thrust, marketing strategies and competitive positions.
- II. Prepare sales forecasts:** One or more sales should be prepared. Each separate forecast use different assumption, which should be clearly explained in the forecast. The forecast should include strategic and tactical forecast that are consistent with the time dimensions used in comprehensive profit plan.
- III. Assemble other relevant data:** The information, which is sales planning, should be collected and evaluated. Those information are as follows.1) Manufacturing capacity (2) source of raw material suppliers or goods (3) Availability of key people and labor force (4) Capital availability (5) Availability of alternative distribution channels.
- IV. Development of the strategies and tactical sales plans:** Using the information provides step 1, 2 and 3, the management develops a comprehensive sales plan. A comprehensive sales plan has generally two dimensions.
 - Strategic sales plan and
 - Tactical sales plan.

V. Secure managerial commitment to attain the goals in the comprehensive sales plan: The management must be fully committed to attain the sales goals that are specified in the approved sales plan. The commitment of the top managers to the goals approved in marketing plan and strategies by responsibilities should secure or the commitment must be strong and ever present in day- to-day operations.

- **The following Factors should be considered while preparing sales plan;**
 - General economic conditions.
 - Sales trends of specific product.
 - Anticipated results of advertising and promotional campaigns.
 - Effect of proposed price changes.
 - Entrance of competitor in market
 - shifting a market
 - Introduction of new, improved, substitute products by company or its competitors.
 - Company's productive capacity.
 - Government rules and regulations etc

2.1.20.2. Production Budget

Production plan formulate after preparing of sales plan in comprehensive profit planning. The production plan involves the determining of the number of units of each product that must be manufactured to meet planned sale and maintain the planned inventory level of finished goods. It is estimate of how cheaply the goods required by sales can be made.

Once sales and inventory requirements have been established, the logical first step in the production plan is a facility survey. This survey should determine that all planned products can be produced on existing or contemplated, and that they can be made in the volumes required. In this initial stage, availability of labor supply and skill are considered. Bottlenecks caused by lack of skill or equipments are frequently uncovered .At this point, decision must be made either to either to eliminate bottlenecks or to reduce planned volume.

Production budget is based on estimated sales, production must be planned to allow sufficient time to manufacture the product before the estimated date of sale. The annual sales budget and the inventory requirements provide the framework for the production budget. It is based on:

- i. Sales budget
- ii. Plant capacity
- iii. Opening inventory of finished goods
- iv. Required closing of inventory of finished goods and
- v. Policy of the management

In developing a comprehensive profit plan, the requirement of sales plan must be converted to production manufacturing requirement. The production plan entails the development of policies about efficient production levels, use of production facilities and inventory levels. The quantities specified in the marketing plan adjusted to confirm the production and inventory policies give the volume of goods that must be manufactured by product and by interim time. Thus, the equation of production requirement will be:

Production = Sales Volume + change in inventory of finished goods

A complete production plan should show budgeted data classified by:

- i. product to be manufactured
- ii. Interim time period and
- iii. Activities of each responsibility center in the manufacturing process.

Production manager is responsible for preparing the production budget. He prepares the production plan based on the sales plan and this production plan should be consistent with managerial policies such as inventory levels, stability of production, capital addition and so on.

- **Objectives of Production Budget or Plan:**

The objectives of production budget as follows;

- To bring common focus all the factors necessary to establish policies and to determine operations.
- To project these established policies into the future by an analysis of past performance.
- To plan and control the operations being carried out to implement policies decided upon.

- To coordinate the various aspects of factory operation as to make them a vital link in the chain of profitable program.
- To plan the sequences of operation required for economical production.

- **Procedure of Production Budget:**

A production budget is a quantity budget which lays down the quantity of units to be produced during the budget period. It specifies the planned quantity of goods to be manufactured during the budget period. The main purpose of this budget is to maintain an optimum balance between sales, production and inventory position of the firm. For developing a production budget, the following steps should be followed.

- To establish policies for inventory levels.
- To determine the total quantity of each product to be manufactured, within budgeted period.
- To schedule this production by interim period

After completing the production plan it should be sent to the executives committee for evaluation. Then it should be given to present for tentative approval prior to its use as a basis for developing the direct material, direct factory overhead budgets.

- **Developing the production Plan:**

The development of production plan involves the following steps;

- i. Recasting of sales budget.
- ii. Production analysis
- iii. Scheduling
- iv. Dispatching
- v. Inspection

But there are three basic steps to be followed while developing a production plan;

- i. Establishing policies for inventory levels.
- ii. Planning the total quantity of each product that is to be manufacturing during the budget period.
- iii. Scheduling this production by interim period.

- **Setting inventory Polices:**

To develop production requirement, consideration must be given to the finished goods and work-in - process inventories. It is impossible to develop a realistic production plan without definite inventory policy. The objectives of inventory policy should be:

- To plan the optimum level of inventory investment and
- To realistically maintain these optimal levels through proper control

- **Setting Production Policies:**

The production Managers has three options available for setting production policies:

- i. Stable production versus unstable inventory policies:** Fixed amount (units) of goods are to be produced within the specified time while the level of finished inventory functions due to the sales budget under this policy.
- ii. Unstable production versus stable inventory polices:** The units to be produced and sold are directly related in this policy. The production level should fluctuate in each period whereas the closing inventory of finished goods remains constant in each period.
- iii. Flexibility in both production and inventory polices:** The unit's o production and inventory level under this policy are uncertain.

2.1.20.3. Material Budget or Plan

The Material plan is developed in comprehensive profit planning and control after the production budget gives information about the units to be produced and on this basis the raw material need in estimated. The quantity of each material to be used in production is determined on the bases of production budget. A comprehensive profit planning and control program includes planning, adequate control and coordination among the following factors.

- i. Factory requirements for raw materials.
- ii. Raw materials inventory levels and.
- iii. Purchase of raw materials.

To assure that right amount of raw material and parts will be on hand at the required time and to plan for the cost of such materials and parts. It is essential that the tactical short term profit plan should include;

- i. A detailed budget specifying quantity and cost of such materials and parts required and
- ii. A related budget for raw material purchases

The planning of raw material usually requires for the following four budgets;

- i. Materials and Parts Budget
- ii. Materials and parts purchase Budget
- iii. Material and Parts inventory Budget
- iv. Cost of Material Used Budget

- **Material parts Budget:** Materials and parts budget specifies the planned quantities of each raw materials and parts required for planned production. It should specify quantities of each raw material and parts by time, product and responsibility center.

Materials used in a factory are traditionally classified as direct and indirect. Parts are usually classified only as direct. The materials budget includes only the quantities (not cost) of direct material, factory suppliers, and indirect materials that are included in the manufacturing or factory overhead budget. The budget quantities of each raw materials and part needed for each finished product must be specified in the material and parts by interim periods (months and quarter) and by responsibility centers. The manufacturing manger should be responsible for developing the data included in the materials and parts budget

- **Material and Parts Purchase Budget:** The purchase budget specifies the quantity of materials and part to be purchased, timing of the purchase and the estimated cost of the materials and parts purchase. Therefore, the purchase budget differs from the materials and parts into prime two ways. One is the budget usually different quantities of material

and parts. This difference in quantities results from the planned changes in materials and parts inventory level. Other, the materials and parts budget specifies only quantities, whereas the purchase budget both quantities and costs. The purchase budget is directly with the timing of actually receipt of materials and parts rather than with timing of purchase order or usage. The purchasing manager has direct responsibility for preparing a detailed plan of purchase. Carefully planning of purchase can result in significant cost saving in much enterprise.

Formulating these responsibilities in equation as follows:

Planned Materials and Parts Purchase = Total Materials and Part Uses \pm Change in Inventory

- **Material and Parts Inventory Budget:** Material and parts inventory budget specifies the planned level of materials and parts inventory in term of quantity and cost. The different in term of quantity between the requirements as specified in materials and parts budget and the purchase budget is shown as material and parts inventory budget.

Finished goods inventory policies, raw material and parts inventory policies are intended to minimize the sum of two classes of costs; the cost of carrying the inventory and the cost of carrying enough. Management policy with respect to purchase and inventory should be specified. The two basic timing factors are:

- How much to purchase at a time
- When to purchase

A well- known approach to computing the Economic Order Quantity (EOQ) uses the following formula.

$$EOQ = \sqrt{\frac{2Ao}{C}}$$

Where,

A= Annual requirements in units

Q = Average annual cost of placing an order

C = Annual carrying cost of carrying units in inventory for one year.

EOQ informs that the optimum quantity to be purchase at the minimum cost and the time when a purchase is to make is used to be re order point.

- **Cost of material and parts used Budget:** The quantity of material and parts required for planned production is specified in the materials and parts budget, and unit material and parts costs are specified in the purchases budget. The quantity and unit cost data are needed to develop budgeted cost of materials and parts. If the purchase budget anticipates a constant unit cost for material or part during the planning period, multiplication of unit by the unit costs yields the budgeted materials or parts cost.

2.1.20.4. Direct Labor Budget

An estimate of direct Labor requirements essential for achieving the target of production budget gives birth to direct labor budget. This budget may give details about direct labor cost (i.e. budgeted units of production may be multiplied by labor cost per unit) or about both direct labor hours are estimated for budgeted units and then multiplied by wage rate per hour.

Direct labor hours are estimated on the basis of past experience for each category of workers with reference to budgeted units of production. Internal factors like type of the production process factors like the types of payment and system of cost records will decide the possibility of expressing production units in term of labor hours. The personnel department will suggest the wage rates that are likely to be paid. It is mostly calculated on the bases of historical relationship between wages paid and direct labor hours worked in the department or for the product after considering the current situation. This budget may also be termed as manpower Budget.

Direct labor is defined as those labor costs directly identifiable with the production of specific units of finished production. The main objectives of direct labor budget are as follows;

- i. To asses labor requirement
- ii. To prepare manpower planning

- iii. To estimate per unit labor cost
- iv. To estimate per unit labor cost
- v. To estimate cash requirement
- vi. To give information for cash budget
- vii. To control the labor budget

2.1.20.5. Overhead Budget

Overhead expenses budget plays important role for organization to accomplish profit planning and control objectives. It is classified by responsibility, designated as controllable and non-controllable and estimated with respect to their behavior pattern. There are three broad categories of expenses; factory or manufacturing overhead, selling and distribution expenses and general administrative expenses.

Expenses planning and control should focus on relationship between expenditures and the benefits derived from those expenditures. The desired benefits should be viewed as goals, and sufficient resources must be planned to support the operating activities essential for their accomplishment.

Knowledge of cost behavior that is the response of cost to different volumes of output is essential in cost planning and control entire enterprise or in the context of a specific responsibility center.

There are three distinct categories of expenses when they are viewed in relation to change in output are:

- I. **Fixed Expenses:** Those expenses that is constant in total, regardless of fluctuation in output. Because ant expenses can change, these expenses must be applied a) to realistic or relevant range of output and b) in relation to a given set of conditions. The examples of fixed expenses are salaries, property taxes, insurance, depreciation rent etc.
- II. **Variable Expenses:** Those expenses, which in total, it is directly relation with change in output. Examples of variables expenses are direct materials, direct labor, power usage etc.

III. **Semi-variable Expenses:** Those expenses that are neither fixed nor variable because they possess some characteristics of both. As output changes, semi-variable expenses change in the same direction but not in proportion to the change in output.

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

- **Manufacturing overhead expenses budget:** Manufacturing overhead is that part of total production cost not directly identifiable with specific products or jobs. Manufacturing overhead consists of (1) indirect material, (2) indirect labour (including salaries), and (3) all other miscellaneous factory expenses, such as taxes, insurance, depreciation, supplies, utilities and repairs. Manufacturing overhead includes many dissimilar expenses; therefore, it causes a problem in the allocation of these costs to products.

There are two distinct types of responsibility centres in most manufacturing companies, production and services. Producing centres are those manufacturing departments that work directly on the products manufactured. Service departments do not work on the products directly, but rather they furnish service to the producing department and to other service departments. Responsibility for the operation of each department should be classified separately in the chart of accounts used by the cost accounting department.

To develop the manufacturing overhead budget, the following steps should be taken;

- i. Translate the requirement specified in the production plan into output or activity in each department, Plan department overhead expenses,
- ii. Allocate the planned departmental expenses to the producing department and
- iii. Allocate the producing department expenses to the products departments.

- **Selling and Distribution Expenses Budget:** Selling and distribution expenses include all costs related to selling, distribution, and delivery of products to customer. These expenses are not identified to specific product and hence are not allocated directly to each product. A separate distribution expenses plan should be developed for each responsibility center in the distribution function. Many companies allocate these expenses as a certain percentage out of total expenses. The top marketing executive has the overall responsibility for developing the distribution expenses plan. The manager of each responsibility center should be assigned direct responsibility for that department's distribution expenses plan. Thus the promotion manager should be responsible for developing promotion plan, and the field manager for developing both their marketing plan and distribution expenses budget. These budgets should be detailed by the sales, it should be based on planned volume of activity or output. Usually the activity base chosen is the sales amount in Rs/ Dollars. Carefully planning of such expenses affects the profit potential of the firm.

Fundamentally the top marketing executive has the direct responsibility for planning of the optimum economic balance (for profit potential) (1) the sales budgets (2) the advertising budget and (3) the distribution expenses budget. Therefore, profit planning and control views sales, advertising, and distribution expenses as the basic problem rather than as three separate problems.

- **Administrative Expenses Budget:** Administrative expenses include those expenses other than manufacturing and distribution. They are incurred in the responsibility centers that provide supervision of and service to all functions of the enterprise, rather than in the performance of anyone function. Because large portions of administrative expense are fixed rather than variable, the notion persists that they cannot be controlled. Aside from certain top management salaries, most administrative expense are determined by management therefore; there is strong tendency to overlook their magnitude and effect on profits. Each Administrative Expenses should be directly identified with a responsibility center, and the center manager should be responsible for planning and controlling the expenses.

This fundamental of expense control is especially important for administrative costs because there is often a failure to pinpoint responsibility for expenses of a general nature. For this and other reasons, many companies have found it helpful to apply the fixed variable expense concept to administrative expenses. It is advisable to base budgeted administrative expenses on specific plans and programs. Experience, adjusted for anticipated changes in management policy and general economic conditions is helpful. Because most administrative expenses are fixed, an analysis of the historical record will often provide a sound basis for budgeting them.

2.1.20.6. Flexible Budget

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

- **Flexible Budget Format:**

There are three types of format for preparing flexible budget. They are as follow;

- I. **Table Format:** This format is used for introduction purpose to express flexible budget for different level of activity or output within the relevant range. It does not indicate the fixed and variable cost rate. Large company which has special manpower to prepare budget and where the cost structure is complicated uses this method.
- II. **Formula Format:** This format provides a formula for each expense account in each responsibility centre. The formula gives the fixed amount and the variable

rate. This method is based upon average so; this method is useful for small business or department where the precision on computation is vital.

Formula format: $Y = a + bx$

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

2.1.20.7. Capital Expenditures Budget

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

A capital expenditure is the use of funds to obtain operational assets that will help earn future revenues or reduce costs. Capital expenditures include such fixed assets as property, plant, equipment, major renovations, and patents. Therefore capital expenditure budget is the process of planning and controlling of the long-term and short-term expenditure for expansion, replacement, and contraction of fixed assets. Capital expenditures are investments, as they require commitments of resources today to receive higher economic benefits in the future.

Cash outflow and cash inflows are the major elements of capital budgeting. The capital budgeting is essential for planning and controlling purpose. Top executive and departmental managers are responsible for capital budgeting decision. The importance of capital budgeting is (a) to avoid idle operating capacity, (b) to avoid excess capacity, (c) to avoid investment in capacity that will earn less than an adequate return on the investment, and (d) to evaluate alternative capital expenditure.

- **Methods of Measuring the Economic Value of Capital Expenditure:**

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

- I. **Discounted cash flow methods:** The time value of money is considered in this method. It takes the time value of money into account with using discounting rate. The major discounted cash flow methods are, Net Present Value (NPV) and Internal Rate of Return (IRR).
- II. **Simple Method or Traditional Method:** This method does not consider the time value of money. There are two major methods of simple method to determine the capital expenditure. They are Payback Period (PBP) Method and Average Rate of Return Method (ARR).

2.1.20.8. Cash Budget

The cash budget is a plan of future cash receipt and payment. It is an integral part of cash planning. One of the major responsibilities of management is to plan, control and safeguard of the resources. Two kinds of resources flow through many businesses– cash and non-cash assets. The cash budget focuses on cash resources that are cash inflows and cash outflows. Cash budget helps in effective planning and controlling of cash flows. It helps in assessing cash needs and using excess cash. A cash budget includes two parts: (1) the planned cash receipts (inflows) and (2) the planned cash disbursement (outflows). Planning cash inflows and outflows gives the planned beginning and ending cash position for the budget period. A cash plan or budget is prepared from the previously prepared budgets such as sales budget, purchases budget, material budget, overhead budgets and other functional budgets. Company treasurers are responsible for the preparation of cash budget. A cash budget is prepared on three different time horizons – long term, short term, and immediate term. A cash budget helps management in; (1) determining the future cash needs of the firm, (2) planning for financing of those needs, and 3) exercising control over cash and liquidity of the firm.

- **Approaches Used to Develop a Cash Budget:**

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

- I. **Cash Receipt and Disbursement Approach:** This method is also called cash account or direct method. It is simple to develop. This method is based on detailed

analysis of the increase or decrease in the budgeted cash account that would reflect all cash inflows and outflows from such budgets as sales, expense, and capital expenditures. It is used for short-term cash planning as a part of the annual profit plan. In this method the cash receipts from various sources and the cash payments to various agencies are estimated. In the opening balance of cash estimated cash receipts are added and from the total, total of estimated cash payments is deducted to find out the closing balance.

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

2.1.21. Planning and Control of Non Manufacturing Organization

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

2.1.21.1. Merchandise Budget

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

- I. **Unit price Approach:** According to this approach, the units to be sold and the unit sales price for each product are planned. This method is practical when the number of product lines is small and the selling price is relatively high.
- II. **Sales-dollar Approach:** This approach plans sales in dollars only for each department. This approach is used when the number of product lines is large and the selling prices across product lines vary significantly.

2.1.21.2. Planning Inventory and Purchasing

- **Planning Inventory:** An important feature of planning inventory levels and purchase in non-manufacturing companies plans are developed in terms of retail prices. Then the retail price is converted to purchase cost. That is since the sales are planned at retail prices, the beginning of month (BOM) stock levels are also planned in retail. The BOM inventory for one month is the ending of month inventory (EOM) for the preceding month thus, planning give focus on sales and the BOM stock level of each month. The following formula is used to determine the stock levels.

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

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

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

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

$$\text{Planned purchases} = \text{Planned net sales} + \text{Planned reductions} + \text{Planned EOM stock} + \text{Planned BOM stock.}$$

2.1.21.3. Open-to-Buy Planning

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

Format for Open to Buy Planning

S.N	Particulars	Amount	Amount
A	Stock Requirements		
	EOM Inventory		XXXXXX
	Planned Sales for the Month	XXXX	
	Less: Actual sales to date	XXXX	XXXXXX
	(Y) Planned sales for remaining period		XXXXXX
	Planned Reductions	XXXX	
	Less: Actual Reductions to date	XXXX	
	(Z) Planned reduction for remaining period		XXXXXX
A.A	Total Stock Needed (Y+Z)		XXXXXX
B	Stock Available		
	BOM Stock	XXXX	
	Merchandise received to date	XXXX	
	Total stock available		XXXXXX
	Less: Actual sales to date	XXXX	
	Actual reductions to date	XXXX	XXXXXX

	Total		XXXXX
	Add: Merchandise ordered for month		XXXXX
B. B.	Total Stock Available		XXXXX
C.	Open-to-Buy at Retail (A.A – B.B)		XXXXX
D.	Open-to-Buy at Cost = Open-to-Buy at retail X (1- Mark up rate)		XXXXX

2.1.21.4. Other Budgets in Non-manufacturing Enterprise

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

2.1.22. Completion of Profit Plan

The process of profit planning ends with the planned income statement and planned balance sheet. These budgets of statements integrate and summarize the detailed plans developed by management. In order to prepare these statements, other some additional budgets should be planned. The following budgets should be prepared in course of completing the profit plan.

I. Planned cost of goods manufactured:

Production budget determines only the quantities of goods manufactured in each time where as planned cost of goods manufactured determines the monetary value of quantity of goods produced. It includes direct materials, direct labor, manufacturing overheads incurred for production. It is calculated as follows:

<u>Details/particular</u>	<u>Amount (Rs.)</u>
Opening stock of raw materials (Rs.)	XXX
Add: purchase of raw materials	<u>XXX</u>
Total stock	XXX
Less: closing stock of raw materials	(XXX)

Add: direct raw material used	XXX
Add: direct labor cost	XXX
Variable overhead	<u>XXX</u>
Planned cost of goods manufactured	XXX

II. Planned cost of goods sold:

The cost of goods sold is to be prepared after completion of the cost of goods manufacturer budget. This budget determines the manufacturing, cost of sale quantity. It includes direct material, direct labor and manufacturing overhead cost of sales by time and product. It is calculated as follows:

<u>Details/particular</u>	<u>Amount (Rs.)</u>
Opening stock of raw materials	XXX
Add: purchase of raw materials	<u>XXX</u>
Total stock	XXX
Less: closing stock of raw materials	(XXX)
Add: Direct raw material used	XXX
Add: direct labor cost	XXX
Add: variable overhead	XXX
Planned cost of goods manufactured	XXX
Add: opening stock of work in progress	XXX
Less: closing stock of work in progress	<u>(XXX)</u>
Planned cost of goods manufactured	XXX
Add: opening stock of finished goods	XXX
Total finished goods available	XXX
Less: closing stock of finished goods	<u>XXX</u>
Planned cost of goods sold	<u>XXX</u>

III. Planned income statement:

Planned income statement is concerned with determining the total income of the planned period. It is to be prepared under accrual basis rather than cash basis on the basis of other preceding budgets. It is calculated as under;

<u>Details/particular</u>	<u>Amount (Rs.)</u>
Sales revenue	XXX
Less: cost of goods sold	(XXX)
Gross income	XXX
Add: non operating incomes	XXX
	XXX
Less: operating expenses	(XXX)
Add: non operating expenses	XXX
Net income before tax	XXX
Less: tax	(XXX)
Net income after tax	XXX

IV. **Planned balance sheet:**

It is concerned with the forecasting total assets and properties and capital and liabilities of the company by time period. The planned balance sheet can be prepared as follows;

Budgeted balance sheet

Capital and liabilities	Amount	Assets	Amount
Share and capital	XXX	Fixed assets	XXX
Profit and loss A/C	XXX	Current assets	XXX
Debenture	XXX	. Cash on hand	XXX
		. inventory	XXX
Long term loan	XXX	. Account payable	XXX
Bank loan	XXX		
Account payable	XXX	Preliminary expenses	XXX
Provision for tax	XXX	Discount on shares	XXX
Outstanding expenses	XXX		

2.1.23. Performance Reports

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

- **Features of Performance Report:**

The important features of performance report are as follows

- Tailored to the organizational structure and locus of controllability (that is by responsibility centres)
- Designed to implement the management-by-exception principle.
- Repetitive and related to short time periods.
- Adapted to the requirements of the primary users.
- Simple, understand and reports only essential information.
- Accurate, and designed to pinpoint significant distinctions.
- Prepared and presented promptly.
- Constructive in tone.

2.1.24. Analysis of Budget Variance

The difference between planned goals and actual results is called variance. The variances may be favourable or unfavourable. The variance is favourable when the actual result is greater than the budgeted. Similarly the variance is unfavourable when the actual result is less than the budgeted.

Variance analysis is an important tool that can increase the usefulness of periodic performance reports. Rather than taking action only on the basis of a difference between actual and planned costs. Sales variance analysis enables management to decompose such difference into smaller sub variances which helps management to better understand the causes of variances from planned performance and take corrective action through management by exception.

2.2. Review of Previous Study

The review of literature is a crucial aspect of the study. The main purpose of the literature review is what works have been done in the past by different researchers and what aspects still been unrevealed on the area of research. There is very limited research works have been carried in the past on the state owned public enterprises and the application of profit planning and control in both manufacturing and non-manufacturing companies. However, after studying some of dissertation submitted to Tribhuvan University mostly concentrated to the state owned public enterprises on profit planning and control, it is found that all works were not able to show detail and depth analytical study. Specially, very few dissertations were submitted on the topic of comparative study of profit planning and controlling of different state owned trading organizations. Therefore, an attempt has been made here to give complete research on field of study on the topic of “A Comparative Study on Profit Planning & Control System of Salt Trading Corporation & National Trading Limited”. Because, while I was studying previous researches, I have found works and efforts were not sufficient at some extent in every research. So, I have a confidential that after finding out all problems and strengths of previous studies my efforts will bring a complete and precise dissertation based on real research and theoretical framework. To attain this objective, some of the reviewed researcher’s findings and suggestions of the previous studies are presented here.

1. Hari Sankar Mandal (2010)

Mr. Mandal has submitted the thesis on the topic of “A Comparative Study on Profit Planning & Control System of Salt Trading Corporation & National Trading Limited”. The researcher has primarily focused on various functional budgets, planning systems adopted by STCL & NTL. Bases for sales forecasting and different steps to strengthen profit followed by the policies and The specific objectives of the study were:

- To study and analyse the functional budgets of Salt Trading & National Trading Limited.
- To examine various accounting ratios to measure the profitability and efficiency of the concerned organization under study.
- To point out valuable recommendations and suggestions based on analysis.

Findings:

STCL has not clear-cut goals, objectives, policies since the corporation has not prepared budgeted forecast for the future program such as budgeted sales, production, purchase, material and other overhead budgets. The company has not applied the system of flexible budget and trend analysis. The analysis of flexible budget shows that the company will earn profit when it runs at more than 80% capacity. Cost structure of STCL is not classified in accordance to their variability and cash flow planning is not made.

Financial position of NTL is not satisfactory. There is nominal net profit margin, assets turnover ratio and return on sales. There is decreasing trend of debt to total assets ratio, current and quick ratio is not satisfactory. There is low degree of positive correlation between sales and profit and negative correlation between net profit margin and inventory turnover, between net profit margin and assets turnover and between net profit margin and fixed assets turnover.

Recommendations offered:

- STCL and NTL should formulate clear-cut goal, objectives, policies, long-term plan, strategic program etc.
- Cost should be classified into fixed and variable. These costs should also be diagnosed as controllable and non-controllable expenses.
- The corporations should adopt comprehensive profit planning approach. Basic fundamentals of profit planning should be considered while formulating and implementing profit plan
- NTL and STCL should consider certain management, marketing and financial issues. There should be motivation in employees, co-ordination within organization, clear authorities and responsibilities. Both should aware of supplying the goods in rural areas at reasonable price.

2. Kiran Shrestha (2009)

Mr. Shrestha has submitted a thesis on the topic of “Profit Planning and Control in Public Utilities Sector (A Comparative Study on Nepal Water Supply Corporation and Nepal Telecom)”. The researcher has primarily focused on major problems and issues relating to development and implementation of profit plan in both organizations.

The major objectives of the study where;

- To acknowledge the present condition of NTC and NWSC about their services to the public and their contribution to the economic development of Nepal
- To assess the financial performance of both organization (NT and NWSC) by using BEP analysis and ratio analysis.
- To forecast future sales and profit trend of both organization (NT and NWSC)

The major findings of the study were as following;

- The NWSC and NTC fail to maintain its periodic performance report systematically. Goals and objectives are known to high-ranking officials only.
- NWSC suffering from high rate of power loss as sale is below than the production while NTC fails to produce according to demand.
- Due to high fixed cost Break even sales is high in context of sales Revenue in NWSC while P/V ratio 0.94 and average in NTC is also unusually high.

Recommendations offered;

NWSC and NTC should have major programs to accomplish formulated objectives and to implement them continuously and consistently to increase the levels of performance and to take full advantage of the latest techniques and innovations as they are developed. These organizations make policy about research and development, productivity, capacity utilization, and costs control.

3. Mohon Gurung (2008)

Mr. Gurung has submitted a thesis on the topic of “Profit Planning and Control of Nepal Food Corporation”. On his research, he has given main focus on importance of Nepal Food Corporation (NFC), why NFC has not successfully achieved the objectives and he tried to find out some answers like, whether huge loss of the organization is due to lack of efficient management of the organization or the employee of the organization are acquainted with the accounting tools, with the profit planning and control or not. For this purpose, he has gathered and systematically analyzed primary and secondary data of NFC with the help of various functional budgets adopted by the NFC.

Major findings of the research were as following;

- The use of profit planning and control was not practiced by NFC management.
- The objectives set by the management were very ambiguous which resulted in the fluctuation in the actual and targeted results.
- The corporation has no proper inventory policies. If purchase exceeds the sales then it is considered as inventory. The gross margin ratio, net profit ratio showed the poor performance of corporation.
- Due to difficulty road access, the food grains were transported by air in inaccessible areas which created high expenses.

Recommendations offered;

- NFC should allow dealing on other food grains items also for profit generation.
- The administrative expenses and transportation expenses should be managed. An extra expense in administrative and transportation should be controlled.
- NFC has unused large amount of fixed assets all over the country. It can earn revenues from it by leasing or lending. So, it should utilize its idle resources as far as possible.
- The main problem in food shortage in remote areas is due to delayed in transportation or difficulties in transporting during monsoon period. If there is well equipped storage facility in remote areas then the food can be transported and kept earlier during difficult situation.

4. Prakash Lamichhane (2010)

Mr. Lamichhane has conducted a research on “Budgeting Procedure in Nepal (Entitled to Nepal Electricity Authority)”. This research was mainly concerned with identifying the planning for profit aspect of the Nepal Electricity Authority (NEA), variance between budgeted and actual figures, the steps to be taken to improve the profit planning system in the Public enterprises like NEA, to identify relationships between costs, assets, revenue with the various measures of profitability on the basis of different financial and budgetary data from NEA.

The major findings from the research;

- The increase and decrease of sales for the periods seem to be unpredictable due to the lack of clear policies and program of the NEA. Comparison of actual and budgeted sales figures reveals that there are considerable gap between budgeted and actual sales.
- Domestic consumers are more than 95 percent for all the periods, in terms of sales revenues they occupies only 40 percent of total revenue. Moreover, consumers in the commercial categories are only around 1 percent however occupies sales revenue of around 23 percent. Likewise, consumers in industrial categories are around 2 percent occupying more than 32 percent of sales for the enterprises.

Recommendations offered;

- Huge gap of actual and budgeted sales must be addressed through the coordinated and integrated efforts of all the branches and departments. Sales must be forecasted and try to estimate its expenditure by using the statistical tools to come up with the more reliable forecasting.
- NEA is suggested to maintain its domestic sales and to increase its commercial and industrial sales that help to contribute towards its sales and profitability positively.
- NEA tends to bear costs without considering the possible effect of such costs may have upon profits. Perhaps it is also a reason why the NEA has been incurring huge losses over the periods. This should be corrected by the practices of total quality management (TQM) and restructuring of the enterprise.

5. Ghobinda Ghimire (2010)

Mr. Ghimire had submitted his thesis entitled “Profit Planning of Commercial Banks in Nepal (A Comparative Study of Nepal Investment Bank Ltd., Nabil Bank Ltd. and SBI Bank Ltd.)”. The study was mainly concerned with the relationship between investment, loan and advances with total deposit, net profit and outside assets, how to use properly the collected funds, to find out profitability position of the banks, effect of investment decision on profitability position of the banks etc. to increase its profitability by increasing effectiveness through proper planning for profit.

Major findings of the study by researcher;

- The cash and bank balances to total deposit ratio of NIBL has fluctuating trend. The mean ratio of this bank is higher than NABIL and SBI which indicates that its liquidity position is better to serve its customers deposits withdrawal demands. From
- Liquidity risk ratio of the banks are decreasing trend. The mean liquidity risk ratio of NIBL is highest of all and C.V of its also lowest in comparison with other banks. So the ratio of NIBL is less variable than NABIL and SBI.
- The net profits of all three banks have the increasing trend. The net profit of NABIL by the year 2010 is projected to be 1502.61million, which is the highest value under the study period. Similarly the total net profit of NIBL and SBI will be 543.0 and 472.3 million respectively.

Recommendations offered;

- Current ratio of all three banks is not satisfactory. It is below its standard rate 2:1. So the banks are suggested to improve current assets.
- Profitability ratios of banks are not satisfactory, if resources held idle bank have to bearded more cost and result would be lower profit margin. It should always try to maintain the equilibrium in the portfolio condition of the bank. The bank should use its funds in more portfolio sectors
- The investment policy of NIBL is good in every aspect as studied above but the consistency in the above investment sectors is in equilibrium states. So it is recommended to touch all the sectors and balance it effectively as to have the optimal performance of the bank.

2.3 Research Gap:

In the past, various researches have been conducted on the topic of profit planning and control relating to different manufacturing and nonmanufacturing concerns. Here, review was made on different researchers work related to the topic. All the research studies were not in depth and not followed the complete system of profit planning and control while applying it as budgeting procedure. Those research studies lack the performance analysis of the company, the studies have pointed out the similar findings, conclusion of researchers were that there is no proper planning and control system in Nepalese enterprises etc. Therefore, this study is designed to highlight needs for some specific study of profitability in terms of profit planning and control as well as STCL & NTL has been taken for comparative study i.e. “A Comparative Study on Profit Planning & Control System of Salt Trading Corporation & National Trading Limited”, the topic of research work. An attempt will be made during the research, to compare the fully state owned trading organization NTL and operating under the public-private partnership trading organization STCL. It is expected that the uncovered areas of this research work will be studied. The gapping between old and new research work will be focused and filled up based on the given objectives and the limitation in this research. I hope this research will definitely help the new researchers to study in the corresponding subject. This research work covers time period of five years for the purpose of trend analysis.

CHAPTER-3

RESEARCH METHODOLOGY

This chapter describes the methodology employed in this study. Research methodology is the systematic method of finding solution to a problem i.e. systematic collection, recording, analysis, interpretation and reporting of information about various facts of a phenomenon under study. Research is an ongoing activity. It doesn't only solve the problems but also helps to add knowledge to the previous studies in the particular area of interest.

Research is defined;

- Research refers to systematic and objective attempt, which is used to study a problem for the purpose of driving general principle. The investigation has been guided by previously collected information and aims to add to the body of knowledge on the subject.

Dictionary of Social Science

- Research is manipulating of things, concepts or symbols for the purpose of gathering to extend correct verify knowledge, whether the knowledge aids in construction of theory or in the practical of an art.

Slazenger and M. Stephenson

The main objective of this research is to understand the practical aspect of the enterprises under the study and to highlight the application and current practice of Profit Planning and Control, and its effectiveness in realizing profit in STCL & NTL. In this study research methodology describes the methods and processes applied in the entire study. This chapter describes research design, population, sampling procedure, sources of data and analysis of data.

3.1. Research Design

Research design provides the overall framework or plan for the collection and analysis of data during the research study. It is the plan, structure, and strategy of investigation conceived so as to obtain answers to research questions. This study is an examination and evaluation of budgeting

procedure in the process of profit plan of STCL & NTL. This study is closely related with the various functional budget and other accounting statements that the company has adopted. An intensive analysis of historical and descriptive research design is used in this study to analyze the performance of past five years from the FY 2064\2065 to FY 2069\070. The research possesses both quantitative as well as qualitative aspects.

3.2. Nature and Sources of Data

The significance of research depends upon nature, availability and accuracy of information. The use of secondary data is much extensive which are collected through the record of STCL and NTL. Primary data are based on structural questionnaires and conversation with the executives and other staffs of STCL and NTL.

Secondary data have been collected from the published and unpublished official records of STCL and NTL's Annual Reports. Similarly, other necessary data have been collected from the publication of Ministry of Finance and other previous thesis of the related areas.

3.3. The Population and Sample

There are many trading companies which are actively operating their business in market. It is not possible to study all of regarding the research topic. Therefore among them two reputed trading companies are taken on a judgmental sample basis from population for this research study. Those companies are National Trading Limited and Salt Trading Corporation Limited. However, this is a case study, and thus the findings couldn't be extensively generalized to all other trading enterprises.

Partial and full investment of Nepal government to the trading sector is the population and the samples are taken in the judgmental basis which are:

Table No. 3.1

Population and Sample

S.N.	Trading Sectors	Sample	%
1	Nepal Oil Corporation Limited	-	
2	National Trading Limited	1	
3	Nepal Food Corporation	-	
4	National Seeds Company Limited	-	
5	Agricultural Inputs Co. Limited	-	
6	The Timber Corporation of Nepal Ltd.	-	
7	Salt Trading Corporation Limited *	1	
Total	7	2	28.57%

(Source: Annual report of PEs, 2066)

* Minority share of Nepal government to this trading sector.

The samples cover the 28.57% among the population taken for this study.

3.5. Data Gathering Procedure

Primary as well as secondary data have been used in this research. Primary data concern with the questionnaire to executives and other staff of STCL and NTL. The primary data analysis is based on the eight questions and their responses given by the officials of the two trading companies. Total eighteen questionnaires forms were distributed among the two companies and only twelve respondents gave responses to these questions.

Secondary data have been collected from the annual reports of STCL and NTL. The study covers the period of 5 years i.e. from the fiscal year 2064/65 to 2069/70. Similarly, other necessary data have been collected from the publication of Ministry of finance.

3.6. Tools and Techniques of Data Analysis

This study is confined to examine the profit planning and controlling of STCL and NTL. Therefore; the data have been collected, managed, analyzed and presented in suitable tables, formats, diagrams and charts. Such presentation have been interpreted and explained wherever necessary. Financial, Mathematical and Statistical tools are used to analyze.

The first important tool is a financial tool, which includes ratio analysis, CVP analysis and different functional budget of PPC. The other significant tool is statistical tool, which includes Mean, trend analysis and graphic presentation. The details are as follow:

3.6.1. Financial Ratio Analysis

Financial ratio is an arithmetical relationship between two or more financial variables. Company's short-term and long-term solvency position, assets and debt management, and profitability have been measured through following ratios.

3.6.1.1. Current Ratio

Current ratio measures the company's ability to pay its short-term obligations when they become due.

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

3.6.1.2. Quick Ratio

Quick ratio measures, like current ratio, short term solvency position of the company but with relying on sales of inventories.

$$\text{Quick Ratio} = \frac{\text{CA} - \text{Inventories}}{\text{Current Liabilities}}$$

3.6.1.3. Inventory Turnover Ratio

This ratio helps to assess the velocity of company's inventories to turn out into sales.

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Inventory}}$$

3.6.1.4. Total Assets Turnover Ratio

Total assets turnover indicates how effectively the assets are utilized to generate sales revenue.

$$\text{Total Assets Turnover} = \frac{\text{Sales}}{\text{Total Assets}}$$

3.6.1.5. Fixed Assets Turnover Ratio

This ratio measures the extent of efficient utilization of fixed assets to generate sales revenue of the company.

$$\text{Fixed Asset Turnover Ratio} = \frac{\text{Sales}}{\text{Fixed Assets}}$$

3.6.1.6. Gross Profit Margin

Gross profit margin indicates how cost effective a company is to get its operating profit.

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

3.6.1.7. Net Profit Margin

Net profit margin is the profit per Rs. sales indicating the overall cost effectiveness of a company.

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

3.6.1.8. Return on Assets

Return on assets measures how efficient the firm is in order to manage its total assets and to generate profit.

$$\text{Return on Assets} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

3.6.1.9. Return on Capital Employed

Return on capital employed is a ratio that denotes return per Rs. of capital employed.

$$\text{Return on Capital Employed} = \frac{\text{Net Profit}}{\text{Capital Employed}}$$

3.6.1.10. Debt Ratio

Debt ratio is the portion of debt capital that is employed to finance its total assets.

$$\text{Debt Ratio} = \frac{\text{Debt}}{\text{Total Assets}}$$

3.6.1.11. Debt/Equity Ratio

It is the relationship of borrowed fund and owner's capital.

$$\text{Debt-Equity Ratio} = \frac{\text{Debt}}{\text{Equity}}$$

3.6.2 Different Functional Budget

There are different types of budget. They are designed for allocation of resources and co-ordination between functional works of the undertaking as under:

3.6.2.1. Sales Budget

The sales planning is the foundation budget for planning in a business organization. All over planning is based on it. Each and every activity of a business depends upon the sales and sales are the main source of cash. So the sales planning is the beginning point in preparing the other different planning. The sales planning can prepared for a definite future time period by showing volume and unit of sales.

3.6.2.2. Purchase Budget

After having prepared the production budget the material usage and purchasing budget can be easily constructed. The material usage depends upon the level of production and the level of opening stock and desired closing stock. The units of materials to be purchased can be determined as follows.

$$\text{Purchase (Units)} = \text{Budgeted Usage} + \text{Desired Closing Stock (Material)} - \text{Opening Stock}$$

3.6.2.3. 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 of the enterprises rather than in the performance of any one function. It includes large portion of fixed cost than variable cost.

3.6.3. Cost Volume Profit Analysis:-

The cost volume profit analysis is a device to study the behavior of profit in response to change in volume, cost and price. The breakeven analysis a popular form of the CVP analysis and it indicates the level of sales a revenue equal costs .The equilibrium point is called the breakeven point (BEP).

$$\text{Breakeven point (in Rs)} = \text{Fixed costs/PV ratio}$$

The contribution ratio also called P/V ratio, is equal to contribution (contribution per unit) divided by sales. Using contribution or P/V ratio, the breakeven point in rupees can be as follows:

The excess of actual or budgeted sales over the break even sales is called the margin of safety. It indicates the extent to which sales may fall before the firm suffers a loss.

3.6.3.1. Variable Cost Volume Ratio (C/V Ratio):-

This ratio shows the proportion between variable cost and total sales revenue.

$$\text{C/V Ratio} = \frac{\text{Variable cost}}{\text{Sales}}$$

3.6.3.2. Profit Volume Ratio (P/V Ratio):

This ratio shows the proportion between contribution margin (sales-variable costs) and sales.

$$\text{P/V Ratio} = \frac{\text{Contribution Margin}}{\text{Sales}}$$

3.6.4. Statistical Tools

3.6.4.1. Standard Deviation (σ)

The standard deviation is used to measure the risk. It shows the deviation between actual mean and average mean. The standard deviation is calculated with the following formula:

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum(x-\bar{x})^2}{n}}$$

Where, \bar{X} =Variables

—
 \bar{X} =Mean

n=Number of Years

3.6.4.2. Coefficient of Variation (C.V.)

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

$$\text{C.V.} = \frac{\sigma \bar{x}}{\bar{x}}$$

3.6.4.3. Coefficient of correlation (r) Analysis

Under this chapter Karl Pearson's coefficient is used to find out the relationship between total investment and net profit.

$$r = \frac{\sum UV}{\sqrt{\sum U^2} \times \sqrt{\sum V^2}}$$

Coefficient of correlation between Actual purchase and Actual sales

3.6.4.4. Coefficient of Variation (C.V.)

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

3.6.4.3. Co-efficient of Determination (r^2)

Coefficient of determination is the square of coefficient of correlation. This is very convenient and useful way of interpreting the value of coefficient of correlation between two variables.

Co-efficient of determination (r^2) Measure of the degree of correlation between two variables. One of which happen to be independent and another happen to be dependent variables.

3.6.4.5. Probable Error (PEr)

The reliability of co-efficient of correlation helps in interpreting its value with the help of (Per).

It is possible to determine the reliability of the value of co-efficient

$$(PEr) = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

Where, r^2 = square of correlation of coefficient

n=No of pair of observation

It is the value of r is less than PEr, value of r is not significant, and if the value of r is more than PEr, value of r is significant.

3.6.4.6. Simple Linear Regression Model

Regression is the statistical tool that is used to determine the statistical relationship between two (or more) variables and to make estimation (or prediction) of one variable on the basis of the other variable. The equation of simple linear regression model is $y = a + bx$. The variable to predict is called the dependent variable and the variable on which the prediction is based is called the independent variable.

3.6.4.7. Trend Analysis

The measurement used in financial management analysis may be classified into two groups those who measure the relation among the items. Insight set of statement, and those who measure the analysis in these items in successive statement. The first is a static analysis measuring position at a point of time or for a period and the second is a dynamic analysis measuring changes of position. Both types of analysis are necessary for a comprehensive interpretation, since it is an important to know not only the proportion as on a certain date but also the trends of the enterprise.

The trend analysis can be calculated as follows:

Straight line trend of actual sales

- I. Trend analysis of Actual sales
- II. Trend analysis of Net profit

3.7. Graphic Presentation

Presenting the information through the graphs makes very easy to understand. The various variables used in this study have been presented in the different types of graphs and diagrams.

3.8. Research Variables

Sales budget, purchase budget, inventory budget, administration Exp. budget, profit and loss A/C, balance sheet, financial ratios, CVP analysis, Leverage, Flexible budget etc. are the main variables of the study.

CHAPTER-4

DATA PRESENTATION AND ANALYSIS

Profit panning is a systematic approach for attaining effective managerial performance. Since the profit is a primary measure of business success, any business enterprise therefore needs to increase the chances of making profit. Hence the primary purpose of profit planning is to increase the chances of making profit in the enterprises. Comprehensive profit planning and control or budgeting continues to be of prime important in virtually all organization. Planning involves the control and manipulation of relevant variable, controllable and non controllable and reduces the impact of uncertainty so that the enterprises could be saved from chances of making losses.

The main purpose of this research is to examine the profit planning system in STCL & NTL. To accomplish this objective, this study will analyze the various aspects of profit planning and their accomplishment. Profit planning is a managerial tool, which is applied in every business, endeavours either manufacturing or non-manufacturing enterprises or units. Profit planning is the format expression of the enterprises plans, goals and objectives stated in financial terms for specific future period of time.

Today business is large and changing public expectation suggest that plan should be formalized within a framework or four major parameters, economic, technological, social and political. Generally two types of profits planned are formulated both strategic or long-range profit plans and tactical short-range profit plan.

This chapter is crucial part of the whole chapter, which helps to provide conclusion after detail analysis. This chapter consists of presentation and analysis of data regarding the profit planning and control of Salt Trading Corporation Limited and National Trading Limited. Analysis is mainly classified in following three sections.

- a) **Budget Analysis:** In this portion the various functional budgets that STCL & NTL prepare were presented and analyzed with the help of various statistical tools.

- b) **Financial condition of NFC:** In this portion the financial condition of STCL & NTL was tried to find out with the help of financial tools.
- c) **Variance Analysis:** In this portion variances between actual and planned budget goals were compared.

4.1 Budget Analysis

4.1.1 Sales Budget

Sales budget is the primary step in developing the overall budget procedures. Sales are the primary source of cash and all other functional budgets are prepared on the basis of sales budget. The capital additions needed, the amount of expenses to be planned, the manpower requirement, materials, cash, production volume etc. depends on the volume of sales.

In both organizations under the study, planning as well as sales department is responsible for preparing sales budget. Sales budget are normally based on historic sales and occasionally depends upon possible market opportunities. STCL & NTL are huge trading organizations in Nepal operated by state. The primary purpose of sales plan is, to reduce uncertainty about futures revenues, to incorporate management, judgment and decision into the planning process, to provide necessary information for developing other elements of a comprehensive budget and to facilitate management control of sales activity.

Following Table no. 1 shows the picture of sales trends from Fiscal Year (F/Y) 063/64 to 067/68 of STCL.

Table No. 4.1
Sales Revenue of Salt Trading Corporation Limited (in Rs. 100,000)

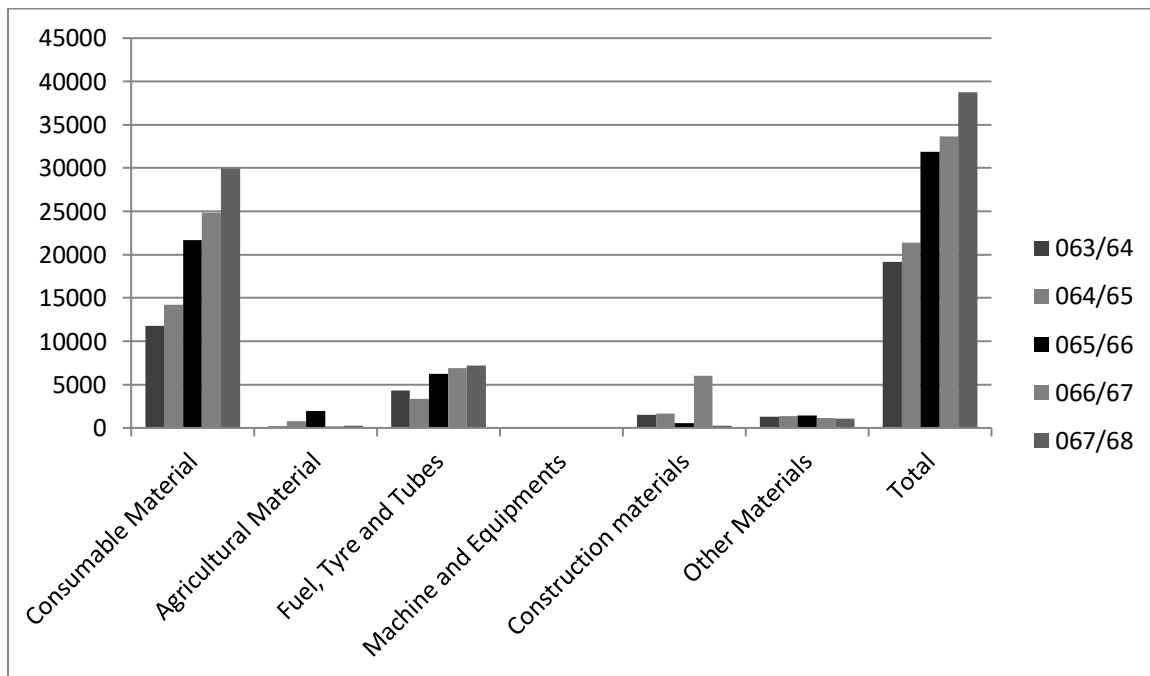
Goods\Year	063/64	064/65	065/66	066/67	067/68
Consumable Material	11818.02	14222.38	21672.06	24894.94	29946.98
Agricultural Material	173.54	773.94	1973.31	151.06	231.86
Fuel, Tyre and Tubes	4310.23	3364.38	6243.31	6888.29	7184.69
Machine and Equipments	26.91	19.73	-	1.25	3.25
Construction materials	1547.15	1625.83	546.53	6000.21	277.29
Other Materials	1286.63	1383.31	1469.12	1127.60	1096.54
Total	19162.33	21389.57	31904.33	33663.35	38740.61

(Source: Annual Report of STCL 063/64 to 067/68)

From the above table, overall revenue from sales of STCL seems in continues increasing trend from F/Y 063/64 to F/Y 067/68. This increment is mainly noticeable in year 065/66 in compared to F/Y 064/65. During the five years period from F/Y 063/64 to F/Y 067/68, amount of sales revenue seems almost double which is good indication for any commercial organization. After absorbing the given table, most of sales revenue is covered by consumable material. And on the other hand, Machine and Equipments holds smallest portion. Sales revenue generated by consumable material is in increasing order. In F/Y 063/64 this amount was Rs. 1181.0 (100,000) and in F/Y 067/68 Rs. 29947.0 (100,000) approximately, which is nearly three times more. However, revenue from other headings is in fluctuating trend throughout the five years duration.

Figure: 4.1

Sales Revenue of Salt Trading Corporation Limited (in Rs. 100,000)



(Source: Annual Report of STCL 063/64 to 067/68)

The above graph represents the sales revenue from six different headings of trading goods of STCL Nepal for five years from F/Y 063/64 to F/Y 067/68. On an average the sales revenue of these trading goods seems in increasing trend. In all years, revenue from consumable material is continuously growing and which also has the biggest impact on overall revenue generation.

Income from five other sales headings looks fluctuated over the five year period. Machine and Equipment sales is very small than others so, in graph this is not as noticeable. However, even if it is small amount, the amount can be clearly seen in table 4.1.

Time Series Analysis:

To analyze the trend of actual sales least square method can be used to estimate the possible future sales for a given time or years. By this method, straight-line trend will show the relationship between time period and actual sales (increase or decrease). With the change in time and such change can be expressed by the component of time factor is considered as independent factor and sales is considered dependent factor upon time. Then straight-line trend of actual sales (y) upon the time (x) is expressed by

$$y = a+bx$$

For the calculation, value of a (constant) and b (variable) can be obtained as under

$$a = \sum y/n$$

$$b = \frac{\sum xy}{\sum x^2}$$

Table No. 4.2

Time Series Analysis of Salt Trading Corporation Ltd

Fitting straight line trend by least square method (in Rs. 100,000)

Year (X)	Actual Sales (Y)	X=X-X'	XY	X ²
063/64	19162.33	-2	-38324.66	4
064/65	21389.57	-1	-21389.57	2
065/66	31904.33	0	0	0
066/67	33663.35	1	33663.35	2
067/68	38740.61	2	77481.22	4
Total	∑Y = 144660.19	∑X = 0	∑XY = 51430.34	∑X² = 10

(Source: Annual Report of STCL 063/64 to 067/68)

(Year 065/66 is taken as base year)

$$a = 144660.19/5$$

$$= 28932.03$$

$$b = 51430.34 / 10$$

$$= 5143.03$$

Then,

$y = 28932.03 + 5143.03.x$ is the trend line of sales figure which shows the positive sales figure in future.

By using this trend equation, we can make estimation of sales revenue for F/Y 068/69 (taking 065/066 base year)

$$y = 28932.03 + 5143.03 \times 3$$

$$= 44361.12$$

Since, if the trend does not change, possible sales for the year 068/69 will be Rs. 44361.12 (in Rs. 100,000) i.e. Rs. 4,436,112,000.

Table No. 4.3

Sales Revenue of National Trading Limited (in Rs. 100,000)

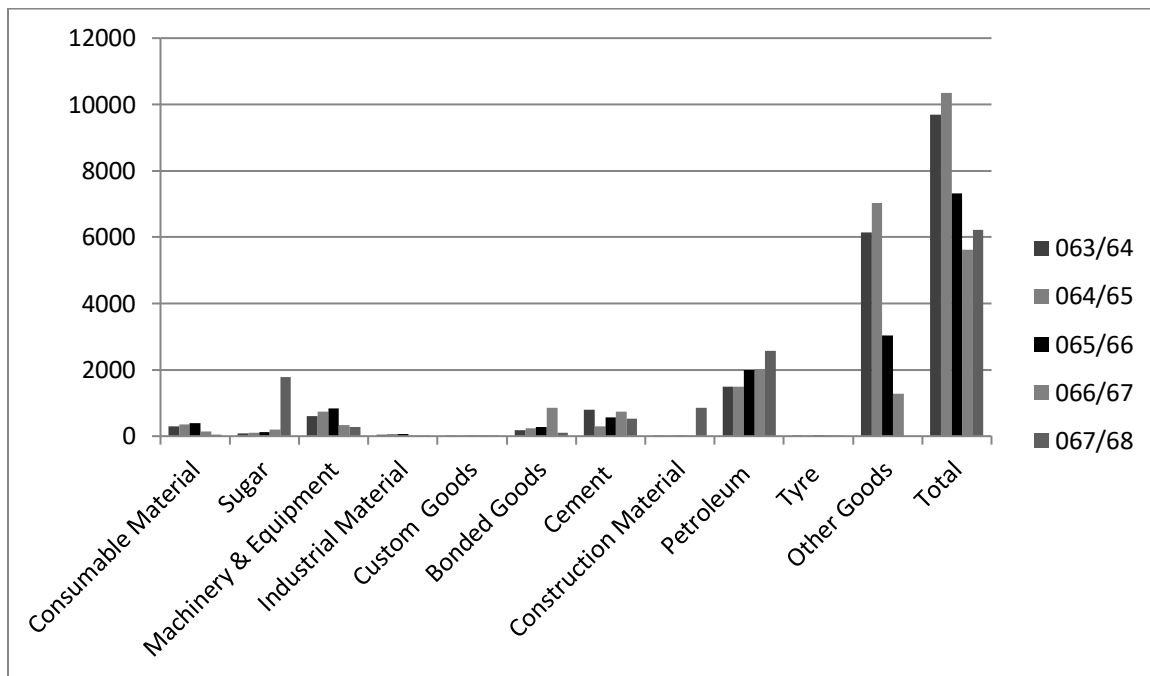
Goods\Year	063/64	064/65	065/66	066/67	067/68
Consumable Material	305.14	355.46	385.80	149.43	53.60
Sugar	87.14	98.70	115.60	202.35	1787.44
Machinery & Equipment	611.52	740.43	832.03	328.33	285.46
Industrial Material	40.90	67.80	72.90	1.05	10.00
Custom Goods	0.13	0.18	0.24	24.94	3.11
Bonded Goods	172.43	240.20	283.90	856.32	109.42
Cement	800.00	300.00	560.00	734.93	526.63
Construction Material	6.23	9.88	10.50	1.38	856.59
Petroleum	1500.00	1500.00	2000.00	2008.63	2574.05
Tyre	20.00	15.00	20.00	23.46	13.03
Other Goods	6142.51	7025.78	3039.35	1287.15	-
Total	9686.00	10353.43	7320.32	5617.97	6219.33

(Source: Annual Report of NTL 063/64 to 067/68)

The above table represents the sales revenue of STC Nepal in different eleven headings of various goods that STC is engaged in trading. The given data is for five different fiscal years i.e. from F/Y 063/64 to F/Y 067/68. The overall sales trend of STC seems fluctuated over the study period. On an average the sales revenue is in decreasing order. Throughout the study period, in F/Y 064/65 total amount of sales revenue is Rs. 1,035,343,000, which is highest than in other years. Then after the revenue generation from sales is continuously decreasing till F/Y 066/67. In this year, the revenue is almost half of F/Y 064/65's income from sales of Rs. 561,797,000, which is also the lowest sales income in five years study period. Finally, in F/Y 067/68, sales revenue is again raised which is favorable indication for wellbeing of organization.

Figure: 4.2

Sales Revenue of National Trading Limited (in Rs. 100,000)



(Source: Annual Report of NTL 061/62 to 065/66)

The given chart clearly describes about sales revenue of STC Nepal of different trading goods for five years, from F/Y 063/64 to F/Y 067/68. We can see the fluctuated trend of overall sales revenue figures in five years period, this type of trends normally create difficulties in estimation of accurate sales volume for future. According to chart, some headings of sales income seems

like absent but these headings also hold accountable amount of Rupee (Rs.), in detail we can see this amounts in table- 4.3.

Table No. 4.4
Time Series Analysis of National Trading Limited
 Fitting straight line trend by least square method (in Rs. 100,000)

Year (X)	Actual Sales (Y)	X=X-X'	XY	X ²
063/64	9686.00	-2	-19372.00	4
064/65	10353.43	-1	-10353.43	2
065/66	7320.32	0	0	0
066/67	5617.97	1	5617.97	2
067/68	6219.33	2	12438.66	4
Total	∑Y = 39197.05	∑X = 0	∑XY = -11668.80	∑X² = 10

(Source: Annual Report of NTL 063/64 to 067/68)

(Year 065/66 is taken as base year)

$$a = 39197.05/5$$

$$= 7839.37$$

$$b = -11668.80/10$$

$$= -1166.88$$

Then,

$y = 7839.37 + (-1166.88).x$ is the trend line of sales figure which shows the negative sales figure in future.

By using this trend equation, we can make estimation of sales revenue for F/Y 068/69 (taking 065/66 base year)

$$y = 7839.37 + (-1166.88) \times 3$$

$$= 4338.74$$

Since, if the trend does not change, possible sales for the year 068/69 will be Rs. 4338.74 (in Rs. 100,000) i.e. Rs. 433,874,000.

4.1.2 Comparison of Actual Sales between STCL & NTL

Both of organizations are trading organizations. Most of trading goods are also similar but volume of trade and structure of organizations are different from each other. STCL is fully state owned organization and NTL is operating under the PPP practice. Here, comparison of actual sales between STCL & NTL is made as under.

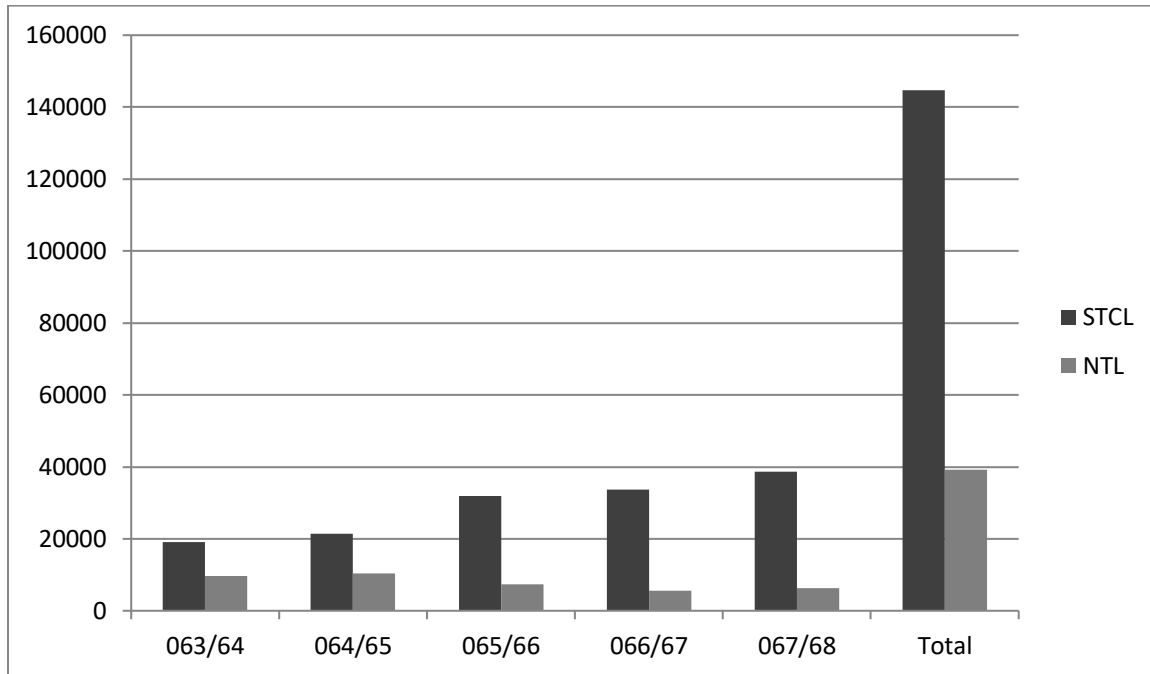
Table No. 4.5
Actual Sales Revenue of STCL and NTL (In Rs. 100,000)

Year\ Detail	Actual Sales Revenue	
	STCL	NTL
063/64	19162.33	9686.00
064/65	21389.57	10353.43
065/66	31904.33	7320.32
066/67	33663.35	5617.97
067/68	38740.61	6219.33
Total	144660.19	39197.05

(Source: Annual Report of STCL & NTL, 063/64 to 067/68)

The table shows the summary of actual sales of STCL and NTL for five years, from F/Y 063/64 to F/Y 067/68. After analyzing the sales revenue of both organizations, performance of STCL seems better than NTL. Because, sales revenue of STCL is more than NTL by almost four times. In five years duration, total sales of STCL is Rs. 14,466,019,000 where as this amount for NTL is Rs. 3,919,705,000. Trend of sales revenue of STCL seems more desirable than of NTL. In the five years duration, sales of STCL was in continuously increasing order but sales of NTL was fluctuated and in decreasing order. To make more clear comparison between two companies' sales revenue, presentations are made below through bar chart and graph.

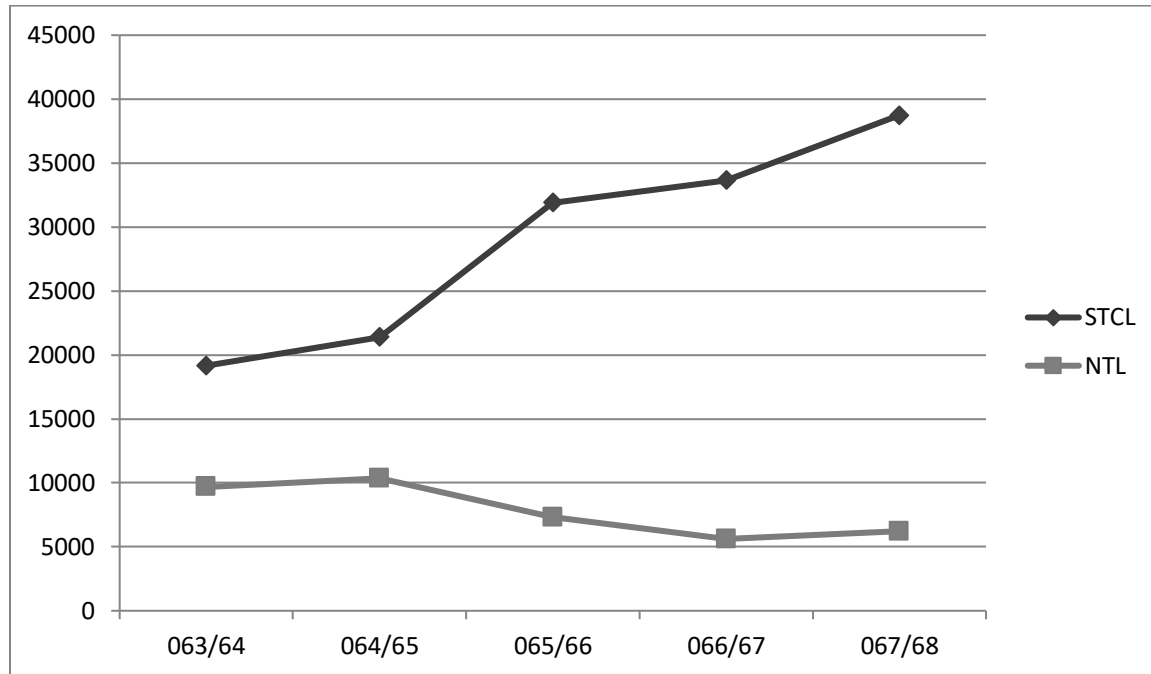
Figure: 4.3
Sales Revenue of STCL and NTL (in Rs. 100,000)



(Source: Annual Report of STCL & STC 063/64 to 067/68)

Above chart describes about the sales revenue of STCL & NTL for fine different fiscal years, from F/Y 063/64 to F/Y 067/68. If we compared the performance of these companies on the basis of its sales revenue then it is easily noticeable that STCL is doing better in trading business than NTL.

Figure: 4.4
Sales Revenue of STCL and NTL (in Rs. 100,000)



(Source: Annual Report of STCL & NTL, 063/64 to 067/68)

The graph shows the sales of STCL & NTL in five different years. From the initial phase STCL has good record of trading activities according to sales volume. For a trading and any commercial organization volume of sales always plays vital role for generating profit and continuing the business activities in the coming periods. So, on the basis of its amount of sales volume, STCL has good business opportunities than NTL in the future. In the five years duration, STCL almost has doubled its sales and instead of increasing the trading activities, sales of NTL is decreasing. Therefore, it can be said that NTL can face bankruptcy in the nearer future because it is just misusing huge amount government budget.

4.1.3 Purchase Budget

Purchase budget is the second step and important process in profit planning and controlling system. It is being prepared on the basis of sales budget. The sales budget is needed to translate in purchase budget in both manufacturing and non-manufacturing concerns. STCL & NTL, the organizations under the study are both trading companies. In non-manufacturing or trading companies instead of converting raw material into finished goods the products are directly

purchased and sold in the market in the same form. Therefore a merchandising business does not make raw material purchase budget, direct labor and factory overhead budget. They only make a purchase expense budget.

$$\text{Purchase} = \text{sales} + \text{ending inventory} - \text{opening inventory}$$

While making purchase expense budget both STCL & NTL considers the following purchase related activities;

- **Procurement of varieties of goods:** STCL & NT procure different trading goods either directly from the producers or from the various agencies. They purchase goods from local as well as international market.
- **Product line consideration:** In both companies the varieties of trading goods or product line are quite large. Both local and imported goods which maintains basic international standard in terms of product quality are being purchased, then after giving its own brand name send products in the market for its customers.
- **Policy of Purchasing:** STCL & NTL both have a policy of purchasing of merchandising goods from local and international market. Purchasing committees and departments are available for purchasing purpose in both organizations.

Table No. 4.6

Purchase Budget of Salt Trading Corporation Limited (in Rs. 100,000.)

Goods\Year	063/64	064/65	065/66	066/67	067/68
Consumable Material	6223.20	7823.20	8975.50	15000.00	17000.00
Agricultural Material	183.00	173.00	193.00	200.00	200.00
Fuel, Tyre and Tubes	2243.30	4043.30	4165.00	5000.00	6000.00
Machine & Equipments	29.10	39.10	52.00	60.00	70.00
Construction Materials	574.00	582.60	590.00	800.00	1000.00
Other Materials	830.10	524.96	545.60	3575.86	3218.24
Total	10082.70	13157.84	24467.60	24635.86	27488.24

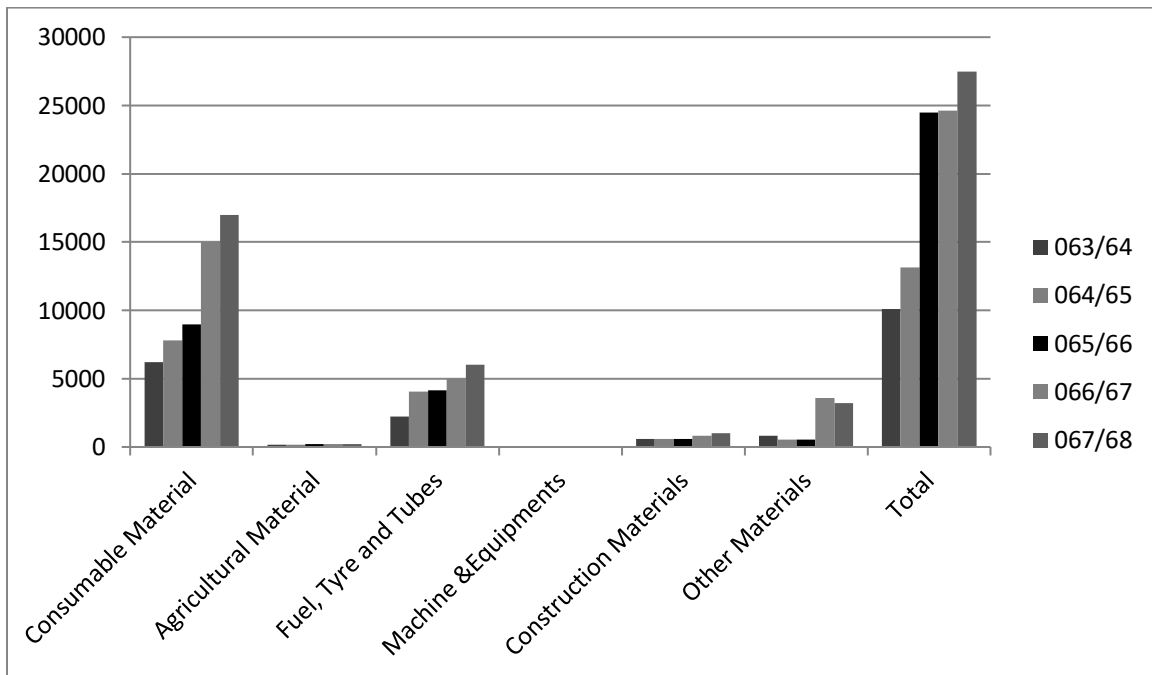
(Source: Annual Report of STCL 063/64 to 067/68)

The above table is about the purchase detail of STCL Nepal for five years duration, from F/Y 063/64 to F/Y 067/68. The trend of purchase seems in increasing order. Total amount of

purchase in F/Y 067/68 is nearer three times bigger in compared to F/Y 063/64. According to given data, in F/Y 063/64 purchase was Rs. 1,008,270,000, which is smallest purchase and in F/Y 067/68 it was Rs. 2,748,824,000, which is the biggest purchase of the study period. On total purchase, the impact of consumable material seems noticeable because among the whole different purchase headings account of consumable material is largest than others in every year.

Figure: 4.5

Purchase Budget of Salt Trading Corporation Limited (in Rs. 100,000)



(Source: Annual Report of STCL 063/64 to 067/68)

The given chart represents the picture of purchase budget of STCL Nepal for five years from F/Y 063/64 to F/Y 067/68. Chart shows the amount of purchase by categorizing in different groups of trading goods and in different years. On an average, the amount of purchase is increasing due to increasing demand of goods and increasing market price of goods. In total purchase amount the portion of consumable material has big impact.

Table No. 4.7**Purchase Budget of National Trading Limited (in Rs. 100,000)**

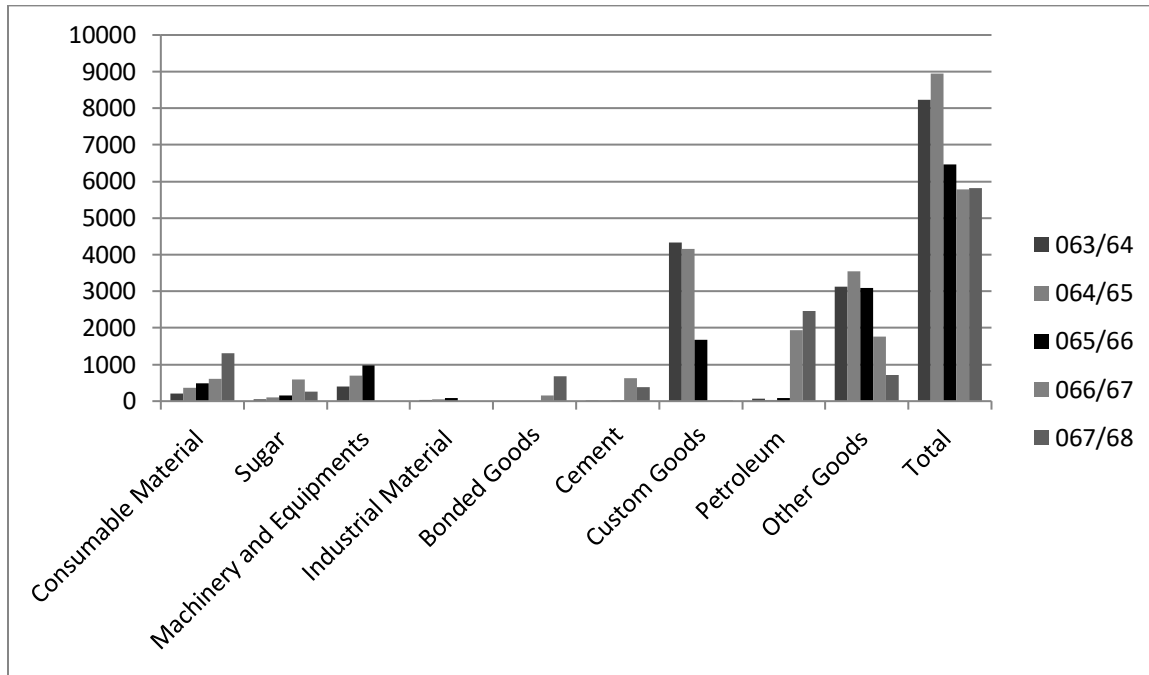
Goods\Years	063/64	064/65	065/66	066/67	067/68
Consumable Material	205.30	357.80	478.37	615.97	1303.06
Sugar	46.10	98.30	157.17	596.65	255.33
Machinery & Equipments	408.20	692.67	968.79	-	-
Industrial Material	40.70	48.50	92.27	-	-
Bonded Goods	-	-	-	161.31	683.85
Cement	6.90	8.34	16.78	634.38	388.15
Custom Goods	4334.10	4150.40	1679.71	23.42	2.96
Petroleum	64.30	37.44	83.98	1942.38	2470.78
Other Goods	3122.28	3546.18	3085.87	1767.79	706.02
Total	8,230.88	8939.63	6470.55	5779.52	5810.15

(Source: Annual Report of STC 063/64 to 067/68)

The above table shows the summary of purchase budget by categorizing in different headings of trading goods of STC Nepal, from F/Y 063/64 to F/Y 067/68. Trend of purchase is in fluctuating and decreasing order. It seems, the inventory level is planned properly because relationship between sales and purchase is positive. Whenever, sales is increased purchase also increased and in which way the sales was decreasing, purchase also decreased in the same direction.

Figure: 4.6

Purchase Budget of Salt Trading Corporation Limited (in Rs. 100,000)



(Source: Annual Report of STC 063/64 to 067/68)

The given chart represents the purchase budget of STC Nepal, from F/Y 063/64 to F/Y 067/68. On an average, the nature of purchase is fluctuated and in decreasing order. After analyzing the purchase and sale, relationship seems positive. However, decreasing trading activity of an organization is not considered as favorable.

4.1.4 Comparison of Purchase between STCL & NTL.

In non-manufacturing organizations finished products are directly purchased from producers and sold in market in the same form or not making any changes in its main features. As we know it, STCL & NTL are trading or non-manufacturing companies. So, these organizations purchase goods from internal and external market then sold for final customer. Purchase budget is normally prepared on the basis of sales budget.

Table No. 4.8

Actual Purchase of STCL and NTL (In Rs. 100,000)

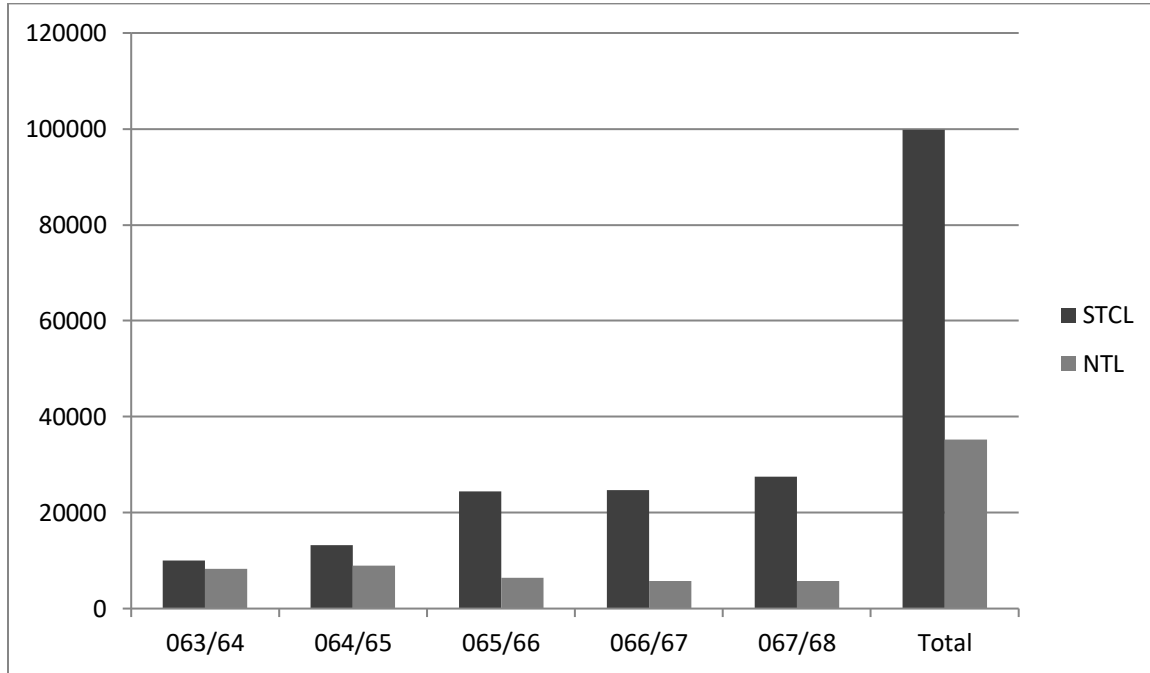
Years\ Details	Actual Purchase	
	STCL	NTL
063/64	10082.70	8230.88
064/65	13157.84	8939.63
065/66	24467.60	6470.55
066/67	24635.86	5779.52
067/68	27488.24	5810.15
Total	99832.24	35230.73

(Source: Annual Report of STCL & NTL, 063/64 to 067/68)

The above table reveals actual purchase amount of STCL & NTL for five years, from F/Y 063/64 to F/Y 067/68. By comparing five years purchase data, in all years purchase of STCL exceeds to NTL's purchase. Total purchase amount of STCL is almost three times larger than NTL. Purchase of STCL is continuously increasing due to increasing demand of products and overall sales revenue. Purchase trend of NTL seems quite fluctuated because sales revenue was also in the same form, dissimilar direction and decreasing order. On an average, from the point view of purchase trend and volume, performance of STCL seems good than NTL.

Figure: 4.7

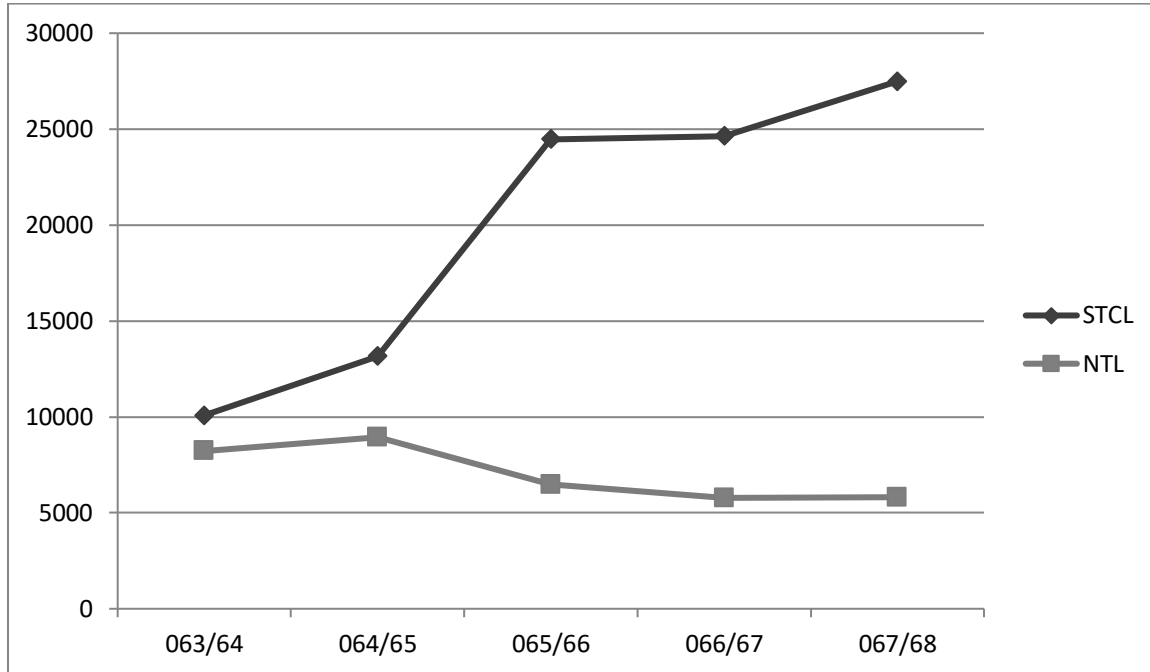
Purchase Budget of STCL and NTL (in Rs. 100,000)



(Source: Annual Report of STCL & STC, 063/64 to 067/68)

The above bar chart clearly gives information about purchase amount of STCL & NTL for five year, from F/Y 063/64 to F/Y 067/68. Total purchase amount STCL is larger than NTL by nearer three times. In all years purchase amount of NTL is smaller than STCL.

Figure: 4.8
Purchase Budget of STCL and NTL (in Rs. 100,000)



(Source: Annual Report of STCL & NTL, 063/64 to 067/68)

The above graph clearly representing the purchase budget of two trading companies STCL & NTL five different fiscal years, from F/Y 063/64 to F/Y 067/68. The graph shows, purchase amount of STCL is continuously going up and slowly graph line of NTL is falling down. Because of growing market demand and sales volume purchase volume of STCL is also growing on the same direction of sales. On the other side, purchase of NTL is in diminishing order due to its decreasing makes demand and sales. However, between the both organizations one common thing that we could find is maintaining of right amount of inventory level. Because, sales and purchase amount is going in similar direction in both enterprises.

4.1.5 Administrative Expenses Budget

There are different administrative expenses incurred in the operation of the enterprises. Expenses other than manufacturing and distribution expenses i.e. employee and office expenses is treated as administrative expenses. Employee expenses like salaries, allowance, gratuity, pension,

provident fund, training, medical expenses etc. which are related to employees are employee expenses and house rent, stationery, transportation, meeting expenses, insurance, repair and maintenance etc. are office expenses, are the administration expenses.

The overall administrative expenses budget includes several departmental budgets. Summary of administrative expenses budget of STCL & NTL is presented below for comparing and analyzing purpose.

Table No. 4.9
Administration Expenses Incurred in STCL & NTL (in Rs. 100,000)

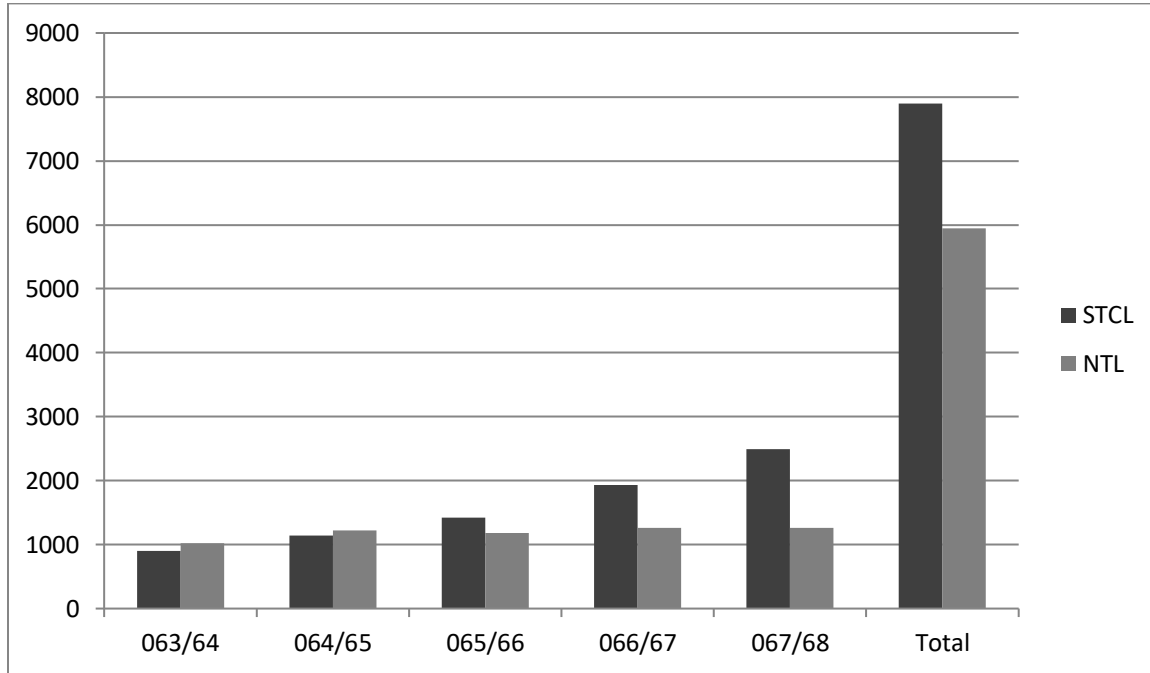
Years\ Details	Actual Sales Revenue	
	STCL	NTL
063/64	904.80	1,025.70
064/65	1143.54	1217.88
065/66	1424.64	1177.54
066/67	1935.93	1266.01
067/68	2487.86	1258.72
Total	7896.77	5945.85

(Source: Annual Report of STCL & NTL, 063/64 to 067/68)

The above table describes about administration expenses incurred in STCL & NTL in five years duration, from F/Y 063/64 to F/Y 067/68. On an average or the total administration expenses of STCL is higher than NTL by Rs. 195,992,000 approximately (STCL, Rs. 789,677,000.00 and NTL, Rs. 594,585,000.00). The pattern of expenses is different in these two organizations. In STCL, level of administration expenses is increasing according to volume of sales revenue. So, relationship between administration expense and sales revenue is positive. However, the pattern of administration expenses in NTL is irregular type or of fluctuated nature as its sales revenue. But, in overall sales revenue was in decreasing order and amount of administration expenses is slowly increasing it is mostly because of its fixed nature. Therefore, the relationship between sales revenue and administration expenses in NTL is negative. To make clear distinction and comparison between administration expenses between two organizations, bar chart and graph presentation is made below respectively.

Figure No. 4.9

Administration Expenses Incurred in STCL & NTL (in Rs. 100,000)

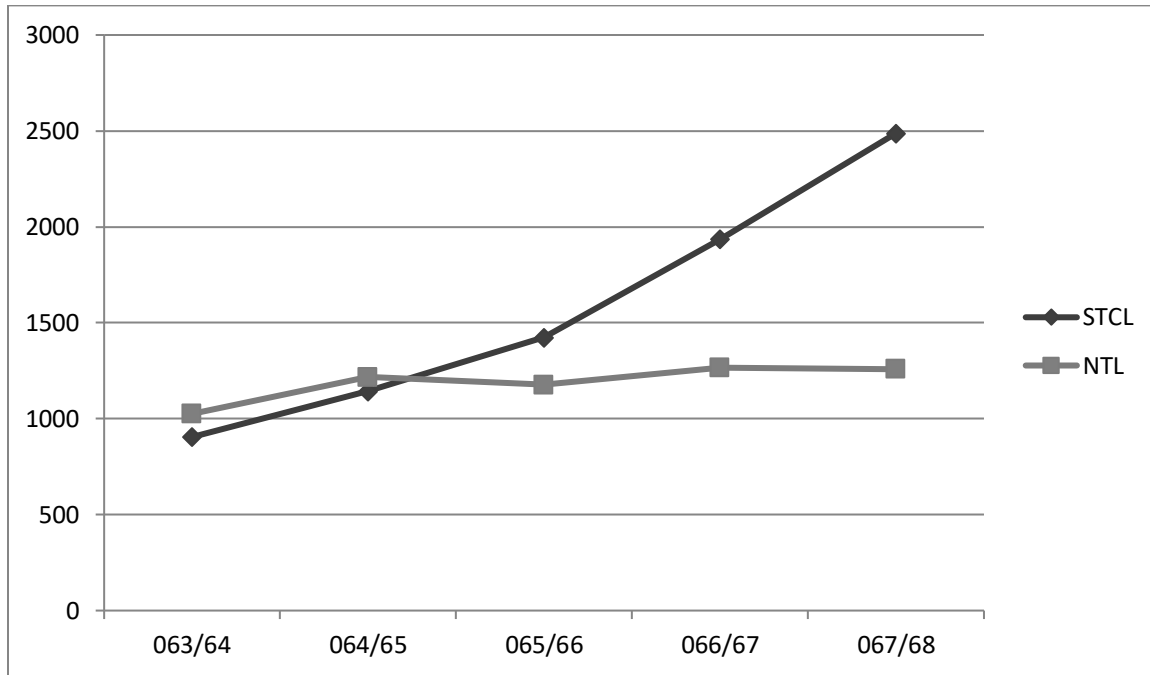


(Source: Annual Report of STCL & STC, 063/64 to 067/68)

The above bar chart describes administration expenses of STCL & NTL, for five different years, from F/Y 063/64 to F/Y 067/68. On an average, total amount of administration expenses of STCL exceeds than NTL. In the initial phase of study period, NTL has bit more expenses level than after administration expenses of STCL has continuously grown up accordingly increment in its sales volume.

Figure No. 4.10

Administration Expenses Incurred in STCL & NTL (in Rs. 100,000)



(Source: Annual Report of STCL & STC, 063/64 to 067/68)

The bar chart clearly representing and giving basis for comparing the nature and trend of administration expenses of two organizations. From the starting period of study, amount of administration expenses is continuously increasing and this expense of NTL is not increasing. In first two years, F/Y 063/64 and 064/65 amount of expenses of NTL exceeds than STCL and than after STCL exceeds than NTL. Mostly, administration expense is considered as fixed nature of expenses but it is partly true because some heading of administration expenses are of semi-variable nature. So, according to increment in sales volume of STCL this has been increased in the same direction of its sales revenue. However, NTL has not been able to increase its sales and it is regularly decreasing every year. So for this reason, its level of administration expenses is as stagnated.

4.1.6 Inventory planning

Usually purchase plan depends on sales of the company but here, sales is depends on purchase. It is the situation where demand is higher than the supply. STCL can sell all of its production all over the country without any difficulty. When sales exceeds purchase, level of inventory decrease and when it is less than purchase the level of inventory increase. A certain level of

inventory is desirable for smooth running of business activities. Level of inventory depends upon the various factors like nature of product, season, sales quantity and other factor. NTL and STCL have flexible inventory policy. In fact NTL and STCL have not following any definite inventory policy.

The inventory level of STCL and NTL during the study period is given below (extracted from Balance Sheet)

Table No. 4.10
Beginning and Ending inventory of STCL and NTL (in Rs. 100,000)

<u>Details</u> Years	STCL		NTL	
	Beginning Inventory	Ending Inventory	Beginning Inventory	Ending Inventory
063/64	4,706.70	7,898.90	3,544.00	3,805.70
064/65	7,898.90	6116.21	3,805.70	2893.10
065/66	6116.21	10071.76	2893.10	3494.55
066/67	10071.76	14475.07	3494.55	2738.55
067/68	14475.07	15794.15	2738.55	4727.09

(Source: Annual report of STCL & NTL, 063/64 to 067/68)

The above table shows the inventory level of trading goods of STCL & NTL for five different years, from F/Y 063/64 to F/Y 067/68. On an average, inventory level of STCL seems in increasing order accordingly sales volume but NTL has fluctuated nature of inventory level. In F/Y 064/65, inventory level of STCL is lowest i.e. Rs. 611,621,000.00, then after it is continuously increasing to maintain raising market demand of products. Sales volume of NTL is fluctuated and in decreasing order so inventory level also not predictable. However, the level of inventory gets match with its sales volume and trading activities of enterprises so, amount of inventory is maintained properly.

4.2 Analysis of Financial Position of STCL & NTL

Effective planning and control are central to enhancing enterprise value. The planning should be good and good plan must be related to the firm's existing strengths and weakness. The strength must be understood if they are to be used for proper advantage and the weakness must be recognized if corrective action is to be taken.

Financial analysis helps to diagnose strength and weakness in a firm's performance in quantitative relations. It is the most essential factor to know the performance of the organization with present actual situation of the organization.

Financial condition of STCL & NTL is tried to find out with different financial ratios. Financial analysis involves the three broad groupings:

- I. Performance Measures
- II. Operating Efficiency Measures
- III. Financial Policy Measures

4.2.1 Performance Measures

4.2.1.1 Profitability Ratios:

It measures management's effectiveness by the returns generated from sales and investment.

4.2.1.1.1 Gross Profit Margin Ratio: The most common ratio in operating analyses is the gross profit margin. The gross profit ratio expresses the relationship between the gross profit and sales. This ratio indicates the degree to which the selling price of goods sold per unit may decline without resulting in losses from operation to the firm. A high gross profit margin ratio to sales is a sign of good management. A relatively low ratio is definitely a danger signal. Gross profit margin ratio can be calculated by the following formula:

Gross Profit Margin Ratio = Gross profit/ Sales

Table No. 4.11

Gross Profit Margin Ratio of STCL & NTL (Rs. 100,000)

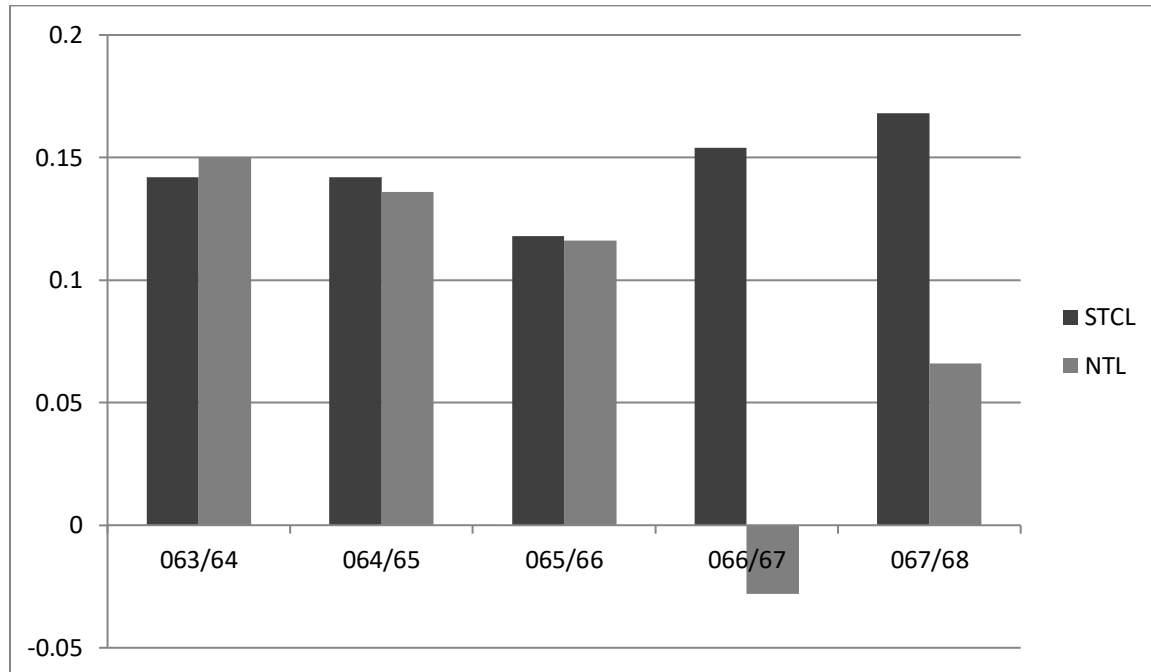
Details	STCL			NTL		
	Sales Revenue	Gross Profit	Ratio	Sales Revenue	Gross Profit	Ratio
063/64	19162.18	2716.77	0.142	9686.10	1455.20	0.150
064/65	21389.57	3013.27	0.142	10353.44	1413.81	0.136
065/66	31904.33	3769.18	0.118	7320.32	849.77	0.116
066/67	33663.35	5183.54	0.154	5617.97	(161.55)	-0.028
067/68	38740.61	6501.63	0.168	6219.33	409.18	0.066

(Source: Annual report of STCL & NTL, 061/62 to 065/66)

The above table describes about gross profit margin ratio of STCL & NTL for five years, from F/Y 063/64 to F/Y 067/68. By comparing ratios of these two organizations, again STCL seems in good position than NTL. For first three years, gross profit margin ratio between two organizations seems quite similar but then after STCL is able to increase its ratio continuously however, NTL is unable to improve and even getting worse because on F/Y 066/67 this ratio is in negative form. For clear understanding, graphic presentation is made below through a bar chart.

Figure No. 4.11

Gross Profit Margin Ratio of STCL & NTL



(Source: Table No. 4.13)

4.2.1.1.2 Net Profit Margin Ratio: This ratio tells how much profit a company can make for every rupee of sales. This ratio measures the overall profitability of the firm by establishing relationship between net profit and sales. The relationship between net profit and sales indicates management's ability to operate the business with sufficient success not only to recover the cost of production, operating expenses of business and cost borrowed fund but also leave a margin of reasonable compensation to the owners for providing their capital at risk. Higher the company's profit margin compared to the competitors, the better the company is. A high net profit margin would enable the firm to withstand adverse economic condition and a low margin will have opposite implication. The ratio is calculated by dividing net profit after tax and interest by sales.

Net profit margin ratio = Net income / Sales

Table No. 4.12

Net Profit Margin Ratio of STCL & NTL (Rs. 100,000)

Details	STCL			NTL		
	Sales Revenue	Net Profit	Ratio	Sales Revenue	Net Profit	Ratio
063/64	19162.18	(1036.57)	-0.054	9686.10	235.00	0.024
064/65	21389.57	130.27	0.006	10353.44	45.09	0.004
065/66	31904.33	115.55	0.003	7320.32	(485.26)	-0.066
066/67	33663.35	371.51	0.011	5617.97	(1584.33)	-0.282
067/68	38740.61	600.03	0.015	6219.33	(1281.16)	-0.206

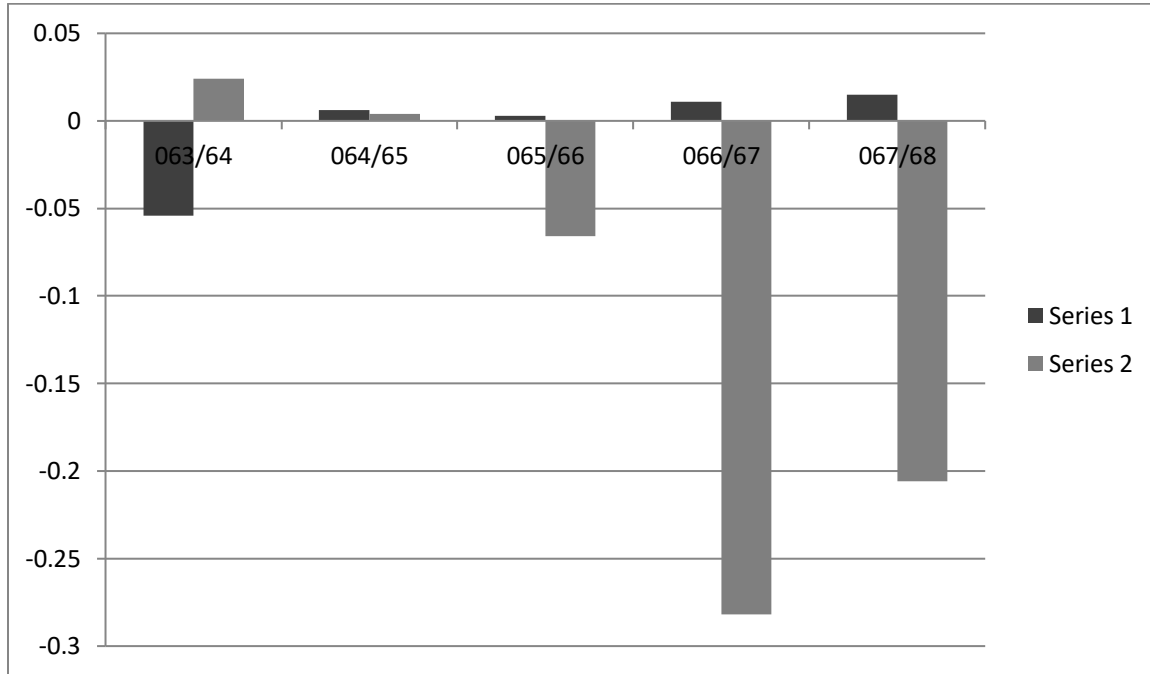
(Source: Annual report of STCL & NTL, 061/62 to 065/66)

The above table gives information about net profit margin of STCL & NTL for five years duration, from F/Y 063/64 to F/Y 067/68. Normally, higher net profit margin ratio is considered as desirable for any commercial organization but exact standard is not fixed because it depends on industry level. If net profit margin ratio is similar or beyond the industry average then it is considered as successfully running entity however, if it is less than industry average it is the unfavorable condition. The given information from the above table, performance of STCL seems much better than the NTL. In the first year of the study period, STCL has negative ratio of -0.054 but in the following years it has improved its net profit margin ratio. To the next side, this ratio of NTL is positive in the initial phase but after F/Y 065/66, this ratio is continuously appearing in negative figure. From the F/Y 065/66, performance of the organizations under the study looks in contradictory situation. On the one hand, STCL is able to increase its net profit margin ration continuously from 0.003 to 0.015. To the next hand, ratio of NTL is getting bigger every year in negative figure i.e. from -0.066 to -0.206.

In an overall, in the coming future, STCL has great possibilities to bust its trading activities but NTL does not have positive hopes that it can do better business by analyzing these organizations through its net profit margin. For clear information, graphic presentation is made below through a bar chat.

Table No. 4.12

Net Profit Margin Ratio of STCL & NTL (Rs. 100,000)



(Source: Table No. 4.13)

4.2.1.1.3 Return on Total Assets: This ratio measures the productivity of the assets. It measures the return on all the firm's assets after interest and taxes. Return on assets tells an investor how much profit a company has generated for each 1 rupee of assets. Higher the ratio higher is the return on the assets used in the business thereby indicating effective use of the resources available and vice-versa. Return on assets is calculated by following formula,

$$\text{ROA} = \text{Net income} / \text{Total Assets}$$

Table No. 4.13

Return on Assets Ratio of STCL & NTL (Rs. 100,000)

Details	STCL			NTL		
	Total Assets	Net Profit	Ratio	Total Assets	Net Profit	Ratio
063/64	18161.93	(1036.57)	(0.057)	218.90	235.00	1.074
064/65	17876.45	130.27	0.007	276.10	45.09	0.163
065/66	18141.23	115.55	0.006	(212.08)	(485.26)	-
066/67	17875.21	371.51	0.021	(799.97)	(1584.33)	-
067/68	17487.00	600.03	0.034	(2084.81)	(1281.16)	-

(Source: Annual report of STCL & NTL, 061/62 to 065/66)

The above table shows the return on assets ratio of STCL & NTL for five years, from F/Y 063/64 to F/Y 067/68. By comparing the both ratios, financial position of STCL seems good than NTL. Both organizations have weak performances but NTL is in position of bankrupt. From F/Y 065/66, total assets and net profit both are in the negative figure so in following years return on assets ratio is not calculated. Because of huge accumulated losses of past years and worse trading performance of the NTL, its total assets figure also being negative every year by large amount. So, to run smoothly its trading activities in the future, it needs dynamic management with skilled manpower and effective long-term strategy. For last couple of years, STCL is doing progress to achieve its goal and its trade volume is raised then before. In the first year of the study period, ROA Ratio was -0.057 but this has been improved in the following years so, after five years in F/Y 067/68, this ratio is 0.034, which is the good indication for any business organization. At last, future of STCL looks bright in the field of trading sector but if at the right time the worse performance of NTL is not improved, it will be soon in the situation of collapse all its trading activities.

4.2.1.1.4 Return on Equity: ROE measures the return earned on the owners' investment in the firm. The shareholder's equity will include paid up capital, share premium and reserve and surplus less accumulated loss. It reveals how much profit a company earned in comparison to the

total amount of shareholders equity. Higher ratio or percentage reveals the efficient use of owner's investment and vice-versa. ROE can be calculated by the following formula;

$$\text{ROA} = \text{Net Profit} / \text{Shareholder's Equity}$$

Table No. 4.13

Return on Assets Ratio of STCL & NTL (Rs. 100,000)

<u>Details</u> Years	STCL			NTL		
	Shareholder's Equity	Net Profit	Ratio	Shareholder's Equity	Net Profit	Ratio
063/64	13454.36	(1036.57)	(0.077)	1693.35	235.00	0.139
064/65	13179.63	130.27	0.010	1693.35	45.09	0.027
065/66	13547.58	115.55	0.009	1693.35	(485.26)	(0.287)
066/67	13764.97	371.51	0.027	1693.35	(1584.33)	(0.936)
067/68	13996.60	600.03	0.0429	1693.35	(1281.16)	(0.756)

(Source: Annual report of STCL & NTL, 061/62 to 065/66)

The above table describes about net profit margin ratio STCL & NTL for five years, from F/Y 063/64 to F/Y 067/68. On an average, ratio of STCL looks in progressive order and the ratio of NTL is in fluctuated trend. In the first year of the study period, ROE of STCL is in negative but after the following years, the ratio of STCL is continuously growing that means slowing STCL is managing to earn considerable amount of profit in the return of owners' equity. To the next side, ROE ratio of NTL looks poor because its performance in terms of this ratio is getting worse every year. In the first two years of study period, ROE ratio of NTL is in positive form then after it is in negative. However, in F/Y 067/68, ROE ratio is -0.756 which is less than the previous years' ratio. The minimum ratio of whole study period is in F/Y 066/67 which was -0.936. In an overall, both organizations performance in terms of generating net profit in return of equity looks very poor.

4.2.2 Operating Efficiency Measures

4.2.2.1 Inventory Turnover Ratio: Inventory turnover helps to maintain a certain level of inventory to meet the requirement of the business. This ratio indicates whether the investment in

inventory is efficiently used or not. This ratio is used to measure the efficiency of sales of the organization,

A high stock turnover indicates efficient management of inventory, because more frequently the stocks are sold, the lesser amount of capital is required to finance the inventory. On the contrary, a low stock turnover indicates over investment in stock, poor quality of goods, low profits as compared to total investment and inefficient inventory. Thus, higher inventory turnover ratio is preferable. The following formula is used to calculate the inventory turnover ratio;

Inventory Turnover Ratio = Sales (net) / Inventory (closing)

Or, Inventory Turnover Ratio = Cost of Goods Sold / Average Inventory

Table No. 4. 14

Inventory Turnover Ratio of STCL & NTL (Rs. 100,000)

<u>Details</u> Years	STCL			NTL		
	Ending Inventory	Sales Revenue	Ratio	Ending Inventory	Sales Revenue	Ratio
063/64	7,898.90	19162.18	2.426	3,805.70	9686.10	2.545
064/65	6116.21	21389.57	3.497	2893.10	10353.44	3.579
065/66	10071.76	31904.33	3.166	3494.55	7320.32	2.095
066/67	14475.07	33663.35	2.325	2738.55	5617.97	2.051
067/68	15794.15	38740.61	2.453	4727.09	6219.33	1.316

(Source: Annual report of STCL & NTL, 061/62 to 065/66)

The table gives information about Inventory Turnover Ratio of STCL & NTL for five years, from F/Y 063/64 to F/Y 067/68. Generally, Inventory Turnover Ratio of both trading organizations looks fluctuated and satisfactory. For any business enterprises, what is the optimum level of inventory turnover ratio depends on particular business nature and its industry average. By comparing the ratios of both organizations under the study, it is revealing that both are well in utilizing their investment in inventory. In F/Y 063/64, STCL has lowest inventory turnover ratio and in F/Y 064/65, it has highest inventory turnover ratio of 3.497. Similarly, in

F/Y 064/65, NTL has the highest ratio of 3.579 times than other years which indicates, this year NTL spend less in inventory holding. And in F/Y 067/68, this organization has just 1.316 time of inventory turnover ratio which means this year NTL is invested excess amount of fund for stocking of trading goods.

4.2.2.2 Total Assets Turnover Ratio: This ratio shows the firm's ability in generating sales from all financial resources committed to total assets. It reflects the firm's ability and efficiency in utilization of total assets in generating sales and profit from all financial resources committed to total assets. High assets turnover ratio indicates the total resources have been well managed and over investment in assets represents the low assets turnover ratio. The following formula is used to calculate the inventory turnover ratio.

Total Assets Turnover = Sales/ Total Assets

Total assets include net fixed assets and current assets. The total assets turnover ratio is the relation between sales and total assets.

Table No. 4.15
Total Assets Turnover Ratio of STCL & NTL (in Rs. 100,000)

<u>Details</u> Years	STCL			NTL		
	Total Assets	Sales Revenue	Ratio	Total Assets	Sales Revenue	Ratio
063/64	18161.93	19162.18	1.055	218.90	9686.10	44.249
064/65	17876.45	21389.57	1.197	276.10	10353.44	37.499
065/66	18141.23	31904.33	1.759	(212.08)	7320.32	-
066/67	17875.21	33663.35	1.883	(799.97)	5617.97	-
067/68	17487.00	38740.61	2.215	(2084.81)	6219.33	-

(Source: Annual report of STCL & NTL, 061/62 to 065/66)

The above table gives information about Total Assets Turnover Ratio of STCL & NTL for five years, from F/Y 063/64 to F/Y 067/68. Both enterprises being trading organizations, their

performances in terms of assets turnover ratio is not in satisfactory level. In the five years of study duration, performance of STCL looks good than the NTL. In first year of the study period or F/Y 063/64, Total Assets Turnover Ratio of STCL is 1.055 times then after it managed to increase this ratio every year. It comes as 2.215 times after five years or in F/Y 067/068 which is more than double than the beginning years' ratio. The continuous growing assets turnover ratio indicate STCL is able to utilizes its total assets for generating sales which always gives a sign for favorable business possibilities. For NTL, situation is complicated to calculate its Total Assets Turnover Ratio. Because, according to balance sheet figure its total assets is in negative figure due to huge liabilities that NTL has to pay. In the initial phase of study period, NTL has managed to maintain good turnover ratio in comparison to its total assets. But after the F/Y 065/66, the ratio is not been calculated. If national trading limited is not being a state owned organization it would be liquidated before couple of years. It is still surviving because of government fund utilization and its some important services for the nation. So, STCL has good possibilities to grow up in the future but NTL needs immediate action for dynamic management business operation concept.

4.2.2.3 Fixed Asset Turnover Ratio: The fixed asset turnover ratio indicates the extent to which the investments in fixed assets contribute toward sales. This ratio measures the efficiency with which the firm is utilizing its investment in fixed assets. Higher the fixed assets turnover ratios better the performance of business and lower ratio indicates inefficient utilization of available fixed assets. Fixed asset turnover ratio is calculated as.

Fixed Asset Turnover Ratio= Sales / Net fixed assets

Table No. 4.16

Fixed Assets Turnover Ratio of STCL (in Rs. 100,000)

Details	STCL			NTL		
	Net Fixed Assets	Sales Revenue	Ratio	Net Fixed Assets	Sales Revenue	Ratio
063/64	13778.68	19162.18	1.391	5771.10	9686.10	1.678
064/65	13614.53	21389.57	1.571	296.00	10353.44	34.978
065/66	13433.90	31904.33	2.375	279.55	7320.32	26.168
066/67	13088.70	33663.35	2.572	266.70	5617.97	21.065
067/68	13621.16	38740.61	2.844	254.31	6219.33	24.456

(Source: Annual report of STCL & NTL, 063/64 to 067/68)

The above table represents Fixed Assets Turnover Ratio of STCL & NTL for five years, from F/Y 063/64 to F/Y 067/68. Fixed assets turnover ratio of STCL seems in the increasing order. In the five years duration, this ratio has been increased almost by double. In F/Y 063/64, it was 1.391 times and in F/Y 067/68, it was 2.844 times. Fixed assets turnover ratio of NTL seems quite strong and fluctuated than STCL. In general, ratios of NTL revealing the proper utilization of fixed assets in sales generation. In F/Y 065/66, fixed assets turnover ratio of NTL was highest of 34.978 times than other years, which is considered as good ratio. However, this ratio is not only the performance measurement factor for any organization.

4.2.3 Financial Policy Measures: Two major types of financial policy ratios are considered.

- **Leverage Ratios:** Leverage ratios measures the degree to which total assets are financed by owners compared with financing provided by the creditors.
- **Liquidity Ratios:** Liquidity ratio measures the short term loan paying ability of the firm. It measures the ability of the firm to meet its maturing obligations. It gives a picture of a company's short term financial situation or solvency. Short term lenders first scrutinize the liquidity position for deciding to grant or not the credit.

4.2.3.1 Leverage Ratios

4.2.3.1.1 Debt-Equity Ratio: Debt-equity ratio measures the relative claims of creditors and owners against the assets of the firm. It is a test of long term solvency of the firm. Debt-equity ratio indicates the relationship between debt and equity. In other words it measures how much money a company could safely borrow over long periods of time. It gives the assurance of protection to the long term creditors. Lower the debt –equity ratio better the condition of firm, higher the debt-equity ratio higher the chance of solvency. Generally debt-equity ratio of over 40-50% should be looked at more carefully to make sure that there are no liquidity problems. Debt-equity ratio can be calculated as follows;

Debt-Equity Ratio = Total Debt / Shareholder's Equity

Table No. 4.17
Debt Equity Ratio of STCL and NTL (in Rs. 100,000)

<u>Details</u> Years	STCL			NTL		
	Shareholder's Equity	Total Debt	Ratio	Shareholder's Equity	Total Debt	Ratio
063/64	13454.36	4420.85	0.329	1693.35	-	-
064/65	13179.63	4307.37	0.327	1693.35	-	-
065/66	13547.58	4328.87	0.319	1693.35	-	-
066/67	13764.97	4376.26	0.318	1693.35	1000.00	0.590
067/68	13996.60	4165.33	0.298	1693.35	1000.00	0.590

(Source: Annual report of STCL & NTL, -063/64 to 067/68)

The above table shows the Debt Equity Ratio of STCL & NTL for five years, from F/Y 063/64 to F/Y 067/68. Debt-equity ratio of STCL is around 30 % which is considered as good debt and equity management in the organization. And, another important point is throughout the study period, debt-equity ratio seems near constant but in decreasing order. Beginning of the year, debt-equity ratio is 32.90% and end of the study period or in F/Y 067/68 it is 29.80%. This indicates that equity position of the STCL is not in risk. To the next side, NTL has not given the information about debt in its balance sheet for first three years, from F/Y 063/64 to F/Y 065/66,

so debt-equity ratio is not calculated. However, in F/Y 066/67 and 067/68, total debt and shareholder's equity is equal so, debt-equity ratio also equal i.e. 59%. According to these ratios of last two years owners' equity in NTL seems in risk in comparison to STCL.

4.2.3.1.2 Debt Assets Ratio: Debt assets ratio shows the relationship between the total debts and total assets of a firm. It measures the percentage of the firm's assets financed by creditors. The lower the ratio, the greater the protection afforded creditors in the time of liquidation. The formula for calculating debt-equity ratio is as follows;

$$\text{Debt- assets ratio} = \text{Total Debt} / \text{Total Assets}$$

Table No. 4.18
Debt Assets Ratio of STCL and NTL (in Rs. 100,000)

<u>Details</u>	STCL			NTL		
Years	Total Assets	Total Debt	Ratio	Total Assets	Total Debt	Ratio
063/64	18161.93	4420.85	0.243	218.90	-	-
064/65	17876.45	4307.37	0.241	276.10	-	-
065/66	18141.23	4328.87	0.238	(212.08)	-	-
066/67	17875.21	4376.26	0.245	(799.97)	1000.00	-
067/68	17487.00	4165.33	0.238	(2084.81)	1000.00	-

(Source: Annual report of STCL & NTL, 063/64 to 067/68)

The above table shows the relationship between the total liabilities and total assets of five different fiscal years, from F/Y 063/64 to F/Y 067/68 of STCL & NTL. Debt-assets ratio of STCL seems in good condition. The average debt-equity ratio of STCL is 24.10%, which is considered as a good balance between assets and debt management for any corporation. Over the period of five years, this ratio is in near constant which indicates the strong and stable leverage position of the corporation. But, situation for NTL is quite different than STCL. In first three fiscal years, because of absence of debt, debt-equity ratio is not calculated and in last two years due to negative figure of total assets in balance sheet of NTL, again debt-equity ratio is not calculated. So, in conclusion, leverage position of the STCL seems better than NTL.

4.2.3.1.3 Interest Coverage Ratio: The interest coverage ratio or times interest earned ratio is determined by dividing earnings before interest and taxes (EBIT) by the interest charges. This ratio indicates the ability of a company to pay annual interest payments out of its profits. Failure to meet such obligations can bring legal action by the creditors, possibly resulting in bankruptcy. Generally interest charges should cover six or seven times.

TIE ratio = EBIT / Interest charge

Table No. 4.19
Interest Coverage Ratio of STCL and NTL (in Rs. 100,000)

<u>Details</u> Years	STCL			NTL		
	EBIT	Interest	Ratio	EBIT	Interest	Ratio
063/64	680.44	1611.89	0.422	532.80	297.80	1.789
064/65	1753.61	1529.57	1.147	305.56	260.47	1.173
065/66	2231.97	1971.95	1.132	-112.92	372.34	-0.303
066/67	3241.38	2602.02	1.246	-1156.37	427.96	-2.702
067/68	3930.91	2945.78	1.334	-532.28	714.88	-0.0717

(Source: Annual report of STCL & NTL, 063/64 to 067/68)

The above table gives information about interest coverage ratio of STCL & NTL for five years, from F/Y 063/64 to F/Y 067/6. By comparing ratios of both companies, STCL has strong ability to meet its interest obligation than NTL. TIE ratio of STCL is slowly in growing order that means interest paying ability of corporation is being strong in recent days than previous years. In F/Y 063/64, TIE ratio was just 0.422 and within five years, by F/Y 067/68 it was 1.1334, which is more than three times. To the next side, NTL has fluctuated ratio. In initial two years, TIE ratio of NTL seems good because it is positive and in the following years, this ratio seems in negative form. Because of year wise heavy trade losses in the last three years of study period, TIE ratio is in negative form. In F/Y 066/67, the ratio is lowest of -2.702, which indicates the worst situation of the company.

In sum up, performance of two companies in terms of its TIE ratio, STCL has possibilities in the future to grow up and continuity in its business operation. However, current situation of the NTL hasn't improved it can go in liquidation very soon.

4.2.3.2 Liquidity Ratios

4.2.3.2.1 Current Ratio: The current ratio is computed by dividing current assets by current liabilities. It is a test of a company's financial strength. It indicates the extents to which the claims of short –term creditors are covered by assets that are expected to be converted to cash in a period roughly corresponding to the maturity of the claims. In other words, it measures the availability of current assets for meeting current liabilities. The current ratio 2:1 is regarded as the standard ratio. Higher ratio indicates that has ability to pay its current obligations in time as and when they become due and lower current ratio represents that the liquidity position of the firm is not good and the firm face difficulty in payment of current obligations in time.

Current Ratio = Current Assets / Current Liabilities

Table No. 4.20
Current Ratio of STCL and NTL (in Rs. 100,000)

<u>Details</u> Years	STCL			NTL		
	Current Liabilities	Current Assets	Ratio	Current Liabilities	Current Assets	Ratio
063/64	13768.44	18919.44	1.374	5340.00	4825.69	0.903
064/65	13236.97	18745.24	1.416	-	10064.03	-
065/66	18219.52	25298.87	1.389	-	4775.31	-
066/67	18151.52	28744.94	1.583	5440.63	3993.94	0.734
067/68	19921.48	32862.79	1.650	5137.43	5837.32	1.136

(Source: Annual report of STCL & NTL, 063/64 to 067/68)

The above table represents the current ratio of STCL & NTL for five different fiscal years, from F/Y 063/64 to F/Y 067/6. If comparison is made between two companies, STCL seems in good condition than the NTL. Generally, standard current ratio is considered as 2:1 but both companies have less than the standard. On an average, the current ratio of STCL is increasing

which indicates the strengthening financial position of the corporation. In the first year of the study period, current ratio of NTL was just 0.903 then, in F/Y 065/66 and 066/67 due to absence of liabilities in the company's balance sheet it is impossible to calculate the ratios. In final two fiscal years, current ratio is calculated and these ratios also less than standard. Therefore, both companies have not strong abilities to meet their short term obligations.

4.2.3.2.2 Quick Ratio (Acid- Test Ratio): Inventories are typically the least liquid of a firm's asset and the assets on which losses are most likely to occur in the event of liquidation. Therefore, this measure of the firm's ability to pay off short-term obligations without relying on the sale of inventories is important. The purpose of this ratio is to test the ability of the firm for immediate payment of current liabilities. This ratio is calculated by deducting inventories from current assets and dividing the remainder by current liabilities. Ratio 1:1 is considered as standard ratio.

Quick Ratio: $\text{Current Assets} - \text{Stock (Quick Assets)} / \text{Current Liabilities}$

Table No. 4.21
Quick Ratio of STCL and NTL (in Rs. 100,000)

<u>Details</u>	STCL			NTL		
	Current Liabilities	Quick Assets	Ratio	Current Liabilities	Quick Assets	Ratio
063/64	13768.44	11775.04	0.855	5340.00	1685.09	0.316
064/65	13236.97	12629.03	0.954	-	7170.93	-
065/66	18219.52	15227.11	0.836	-	1279.76	-
066/67	18151.52	14269.87	0.786	5440.63	1255.39	0.231
067/68	19921.48	17068.64	0.857	5137.43	1110.23	0.216

(Source: Annual report of STCL & NTL, 063/64 to 067/68)

The above table gives information about quick ratio of STCL & NTL for five years duration, from F/Y 063/64 to F/Y 067/6. By studying the current ratios of both organizations, it reveals that they have ratios less than standard. So, both organizations were unable to meet current obligations in the five years duration. STCL has near stable ratio throughout the study period but

still less than 1:1. To the next hand, NTL has unstable and low ratio than STCL. In F/Y 066/67 and F/Y 067/68, due to absence of liabilities in the balance sheet of NTL, it impossible to calculate the current ratio so it is not calculated. In an overall, both companies financial position in terms of quick ratio is not satisfactory.

4.3 Financial Statements

Financial statements are annual documents prepared by the organization. They are prepared for periodical review on the progress made and the results achieved during the period. According to American Institute of certified publics accountants “financial statements are prepared for the purpose of presenting a periodic review or report on the progress by the management and deal with the i) status of the investment in the business and; ii) results achieved during the period under review. Thus, it is a means of conveying to the management, owners and interested outsiders a concise picture of profitability and financial position of the organization.

4.3.1 Income Statement

Income Statement popularly refers to profit and loss account. It includes trading account and profit and loss account. Income statement shows the cost of production, cost of sale and finally the net operating income and net profit earned or the loss incurred during the year. In short, it shows the profitability and the performance of the business showing revenues and expenses.

STCL & NTL are being a non manufacturing organization it hardly has a cost of manufacturing like production cost, cost of raw materials, factory overhead cost etc. They directly purchase the finished goods and sold to the customers. The profit and loss accounts show how much the firms have earned from selling its product or service, and how much they have paid out in costs.

Table No. 4.22**Profit and Loss A/C of STCL (in Rs. 100,000)**

Details\Years	063/64	064/65	065/66	066/67	067/68
Sales Revenue	19162.18	21389.57	31904.33	33663.35	38740.61
Less: Cost of Sales	16445.41	18376.31	28135.14	28479.81	32238.98
Gross Profit	2716.77	3013.27	3769.18	5183.54	6501.63
Other Income	260.25	257.88	282.15	471.64	510.34
Total	2977.02	3271.15	4051.34	5655.00	7044.97
Less: Adm. Expenses	904.79	1143.54	1224.64	1935.93	2487.86
Interest Exp.	1611.89	1529.57	1971.95	2602.02	2945.78
Dep. Exp.	42.75	51.69	70.65	77.19	72.87
Net Operating Profit	417.59	546.35	584.10	1039.86	1505.46
Add: Profit from Sale of Assets	0.96	0.09	0.03	12.87	0.75
Profit Before Tax and Bonus	418.55	546.44	584.13	1052.74	1506.22
Less: Employee Bonus	-	300.00	298.10	349.44	422.58
Advance lending, Invest. & Debtors Related Exp.	1350.00	22.40	26.00	63.94	98.51
Profit Before Tax	(931.45)	224.04	260.02	639.36	985.13
Less: Provision for Tax	105.12	123.64	152.77	277.54	523.24
Add: Deferred Tax	-	(29.87)	(8.19)	(9.69)	(138.15)
Net Profit	(1036.57)	130.27	115.55	371.51	600.03

(Source: Annual report of STCL & NTL, 063/64 to 067/68)

The above table shows the income statement or P/L A/C of STCL for five years, from F/Y 063/64 to F/Y 067/68. From the given information, performance of STCL is looking in progressive phase. However, in the first year of study period, profit was in negative figure of Rs. 103,657,000. It was because of huge investment for investment and debtors related expenses. Then in the following years net profit amount is in positive figure. In F/Y 064/65, amount of net

profit was Rs. 13,027,000. But, the profit was declined again in F/Y 065/66 to Rs. 11,555,000. Between F/Y 064/65 and 065/66, sales revenue was increased in large volume (Rs. 2,138,957,000. to Rs. 3,190,433,000.) but unable to increase the amount of net profit due to increased amount of cost of sales and other expenses. Then after the years, amount of profit and sales revenue is continuously increasing in the same direction. All in all, performance of STCL seems desirable in terms of its growing trading volume and profit.

Table No. 4.23
Profit and Loss A/C of NTL (in Rs. 100,000)

Details\Years	063/64	064/65	065/66	066/67	067/68
Sales Revenue	9686.10	10353.44	7320.32	5617.97	6219.33
Less: Cost of Sales	8230.90	8939.63	6370.55	5779.52	5810.15
Gross Profit	1455.20	1413.81	849.77	(161.55)	409.18
Add: Other Income	120.00	120.70	235.83	224.17	301.75
Total	1575.20	1534.51	1085.60	82.62	710.93
Less: Adm. Expenses	1,025.70	1217.88	1177.54	1266.01	1258.72
Interest Exp.	297.80	260.47	372.34	427.96	714.88
Dep. Exp.	27.90	22.45	26.22	22.65	20.32
Net Operating Profit	223.80	33.71	(490.50)	(1654.00)	(1282.99)
Add: Other Income from Investment	11.20	11.38	5.23	69.67	1.82
Profit Before Tax and Bonus	235.00	45.09	(485.26)	(1584.33)	(1281.16)
Less: Employee Bonus	-	-	-	-	-
Profit Before Tax	235.00	45.09	(485.26)	(1584.33)	(1281.16)
Less: Provision for Tax	-	-	-	-	-
Net Profit	235.00	45.09	(485.26)	(1584.33)	(1281.16)

(Source: Annual report of NTL, 063/64 to 067/68)

The above table represents the Income Statement or P/L A/C of NTL for five different fiscal years, from F/Y 063/64 to F/Y 067/68. Initially, financial position of NTL looks little good in terms of its sales revenue and generated net profit of the organization. In the first year of the study period i.e. F/Y 063/64, net profit seems highest of Rs. 23,500,000.00 then after the amount of net profit is continuously declining. From third year of the study period i.e. F/Y 065/66, net profit has started become negative. In the F/Y 066/67, amount of loss or negative profit is highest of Rs. 158,433,000.00 and finally in F/Y 067/68 the amount of loss has declined to Rs. 128,116,000.00. After analyzing the five years income statement, performance of enterprise is not looking satisfactory. On an average, sales revenue and amount of net profit is in decreasing order which, for a commercial organization is not considered as favorable condition.

4.3.2 Comparison between Sales Revenue and Net Profit of STCL & NTL

Profit and loss account presents the summary of revenues, expenses and net income (net loss) of a firm. It serves as a measure of the firm's ability to survive in the market. Net profit or income is an indicator of the firm's profitable operations, is the amount by which revenue earnings during a given period exceed incurred expenses. If the firm's operations prove to be unprofitable, total expenses will exceed total revenues and the difference is referred to as net loss.

Table No. 4.24

Sales Revenue and Net Profit of STCL & NTL (Rs. 100,000)

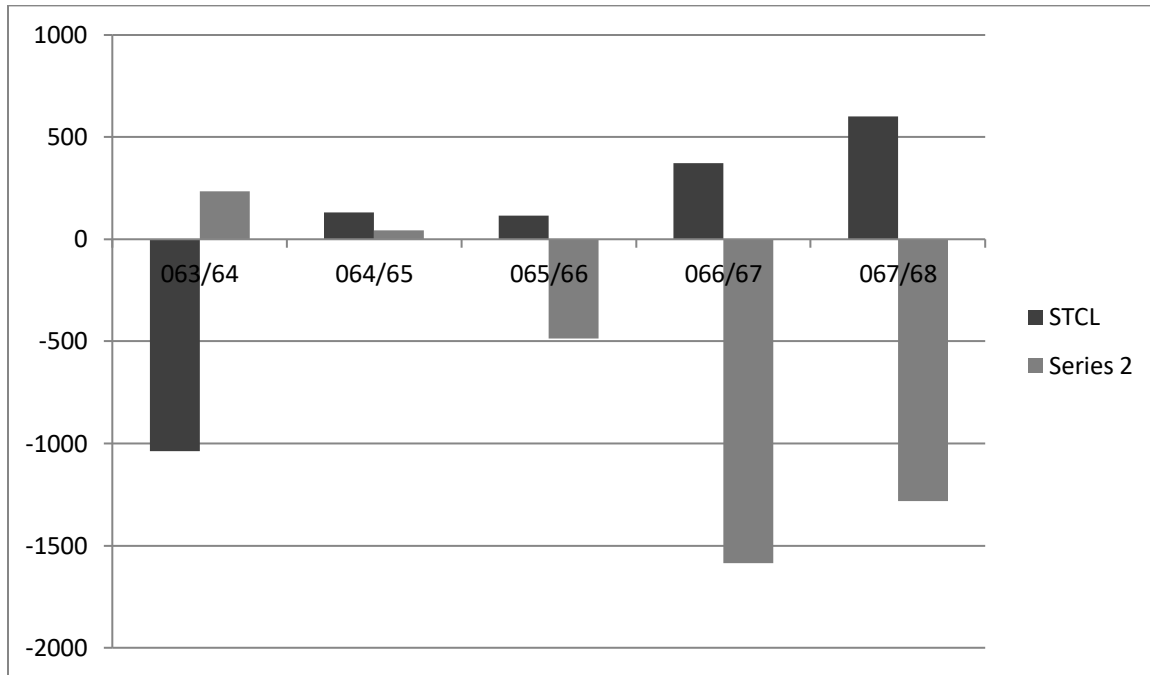
Details	STCL		NTL	
	Sales Revenue	Net Profit	Sales Revenue	Net Profit
063/64	19162.18	(1036.57)	9686.10	235.00
064/65	21389.57	130.27	10353.44	45.09
065/66	31904.33	115.55	7320.32	(485.26)
066/67	33663.35	371.51	5617.97	(1584.33)
067/68	38740.61	600.03	6219.33	(1281.16)

(Source: Annual report of STCL & NTL, 063/64 to 067/68)

The above table represents the sales revenue and net profit or net income of STCL & NTL, from F/Y 063/64 to F/Y 067/68. By comparing these two companies trading performance in terms of its sales volume and amount of net profit, STCL is performing better than NTL. From the starting to end of study period, continuously sales volume of STCL is growing and accordingly the amount of net profit also in the increasing trend. In F/Y 063/64, net profit of STCL seems in negative because of some internal expenses and investment decision which can be clear from Table No. 11. Then after, STCL is generating considerable amount of profit every year. On the other hand, the overall performance of NTL is seems not favorable. Both sales revenue and net profit is decreasing in overall. During the whole study period, in F/Y 064/65, sales revenue seems highest of Rs. 1,035,344,000. In the same year, profit also in positive figure. In the first of two years of study period, amount of net profit is positive in NTL, then after amount of net profit continuously appearing in the negative figure. However, the amount of loss in F/Y 067/68 is declined to Rs. 128,116,000.00 from the previous year loss of Rs. 158,433,000.

In sum up, progress level of two organizations under the study seems in contradictory situation. STCL is doing good business, its trading volume and amount of net profit is getting higher each year but, performance of NTL seems not desirable. Every year, amount of profit is decreasing and even it appearing in negative figure and trade volume also decreased which is not considered as favorable business condition for any trading enterprise. To make a clear comparison between STCL & NTL on the basis of net profit generated by these two organizations is presented below through a bar chart.

Figure No. 4.13
Net Profit of STCL & NTL (in Rs. 100,000)



(Source: Annual report of STCL & NTL, 063/64 to 067/68)

4.3.3 Balance Sheet

A Balance Sheet is an accounting statement prepared from accounting balances at a given date. It shows the financial position of a business by detailing the sources of funds and the utilization of these funds. A balance sheet shows the assets and liabilities grouped, properly classified and arranged in a specific manner. The Balance Sheet consists of two halves one half shows the total Assets and another half shows the total Capital and Liabilities. The value is same for both the halves, hence the term balance sheet.

Table No. 4.25
Balance Sheet of STCL (in Rs. 100,000)

Details\Years	063/64	064/65	065/66	066/67	067/68
<u>Assets:</u>					
Fixed Assets	13778.68	13614.53	13433.90	17487.00	13088.70
Investment	3686.55	3833.13	3956.07	4034.77	4279..41
Deferred Tax Asset	-	38.17	29.87	186.01	47.86
Inventory	7144.40	10071.76	6116.21	15794.15	14475.07
Bank Balance	802.92	1106.34	629.52	1116.89	652.96
Debtors	2189.38	2447.33	2243.10	2938.13	2230.39
Advance Paid for Diff. Exp. Headings	8782.72	11673.44	9756.40	13013.61	11386.53
Provision for Current Liabilities	(18222.73)	(24850.55)	(18081.54)	(32222.15)	(28429.27)
Total	18161.93	17876.45	18141.23	17875.21	17287.00
<u>Capital & Liabilities:</u>					
Share Capital	2477.78	2477.78	285.37	394.68	328.59
Reserve and Profit	13748.83	13262.21	13517,20	13059.67	12851.04
Mid & Long-term Loans	4165.33	4328.87	4376.26	4420.85	4307.37
Total	18161.93	17876.45	18141.23	17875.21	17487.00

(Source: Annual report of STCL & NTL, 063/64 to 067/68)

The above table represents the Balance Sheet of STCL for five different years, from F/Y 063/64 to F/Y 067/68. First part of the table shows the total Assets of the organization and second part shows the Capital & Liabilities. Range of total amount of balance sheet is not much fluctuated throughout the study period. Fixed assets and other current assets of the organizations also in balanced. In an overall, according to five years trading performance and its balance sheet portion the management of the company is able to manage its business activities properly.

Table No. 4.26
Balance Sheet of NTL (in Rs. 100,000)

Details\Years	063/64	064/65	065/66	066/67	067/68
<u>Assets:</u>					
Fixed Assets	5771.10	296.00	279.55	266.70	254.31
Investment	150.00	171.26	173.68	76.84	25.42
Inventory	3,140.60	2893.10	3494.55	2738.54	4727.09
Bank Balance	365.09	224.16	130.45	34.34	34.76
Debtors	120.00	5242.29	0.09	31.02	62.24
Advance Paid for Different Headings	1200.00	1704.47	1150.22	1190.03	1082.75
Provision for Current Liabilities	(10527.89)	(10255.18)	(5440.63)	(5137.43)	(8151.02)
Total	218.90	276.10	(212.08)	(799.97)	(2084.81)
<u>Capital & Liabilities:</u>					
Share Capital	1693.35	1693.35	1693.35	1693.35	1693.35
Reserve and Profit	(1474.45)	(1417.25)	(1905.42)	(3493.29)	(4778.16)
Mid & Long-term Loans	-	-	-	1000.00	1000.00
Total	218.90	276.10	(212.08)	(799.97)	(2084.81)

(Source: Annual report of STCL & NTL, 063/64 to 067/68)

The above table represents the Balance Sheet of NTL for five different years, from F/Y 063/64 to F/Y 067/68. First section of table represents Assets of the organization and second part represent for Capital and Liabilities. Because of huge accumulated losses of previous years and even current losses during the study period also has been the reason of negative figures in balance sheet in final three fiscal years. By analyzing the five years balance sheet, amount of fixed asset is decreasing because of depreciation and sales of some assets. Share capital of organization is constant for in year. Reserve and negative profit are looking as major reasons for not desirable balance sheet figure.

4.4 Identification of Cost Variability

Determination of variability of each expense in every enterprises is difficult task .The identification of expense variability should began with a careful study of each expense in the responsibility center under consideration. The purpose of this study is to identify those expenses that contain only fixed or variable component. When the fixed and variable expenses are separately identified the remaining expenses can be viewed as semi variable.

Fixed expenses are those that do not vary with output or productive activity. They remain constant in amount for a given period with a relevant range of an activity. Variable expenses are activity based because they are incurred as a direct result of output, production activity or work done. Therefore, these expenses vary in direct proportion to change in output or activity in a responsibility center.

Semi variable expenses increases or decreases but not in proportion to change in activity base. Semi-variable expenses have some of the characteristics of both fixed and variable cost. Classification of cost into fixed cost and variable in very important to plan and control the cost .It helps to determine the volume of operation desired to maintain the industry profitability .But NTL and STCL has not maintained any clear-cut boundaries about classification of cost as fixed and variable .So for the purpose of the study, costs are classified as fixed and variable.

Table No. 4.27
Costs Classification of STCL and NTL (in Rs. 100,000)

Costs	STCL		NTL	
	Nature	Amount	Nature	Amount
Cost of Sales	Variable	32238.98	Variable	5810.15
Administration Expenses	Fixed	2487.86	Fixed	1258.72
Interest Expenses	Fixed	2945.78	Fixed	714.88
Depreciation Expenses	Fixed	72.87	Fixed	20.32

(Source: Annual report of STCL, 067/68)

4.5 Cost Volume Profit Analysis:

CVP analysis is an analytical technique to study the relationship between volume, cost and profit. In CVP analysis we generally include BEP analysis. In BEP analysis there is no profit no loss situation. That means the sales revenues exactly equals to the total cost.

BEP is that point in which the company is running neither in loss nor in profit. Breakeven analysis rests upon the foundation of cost variability i.e. separate identification and measurement of the fixed and variable components of cost.

The contribution ratio also called P/V ratio, is equal to contribution (contribution per unit) divided by sales. Using contribution or P/V ratio, the breakeven point in rupees can be calculated as follows:

$$\text{Breakeven point (BEP) (in Rs.)} = \text{Fixed Costs/P.V. ratio}$$

The excess of actual or budgeted sales over the break even sales is called the margin of safety. It indicates the extent to which sales may fall before the firm suffers a loss.

Salt Trading Corporation and National Trading Limited doesn't have any systematic variable budget, fixed budget, flexible budget and direct labor budget though they are important tools. In STCL and NTL, BEP is calculated as follows;

1. It is based on P/V account of year 065/66
2. Activity base is selected in terms of sales.
3. Selling price, fixed costs, inventory, variable costs are assumed constant.
4. According to variability costs are classified as fixed and variable.

Terms Used in CVP Analysis

- **Variable cost:** Those cost that change in total, directly with changes in output or volume of work done. Examples of variable cost are direct materials, direct labor etc.
- **Fixed cost:** Those cost that are constant in total, regardless of change in output or volume. Examples of fixed cost are salaries, insurance, depreciation etc.
- **Semi Variable Cost:** Those cost that are neither totally fixed nor variable but possess the characteristics of both costs are called semi- variable cost.
- **Break Even Analysis:** BE analysis is a logical extension of contribution analysis. It is an analytical technique to study the relationship between the sales, volume and profit.

- **Break-Even Point (BEP):** It is that point of sales at which the total revenues or sales equals to total cost.
- **Contribution Margin:** Contribution margin is the difference between the sales revenues and variable cost of production. It contributes towards fixed expenses and profit. Each unit sold provides a certain amount of contribution margin that goes toward the covering the fixed costs.
- **P/V Ratio:** it is an important tool in studying the profitability of a business. It establishes relationship between contribution and the sales value.
- **Margin of Safety:** Margin of safety is the excess of budgeted (or actual) sales over the BE sales volume.

Now,

The costs are already separated, so we can present the following table for BEP analysis.

Table No. 4.29

Sales Revenue, Fixed Cost and Variable Cost of STCL and NTL (in Rs. 100,000)

Items	STCL	NTL
Total Sales Revenue	38740.61	6219.33
Total Fixed Cost	3018.65	1993.92
Total Variable Cost	32238.98	5810.15

(Source: Annual report of STCL & NTL, 067/68)

I. Variable Cost Volume Ratio (V.V. Ratio):-

This ratio shows the proportion between variable cost and total sales revenue.

$$C/V \text{ Ratio of STCL} = \frac{\text{Variable cost}}{\text{Sales}}$$

$$= \frac{32238.98}{38740.61}$$

$$\begin{aligned}
 &= 0.832 \\
 \text{C/V Ratio of NTL} &= \frac{\text{Variable cost}}{\text{Sales}} \\
 &= 5810.15/6219.33 \\
 &= 0.934
 \end{aligned}$$

The C.V. ratio shows that the variable cost of STCL &NTL is 83.2% & 93.4% of sales revenue.

ii. Profit Volume Ratio (P/V Ratio):

This ratio shows the proportion between contribution margin (sales-variable costs) and sales.

$$\begin{aligned}
 \text{P/V Ratio of STCL} &= \frac{\text{Contribution Margin}}{\text{Sales}} \\
 &= 6501.63/38740.61 \\
 &= 0.168
 \end{aligned}$$

$$\begin{aligned}
 \text{P/V Ratio of NTL} &= \frac{\text{Contribution Margin}}{\text{Sales}} \\
 &= 409.18/6219.33 \\
 &= 0.066
 \end{aligned}$$

The P.V. ratio shows that the percentage of contribution margin of STCL &NTL is 16.8% & 6.6% of sales revenue.

Now,

The P/V ratio will help to calculate the BEP Sales of the company in rupees.

$$\begin{aligned}
 \text{BEP of STCL (in Rs)} &= \frac{\text{Fixed cost}}{\text{P/V Ratio}} \\
 &= 3018.65/0.168 \\
 &= 17968.15
 \end{aligned}$$

$$\begin{aligned}
 \text{BEP of NTL (in Rs)} &= \frac{\text{Fixed cost}}{\text{P/V Ratio}}
 \end{aligned}$$

$$= 1993.92/0.066$$

$$= 30210.91$$

Hence,

BEP Sales of STCL is Rs. 1,796,815,000.00 and BEP Sales of NTL is Rs. 3,021,091,000.00.

Breakeven point is the point where company is in the situation of no profit or no loss. It indicates the volume of sales it may in monetary value or in units of output. In this study, section of the CVP analysis three major factors are calculated i.e. CV Ratio, PV Ratio and BEP Sales in rupees. By comparing BEP Sales of both companies, again STCL is in good business condition than NTL. In the point view of CVP analysis lower BEP is always preferred for business wellbeing. In the fiscal year 067/68, the actual sales volume was Rs. 3,874,061,000.00 and BEP sales volume was Rs. 1,796,815,000.00, which indicates that company is in profitable position because company's actual sales volume is running by more than double of its BEP sales. In the coming years STCL has good business possibilities if its sales volume and PV ratio is going up continuously same as in the previous years. However, the business situation of the NTL is contradictory than STCL. The decreasing sales volume is the major problem of the company's worse performance. Its BEP sales volume is higher than actual sales by almost five times and its PV ratio is very poor because of this reason, CV ratio is very high. All these figures are the unfavorable conditions for any business organization. For clear understanding, CVP analysis result is presented below in Table No. 4.20.

Table No. 4.30.
CVP Analysis of STCL & NTL

CVP Ratios	STCL	NTL
CV Ratio (%)	83.2%	93.4%
PV Ratio (%)	16.8%	6.6%
BEP Sales (Rs.)	1,796,815,000.00	3,021,091,000.00

4.6 Leverage

In general terms leverage may be defined as relative change in profits due to a change in sales. A higher degree of leverage implies the large change in profit due to relatively small change in sales. In business terminology, leverage is used in two senses:-

- a. Financial leverage
- b. Operating leverage

Financial leverage occurs when a firm borrows funds.

Operating leverage refers to the use of fixed cost in the operation of a firm.

Degree of Financial Leverage:

The degree of financial leverage is defined as the percentage change in earnings before tax (EBT) resulting from percentage change in earnings before interest and tax (EBIT). Degree of Financial Leverage (DOL) is calculated as under:

$$\text{DFL} = \frac{\text{Percentage Change in EBT}}{\text{Percentage Change in EBIT}} \quad \text{Or} \quad \text{DFL} = \frac{\text{EBIT}}{\text{EBT}}$$

STCL and NTL do not calculate DOL for its planning purpose. However, we have tried to measure the DOL by analyzing available data for comparing study purpose and it is based on fiscal year 067/68.

$$\begin{aligned} \text{DFL of STCL} &= 3930.91 / (3930.91 - 2945.78) \\ &= 3930.91 / 985.13 \\ &= 3.990 \end{aligned}$$

$$\begin{aligned} \text{DFL of NTL} &= -532.28 / (-532.28 - 714.88) \\ &= -532.28 / -1274.16 \\ &= 0.418 \end{aligned}$$

DFL of STCL 3.990 indicates that 100% change in EBT will bring change in EBIT by 399%. Similarly, DOL of NTL is 0.418 which indicates that when EBT increased by 100%, EBIT will increase by 41.8%.

Degree of Operating Leverage:

The Degree of Operating Leverage (DOL) may be defined as the percentage change in operating profits resulting from a percentage change in sales. Sometimes leverage is defined on the Basis of BEP. A ratio between contribution margin and EBIT is known as operating leverage. DOL can be calculated as under:

$$\text{DOL} = \frac{\text{Sales} - \text{Variable Cost}}{\text{EBIT}} \quad \text{Or} \quad \text{DOL} = \frac{\text{Percentage Change in EBIT}}{\text{Percentage Change in Sales}}$$

Actually STCL and NTL do not calculate DOL for its planning and controlling purpose. Here we have tried to measure the DOL by analyzing data and it is based on fiscal year 067/68.

$$\begin{aligned} \text{DOL of STCL} &= (38740.61 - 32238.98) / 3930.91 \\ &= 6501.63 / 3930.91 \\ &= 1.654 \end{aligned}$$

$$\begin{aligned} \text{DOL of NTL} &= (6219.33 - 5810.15) / -532.28 \\ &= 409.18 / -532.28 \\ &= -0.769 \end{aligned}$$

DOL of STCL 1.654 indicates that if sales increased by 100%, Operating profit will increase by 165%. Similarly, DOL of NTL is -0.768 which indicates that when sales increased by 100%, EBIT will decreased by 76.9% because EBIT is in negative and its DOL also appeared in negative.

4.7 Flexible Budget

The tool used by most companies to control overhead cost is called a flexible budget. A flexible budget covers a range of activity within which the firm may operate. A flexible budget is defined as a detail plan for controlling overhead cost that is valid in the firm's relevant range. Salt trading corporation limited and National trading limited does not prepare flexible budget. On the basis of cost and other data of year 067/68 the flexible budget of STCL and NTL has been prepared as below. To prepare this budget sales revenue has been assumed to remain in the same ratio.

Similarly variable cost ratio is remaining constant and fixed cost will also remain constant. To prepare flexible budget all cost should be separated as fixed and variable. Variable expenses change on the level of activity but fixed cost remain constant. Flexible budget at different level of activity is prepared below assuming that during the year 065/066 the company has maintained 100% capacity.

Table No. 4.31
Flexible Budget of STCL (in Rs. 100,000)

Particular	Activity Level in Percentage				
	20%	40%	60%	80%	100%
Sales Revenue	7748.12	15496.24	23244.37	30992.49	38740.61
Less: Variable Cost @ 83.2%	6447.80	12895.59	19343.39	25791.18	32238.98
Contribution Margin	1300.32	2600.65	3900.98	5201.31	6501.63
Less: Fixed Cost	3018.65	3018.65	3018.65	3018.65	3018.65
Net Income or Loss	(1718.33)	(418)	882.33	2182.66	3482.98

(Source: Annual Report of STCL, 067/68)

This analysis shows the Contribution margin is 16.8% of sales. So, the level of activity should be increased because company is bearing high fixed cost. The company can run in benefit if the level of activity is above 60% and less than 100% of its capacity. From the above analysis, if the current capacity is increased the margin of profit will also be increased. So, company should increase its present capacity to maximize overall profit of the corporation.

Table No. 4.32
Flexible Budget of NTL (in Rs. 100,000)

Particulars	Activity level in percentage				
	20%	40%	60%	80%	100%
Sales Revenue	1243.87	2487.73	3731.60	4975.46	6219.33
Less: Variable Cost @ 93.4%	1162.03	2324.06	3486.09	4648.12	5810.15
Contribution Margin	81.84	163.67	245.51	327.34	409.18
Less-Fixed cost	1993.92	1993.92	1993.92	1993.92	1993.92
Net income or loss	(1912.08)	(1830.25)	(1748.41)	(1666.58)	(1584.74)

(Source: Annual report of NTL, 065/66)

This analysis shows the Contribution margin is 6.6% of sales. For a trading organization this profit margin is considered as a measurable condition of organization. By analyzing above table, contribution margin of NTL in 100% capacity is just Rs. 40,974,000.00 and its loss after fixed cost is Rs. 158,474,000.00. This amount of loss is more than four times of contribution margin. So, it is clear that even after increase in capacity by 400%, company will not be able to gain positive profit because fixed cost is still higher than that amount. Finally, if NTL is able to increase its present capacity by 400% to 500% it would be better to run the business activity otherwise it should immediately close its trading activities from the pure business point of view.

4.8 Comparative Analysis of STCL and NTL through Various Statistical Tools on the Basis of Actual Sales and Actual Purchase

In order to find out the nature of variability of actual purchase and actual sales, correlation and other statistical tools are used below. This statistical measure shows the degree of relationship between sales and purchase. The detail calculation of these figures (**in Annex: 5**), the results are summarized below.

Table No. 4.33
Summary of Statistical Results
of STCL and NTL of Actual Sales and Actual Purchase

Statistical Tools	Actual Purchase (x)		Actual Sales (y)	
	STCL	NTL	STCL	NTL
Mean , \bar{x}	19966.45	7046.15	28932.04	7839.41
Standard Deviation (σ)	6966.88	1021.71	7040.35	4190.36
Coefficient of Variation (C.V.)	34.89	14.50	24.33	53.45
Correlation of Coefficient (r)	1.049		1.259	
Co-efficient of Determination (r^2)	1.10		1.585	
Probable Error (PEr)	- 0.10		- 0.91	

(Source: Annex: 5)

The above table represents the values of different statistical tools. Through mean sales and purchase of STCL and NTL reveals the average trading volume of both organizations. So, from this comparison STCL has around 3- 4 times big business transaction than NTL. Amount of standard deviation of both organizations is accordance of their business size.

According to standard deviation, risk factor or fluctuation in STCL in purchase and sales seems nearer. However, in the case of NTL it seems more than four times. It means risk factor in the NTL is very high. Co-efficient of variation gives information about unit disparity of actual purchase and sales of STCL of standard deviation. Therefore, values of C.V. reveals that actual purchase of STCL is more deviated than NTL. But, for sales NTL has higher deviation which indicates per unit sales of NTL is more risky than STCL. Efficiency and effectiveness of any management organization can be interpreted by its sales achievement. Thus, it can be said that STCL's effort is considerable.

The correlation coefficient is calculated to find out the relation between actual purchase and actual sales. Here Karl Pearson's formula is used to calculate correlation coefficient, which is denoted by r. 'x' is denoted for actual purchase and 'y' is denoted for actual sales to be independent variable. The calculation is shown in **Annex: 5**. the value of r depicts the positive

correlation between actual sales and actual purchase of both trading. This value indicates that there is a high degree of positive correlation between actual purchase and actual sales.

The significant of r is tested by the help of probable error (PEr). From the **Annex: 5**, we have PEr of STCL equals to -0.10 . The value of r is definitely significant, since r of STCL is greater than per ($1.04 > -0.10$). In the other hand, PEr of NTL is -0.91 . The value of r definitely significant, since r of NTL is greater than Per of NTL ($1.25 > -0.91$).

4.9 MAJOR FINDINGS OF THE STUDY

Sales trend of STCL shows the positive directions for future which can increase the profitability for organization. It is an established trading corporation of Nepal that provides qualitative products at reasonable price which indirectly supports for health organizations and it deals about the products which are not luxurious. Whereas, sales trend of NTL shows the negative directions for future which definitely can decrease the profitability of organization. In both companies, there is positive correlation coefficient between actual purchases and actual sales. It indicates the favorable inventory planning. However, it doesn't plan for longer term as well as short-term planning for purchase and sales.

In both companies, budgeted forecast for the future program such as budgeted sales, production, purchase, material and other overhead budgets are not prepared. Companies have not applied the system of flexible budget and trend analysis. The analysis of flexible budget shows that STCL will earn profit when it runs at more than 60% capacity and it is 400% for NTL which is hard to achieve immediately. Cost classified is absent in accordance to their variability. STCL has high fixed cost so if STCL is able to increase its capacity it has higher chances of gaining more profit. NTL is operating below BEP, suffering in losses and financial position of NTL is not satisfied, every year huge amount of loss is occurring, assets turnover ratio and return on assets are low so assets are not utilizing properly.

In an overall, in recent years, management of STCL seems in improving phase by comparing its previous performances. Financial position and economic performances of NTL suggest that it would be better if NTL goes for liquidation. Because, it's large amount of accumulated losses has made balance sheet figure in negative.

CHAPTER-5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

In the recent time, industrialization has become an essential element for the development of the countries. Many western countries are developed more than hundred years before than developing countries like Nepal. Industry promotes economic development by providing employment. Different public enterprises in different economic sector of the country were established for the growth of industrialization. However, due to various internal and external reasons these organizations are failed to achieve their objective except very few public enterprises.

Salt Trading Corporation Limited is a trading organization. Its main objective is to provide the qualitative products which are as preventive medicine for the people. National Trading Limited is a merchandising enterprise. Its main objective is to provide the goods to general people at a reasonable price in order to get the reasonable profit. Their main objective is to provide goods to general people at a responsible price in order to get the reasonable profit and to act as an agent of government in the matter of import and distribution of the goods which the government has to import and distribute time to time and to handle the commodity aid goods received by the government.

Profit planning is the systematic and continuous process to achieve certain objectives for specific time. It is the management tool rather than end and to achieve the objective of the enterprise. Profit plan starts from planning sales for the future. Success and failure of the organization depends upon sales plan. It reduces uncertainty of future revenue.

Merchandising or trading planning is made on the basis of sales and inventory. Similarly other expenses plans are prepared on the basis of purchase plan. Analysis is primarily based on secondary data. Five year data (2063/64 - 2067/68) is analyzed to find out strength and weakness of NTL and STCL as well as to make comparative study of these two trading enterprises. Mean, standard deviation, correlation, regression analysis, coefficient of variance, time series, probable error of r is used to find out the nature of data.

5.2 CONCLUSION

As per the objectives of study, functional budgets and financial statements are studied and analyzed of the organizations under the study. In the initial phase of the study period, STCL has not good trading performance after then it is able to improve its business position. Volume of sales and profit both are in increasing trend which shows the favorable business future to the organization. With the help of time series analysis, future sales figure is forecasted and it is positive. There seems proper inventory planning hence purchase and sales relation seems in positive direction every year.

However, STCL is unable to maintain its financial position well. The corporation has not prepared budget forecast for the future program such as budgeted sales, purchase, material and other overhead budgets. Because of the reason, this research work has not been extensive as intended. The study topic profit planning and controlling is normally based on past accounting records and planned or budgeted figures for future. So, it was difficult to find out the variance between planned and actual performance. Company has not applied the system of flexible budget and trend analysis. Cost structure of STCL is not classified in accordance to their variability. The analysis of flexible budget shows that the company will earn profit when it operates at more than 60% capacity. CVP analysis also shows that STCL is operating above the BEP. Thus, in an overall, STCL has satisfactory performance on the bases of five years actual data analysis.

On the other hand, for last few years, performance of NTL is worsening than ever before. The study has been conducted in accordance of study purpose and the major conclusions have been drawn on the basis of the different analysis, observation and informal discussions. NTL fail to maintain its periodic performance reports for the evaluation of performance.

In the almost half century of the establishment NTL has provided many necessary services to the country but its popularity and usefulness seems in declining phase. According to five years data of study period, from F/Y 2063/64 to 2067/68, financial position of NTL is not satisfactory, in recent years its balance sheet figure is in negative because of huge amount of accumulated losses. All the profitability analysis results are negative. Because of this reason, analysis process is not satisfactory. Through all the analysis factors such as financial, statistical and budget analysis depicts that the overall economic performance of NTL is not desirable. It is operating below BEP and if it has to generate profit, it should increase its sales volume by 400%,

according to flexible budget. In present context, it seems too hard to achieve as a great target by current poor management.

Finally, after a broad analysis of the STCL and NTL on the basis of actual data, in comparison of NTL, STCL is doing well in recent years. Volume of sales and profit is growing simultaneously of STCL, which is good sign for any kind of business organization. But, the situation is just opposite in NTL because it was doing good business in previous years and in recent years its business performance is going in very poor condition. Finally, STCL has to keep up its pace of progress in term of sales and profit volume. For NTL, it seems arguent that it has to improve its sales level and management practices to minimize current losses because these things are the most essential aspects for wellbeing of any trading entities.

5.3 RECOMMENDATIONS

Recommendations to STCL,

After the detail analysis based on actual data in profit planning prospect of STCL, some suggestions have been recommended on the basis of major findings. To improve the performance of the corporation, it should adopt the comprehensive profit planning from the very beginning to the end. The following actions should be implemented to apply the profit planning concept in STCL.

- STCL should define its goals and targets for future in terms of sales and profit. So, basis for profit planning and controlling application could be easily meet.
- STCL should develop all expenses and overhead budgets in systematic way. All overhead expenses should be classified in separate heading. Selling and distribution cost should be introduced separately so that it will be helpful for the management of STCL to control expenses for company.
- Cost should be classified into fixed and variable. Therefore, costs are diagnosed as controllable and non-controllable.
- All management process should be in modern technology based which promotes the transparency practices in any organization.
- Demand of the products of STCL is very high in national and international market. So, this corporation has no problem in selling its products. So, research and development of

new market is essential because sales trend is in growing trend. Many companies in the market place struggling for building brand image but STCL has already huge and reputed brand name thus to gain competitive advantage, company should make its management and distribute channel strong.

- Finally, the corporation should adopt comprehensive profit planning approach. Basic fundamentals of profit planning should be considered while formulating and implementing profit plan

Recommendations to NTL,

The following recommendations can be given to formulate and implement the profit planning and controlling, to improve the financial soundness of the NTL.

- There should be serious analysis of relevant, internal and external variables and their possible impact of purchases, sales, and inventory and ultimately in profit.
- The emphasis should be given to improve the sales and purchases. For this, efficiency of management, capital expenditure, employee utilization and inventory policy should be considered.
- NTL should study the present cost structure and develop cost effectiveness program. For planning profit, there should be a good system of dividing cost into fixed and variable as well future forecast for sales and other budgets.
- NTL is currently in very much weak condition. Through its financial and statistical analysis, it seems that company is in the condition of bankruptcy if it was a private company. So, if organization is able to improve its performances it will be good because some of its services are necessary for rural part of Nepal. Otherwise, it would be wise decision of GoN and concerned parties, if they do decide to liquidate the company.

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Appendix (STCL & NTL)

Appendix-1

Time Series Analysis of Salt Trading Corporation Ltd

Fitting straight line trend by least square method (in Rs. 100,000)

Year (X)	Actual Sales (Y)	X=X-X'	XY	X ²
063/64	19162.33	-2	-38324.66	4
064/65	21389.57	-1	-21389.57	2
065/66	31904.33	0	0	0
066/67	33663.35	1	33663.35	2
067/68	38740.61	2	77481.22	4
Total	∑Y = 144660.19	∑X = 0	∑XY = 51430.34	∑X² = 10

(Source: Annual Report of STCL 063/64 to 067/68)

(Year 065/66 is taken as base year)

$$a = 144660.19/5$$

$$= 28932.03$$

$$b = 51430.34 / 10$$

$$= 5143.03$$

Then,

$y = 28932.03 + 5143.03.x$ is the trend line of sales figure which shows the positive sales figure in future.

By using this trend equation, we can make estimation of sales revenue for F/Y 068/69 (taking 065/066 base year)

$$y = 28932.03 + 5143.03 \times 3$$

$$= 44361.12$$

Since, if the trend does not change, possible sales for the year 068/69 will be Rs. 44361.12 (in Rs. 100,000) i.e. Rs. 4,436,112,000.

Appendex-2

Time Series Analysis of National Trading Limited

Fitting straight line trend by least square method (in Rs. 100,000)

Year (X)	Actual Sales (Y)	X=X-X'	XY	X ²
063/64	9686.00	-2	-19372.00	4
064/65	10353.43	-1	-10353.43	2
065/66	7320.32	0	0	0
066/67	5617.97	1	5617.97	2
067/68	6219.33	2	12438.66	4
Total	$\sum Y = 39196.87$	$\sum X = 0$	$\sum XY = -11668.80$	$\sum X^2 = 10$

(Source: Annual Report of NTL 063/64 to 067/68)

(Year 065/66 is taken as base year)

$$a = 39196.87/5$$

$$= 7839.37$$

$$b = -11668.80/10$$

$$= -1166.88$$

Then,

$y = 7839.37 + (-1166.88).x$ is the trend line of sales figure which shows the negative sales figure in future.

By using this trend equation, we can make estimation of sales revenue for F/Y 068/69 (taking 065/66 base year)

$$y = 7839.37 + (-1166.88) \times 3$$

$$= 4338.74$$

Since, if the trend does not change, possible sales for the year 068/69 will be Rs. 4338.74 (in Rs. 100,000) i.e. Rs. 433,874,000.

Appendix-3

Profit and Loss of STCL

Fitting straight line trend by least square method (in Rs. 100,000)

Year (X)	Profit/Loss (Y)	X=X-X'	XY	X ²
061/62	-1036.57	-2	-2073.14	4
062/63	130.27	-1	-130.27	2
063/64	115.55	0	0	0
064/65	371.51	1	371.51	2
065/66	600.03	2	1200.06	4
Total	∑Y = 180.79	∑X = 0	∑XY = - 631.81	∑X² = 10

(Source: Annual Report of STCL 063/64 to 067/68)

(Year 065/66 is taken as base year)

$$a = 180.79/5$$

$$= 36.16$$

$$b = - 631.81/10$$

$$= - 63.18$$

Then,

$y = 36.16 + (- 63.18).x$ is the trend line of profit (loss) figure which shows the negative profit (loss) figure in future.

By using this trend equation, we can make estimation of profit (loss) figure for F/Y 068/69 (taking 065/066 base year)

$$y = 36.16 + (- 63.18).3$$

$$= - 153.38$$

Since, if the trend does not change, possible loss for the year 068/69 will be Rs. - 153.38 (in Rs. 100,000) i.e. Rs. 15,338,000.

Appendix-4

Profit and Loss of STCL

Fitting straight line trend by least square method (in Rs. 100,000)

Year (X)	Profit/Loss (Y)	X=X-X'	XY	X ²
061/62	235.00	-2	-470.00	4
062/63	45.09	-1	-45.09	2
063/64	-485.26	0	0	0
064/65	-1584.33	1	-1584.33	2
065/66	-1281.16	2	-2562.32	4
Total	$\sum Y = - 3070.66$	$\sum X = 0$	$\sum XY = - 4661.74$	$\sum X^2 = 10$

(Source: Annual Report of STCL 063/64 to 067/68)

(Year 065/66 is taken as base year)

$$a = - 3070.66/5$$

$$= - 614.13$$

$$b = - 4661.74/10$$

$$= - 466.17$$

Then,

$y = - 614.13 + (- 466.17).x$ is the trend line of profit (loss) figure which shows the negative profit (loss) figure in future.

By using this trend equation, we can make estimation of profit (loss) figure for F/Y 068/69 (taking 065/066 base year)

$$y = - 614.13 + (- 466.17).3$$

$$= - 2012.64$$

Since, if the trend does not change, possible loss for the year 068/69 will be Rs. - 2012.64

(in Rs. 100,000) i.e. Rs. 201,264,000.

Appendix-5

Calculation of Various Statistical Tools:

Note: Actual purchase is assumed as 'x' and actual sales as 'y' for calculation of various statistical tools

For STCL,

Table-1
Calculation of Various Statistical Tools
of Salt Trading Corporation Ltd of Actual Purchase in (Rs. 100,000)

Year (X)	Actual Purchase (x)	$x-\bar{x} = U$	$(x-\bar{x})^2 = U^2$
061/62	10082.70	-9883.75	97688514.06
062/63	13157.84	-6808.61	46357170.13
063/64	24467.60	4501.15	20260351.32
064/65	24635.86	4669.41	21803389.75
065/66	27488.24	7521.79	56577324.80
n=5	$\Sigma x = 99832.24$	$\Sigma U = 0$	$\Sigma U^2 = 242686777.10$

We have,

$$\text{Mean Actual Purchase, } \bar{x} = \frac{\Sigma x}{n} = 99832.24/5 = 19966.45$$

$$\sigma x = \sqrt{\frac{\Sigma U^2}{n}} = \sqrt{\frac{242686777.10}{5}} = 6966.88$$

Co-efficient of Variation of Actual Purchase (C.V.) of x

$$= \frac{\sigma x}{\bar{x}} = \frac{6966.88}{19966.45} \times 100 = 34.89$$

Table-2
Calculation of Various Statistical Tools
of Salt Trading Corporation Ltd of Actual Sales in (Rs. 100,000)

Year (X)	Actual Sales (y)	$y-\bar{y} = V$	$(y-\bar{y})^2 = V^2$
061/62	19162.33	-9769.71	63516277.48
062/63	21389.57	-7542.47	56888853.70
063/64	31904.33	2972.29	8834507.84
064/65	33663.35	4731.31	22385294.32
065/66	38740.61	9808.57	96208045.44
n=5	$\Sigma y = 144660.19$	$\Sigma V = 0$	$\Sigma V^2 = 247832978.80$

Mean Actual sales $\bar{y} = \frac{\Sigma y}{n} = \frac{144660.19}{5} = 28932.04$

$$\sigma_y = \sqrt{\frac{\Sigma V^2}{n}} = \sqrt{\frac{247832978.80}{5}} = 7040.35$$

Co-efficient of Variation of Actual sales (C.V.) of y

$$= \frac{\sigma_y}{\bar{y}} = \frac{7040.35}{28932.04} \times 100 = 24.33$$

Table-3
Calculation of Various Statistical Tools
of Salt Trading Corporation Ltd of Actual Purchase in (Rs. 100,000)

Year (X)	$x-\bar{x} = U$	$y-\bar{y} = V$	UV
061/62	-9883.75	-9769.71	96828232.46
062/63	-6808.61	-7542.47	51353736.67
063/64	4501.15	2972.29	13378723.13
064/65	4669.41	4731.31	22092426.23
065/66	7521.79	9808.57	73778003.74
n=5	$\Sigma U = 0$	$\Sigma V = 0$	$\Sigma UV = 257431122.20$

$$\begin{aligned} \text{Correlation of Coefficient (r)} &= \frac{\sum UV}{\sqrt{\sum U^2} \times \sqrt{\sum V^2}} = \frac{257431122.20}{\sqrt{242686777.10} \times \sqrt{247832978.80}} \\ &= \frac{257431122.20}{245246420.90} = 1.049 \end{aligned}$$

Calculation of Probable Error (PEr)

$$\text{PEr} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-(1.049)^2}{\sqrt{5}} = \frac{0.6745-1.100}{2.2360} = -0.10$$

Note: Actual purchase is assumed as 'x' and actual sales as 'y' for calculation of various statistical tools

For NTL,

Table-4
Calculation of Various Statistical Tools
of National Trading Ltd of Actual Purchase in (Rs. 100,000)

Year (X)	Actual Purchase (x)	$x-\bar{x}=U$	$(x-\bar{x})^2 = U^2$
061/62	8230.88	1184.73	1403585.17
062/63	8939.63	1893.48	358266.51
063/64	6470.55	-570.60	325584.36
064/65	5779.52	-1266.63	1604351.56
065/66	5810.15	-1236.00	1527696.00
n=5	$\sum x = 35230.73$	$\sum U = 0$	$\sum U^2 = 5219483.60$

We have,

$$\text{Mean Actual Purchase, } \bar{x} = \frac{\sum x}{n} = \frac{35230.73}{5} = 7046.15$$

$$\sigma x = \sqrt{\frac{\sum U^2}{n}} = \sqrt{\frac{5219483.60}{5}} = 1021.71$$

Co-efficient of Variation of Actual Purchase (C.V.) of x

$$= \frac{\sigma x}{\bar{x}} = \frac{1021.71}{7046.15} \times 100 = 14.50$$

Table-6
Calculation of Various Statistical Tools
of National Trading Ltd of Actual Sales in (Rs. 100,000)

Year (X)	Actual Sales (y)	$y - \bar{y} = V$	$(y - \bar{y})^2 = V^2$
061/62	9686.00	1846.59	3409894.63
062/63	10353.43	2514.02	6320296.56
063/64	7320.32	-519.09	269454.43
064/65	5617.97	-2221.44	4934795.67
065/66	6219.33	-1620.08	2624659.21
n=5	$\sum y = 39197.05$	$\sum V = 0$	$\sum V^2 = 17559100.50$

Mean Actual sales $\bar{y} = \frac{\sum y}{n} = \frac{39197.05}{5} = 7839.41$

$$\sigma y = \sqrt{\frac{\sum V^2}{n}} = \sqrt{\frac{17559100.50}{5}} = 4190.36$$

Co-efficient of Variation of Actual sales (C.V.) of y

$$= \frac{\sigma y}{\bar{y}} = \frac{4190.36}{7839.41} \times 100 = 53.45$$

Table-6
Calculation of Various Statistical Tools
of Salt Trading Corporation Ltd of Actual Purchase in (Rs. 100,000)

Year (X)	$x-\bar{x} = U$	$y-\bar{y} = V$	UV
061/62	1184.73	1846.59	2187710.57
062/63	1893.48	2514.02	4760246.59
063/64	-570.60	-519.09	296192.75
064/65	-1266.63	-2221.44	2813742.55
065/66	-1236.00	-1620.08	2002418.88
n=5	$\sum U = 0$	$\sum V = 0$	$\sum UV = 12060311.34$

$$\begin{aligned} \text{Correlation of Coefficient (r)} &= \frac{\sum UV}{\sqrt{\sum U^2} \times \sqrt{\sum V^2}} = \frac{12060311.34}{\sqrt{5219483.60} \times \sqrt{17559100.50}} \\ &= \frac{12060311.34}{9573375.78} = 1.259 \end{aligned}$$

Calculation of Probable Error (PEr)

$$\text{PEr} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-(1.259)^2}{\sqrt{5}} = \frac{0.6745-1.585}{2.2360} = -0.91$$