

**IMPACT OF COMPREHENSIVE BUDGETING ON PROFITABILITY**  
**(A Case Study of Gorkhapatra Corporation)**

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**RECOMMENDATION**

This is to certify that the thesis

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**IMPACT OF COMPREHENSIVE BUDGETING ON PROFITABILITY**

**(A Case Study of Gorkhapatra Corporation)**

has been prepared as approved by this Department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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**VIVA-VOCE SHEET**

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## DECLARATION

I hereby, declare that the work reported in this thesis entitled "**IMPACT OF COMPREHENSIVE BUDGETING ON PROFITABILITY: A CASE STUDY OF GORKHAPATRA CORPORATION**" submitted to Central Department of Management, University Campus, T.U., Kirtipur is my original piece of work done in the form of partial fulfillment of the requirement for the Master's Degree in Business studies under the supervision and guidance of Mr. Achyut Gyawali, Lecturer, Central Department of Management.

.....

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## ABBREVIATIONS

AD	Anno Domini
BEP	Break Even Point
BS	Bikram Sambat
CDM	Central Department of Management
CVP	Cost-Volume Profit Analysis
FY	Fiscal Year
GC	Gorkhapatra Sansthan
GON	Government of Nepal
HBTF	Harisiddi Brick and Tyle Factory
i.e.	That is
MBS	Master of Business Studies
PPC	Profit Planning and Control
r	Correlation Coefficient
SD	Standard
SDC	Shanker Dev Campus
TTE	Tokla Tea Estate
TU	Tribhuvan University
UNDP	United Nations Development Programme
US	United States
viz.	Namely
\$	Dollar

# CHAPTER- I

## INTRODUCTION

### 1.1 General Background

Nepal is one of the least developed countries of the world. Over 85% of more than 24 million people of the country live in the rural areas. Estimated per capital GNP for the year 2009/10 is US\$ 440. Population growing rate of above 2% per annum has produced a board based increased dependency ratio (NRB, 2011).

There is a great challenge for the nation is to eliminate massive poverty existing in the country through gradual development of the Industrial sector and to provide basic needs to the people. Several programs can only be result oriented when the country will follow the path of industrialization. So, it has been considered essential for the economic development of the country.

In Nepal, the history of development of industry begins after the democracy of 2007 B.S. During the Rana regime, they were not interested in the development of the country. Though, Biratnagar jute mill, Nepal Bank Ltd, Juddha match factory Morang cotton mill, Mahendra Sugar Mill and Butawal Plywood and Bobiu Factory had been established during this regime. They are the parents industry in Nepal. After the introduction of Democracy, the Government felt the need of the industrialization and started some public enterprises; likewise the government established a separate unit as "Udhyog parisad" and "Industry Department". After the restoration of democracy, the department has been recognized with its new name "Cottage and Small Industry Department".

It was felt that the private sector could not set up all basic and feasible industries capable of making special contribution to the Industrial development of the country. Within the period of this plan the new industrial policy 1974 was also announced by GON. In 1981 a new industrial policy was declared and the main features of this policy were that all industries were kept open to private sector except the defiance industry.

The changing political situation has changed its industrial policy. In 1992 industrial policy was declared and this policy is very liberal in respects of registration and other official procedures. Private investment is encouraged and foreign investment is welcomed. In this reference, the government has conducted the procedures of privatizing some public enterprises, such as Bansbari lather and shoes factory, Bhrikuti paper mill and Harisiddhi brick factory are the major in first phase. The process will continue. Likewise the ministry of industry, UNDP has jointly conducted a foreign investment forum on the first week of the December 1992, the investors more than hundred countries attended the conference and should their keen interest in the industrialization process of Nepal. They also signed on the proposal of so many industries to be established in Nepal. It is believed that the conference leads the industrial situation of Nepal towards the golden future.

### **1.1.1 An Introduction of Gorkhapatra Corporation (GC)**

Gorkhapatra, firstly published in 24<sup>th</sup> Baishakh, 1958 BS, is the pioneer of journalism in Nepal. It has the highest contribution to the development and promotion of the Nepal language, literature and culture as well. Under the circumstances of virtual ban on information and education, Dev Shumsher, the Rana prime minister of relatively liberal outlook, started Gorkhapatra weekly. The effort of late Bajhagi Raja Jaya Prithvi Bahadur Singh is also unforgettable in history of the Gorkhapatra.

Facing the different unfavorable circumstances it took 42 years to become twice- week newspaper (29<sup>th</sup> Ashwin, 2000 BS). On 8<sup>th</sup> Poush, 2003 it became thrice-weekly publication. Lastly it became a daily publication on 7<sup>th</sup> Falgun, 2017.

The publication of evening issue of Gorkhapatra was started form 2<sup>nd</sup> Kartik 2019 BS. It was continued till 22<sup>nd</sup> Ashoj 2022 BS. But due to different reasons the publication of evening issue was closed down.

Gorkhapatra Corporation is under control of ministry of communication information. The corporation is continuously facing interference from Government, Cabinet, parliament and political parties. GON has provided operational autonomy to all public enterprises but in real practice all the decision regarding Corporation is made by Government.

The Gorkhapatra Corporation even is not free to publish current news if it is not favors of Government. The Corporation is badly over staff due to different pressures. The main cause of poor performance of Corporation is excessive Government and political inference and dominance.

**Publications of Gorkhapatra Corporation**

The publication of Gorkhapatra Corporation is listed below:

**Table-1**  
**Publications of Gorkhapatra Corporation**

S.N	Name of Publication	Kinds of Paper/news	Started Date	Discontinued
1	Gorkhapatra	Nepali Daily	1958 Baishakh 24	-
2	The Nepalese perspective	English Weekly	2021 Ashoj	Discontinued
3	The Rising Nepal	English Weekly	2022 Poush 1	-
4	Madhupark	Nepali Monthly	2025 Jestha	-
5	Yuva Manch	Nepali Monthly	2045 Ashad	-
6	Sunday Dispatch	English Weekly	2047 Baishakh 9	Discontinued
7	Muna	Nepali Monthly	2047 Poush	-
8	Manoram Apsara	Nepali Monthly	2055 Baishakh	Discontinued

*Source: Gorkhapatra Sansthan Annual Report*

#### **a. Total Performance and Control of PE's In Nepal**

##### ***Performance***

Dr. Govinda Ram Agrawal in his study on management control system for PE in developing countries has deduced the following conclusion regarding the performance of PE's. It implies outright his management of scarce natural resources. About all it is a clean indication that these enterprises have utterly failed in effective mobilization of internal resources for accelerating the country's pace of development.

- "Manufacturing sector cannot always service without financial considerations. Being enterprise of commercial nature they cannot always depend on Government subsidies", refers the low efficiency and profitability of Nepalese PE's.
- To mission, goals and objectives of PE's should be clearly and adequacy stated. There is virtually no spelling out of these objectives in manufacturing PE's, therefore must have a properly spelled but objectives in specific and clear terms.
- Government policy regarding manufacturing PE's should be clear clearly and specific.
- Consequence in the failure of performances should be clearly out.

- Planning process should be much as possible organization based.
- Long Term planning should be developed and short term plans and policies should base upon it (Bhattacharya, 1981:172).

“An appraisal of PE’s financial performance thus indicated a general pattern of low profitability compared with a big size of investment. Number of reasons are put forward and argued as responsible for their poor performance and resulting huge losses viz.”

- Absence of clarity of objectives.
- Absence of required performance evaluation, monitoring and remedial actions.
- Managerial inefficiency
- Unnecessary intake of employees
- Absence of required incentives

Intervention from outside including the Government into functioning etc.  
(Shrestha,1982:83)

## ***Control***

Management control in PE's can be looked upon as a process whereby management assure that resource are obtained and used efficiently as well as effectively in accomplishing the objectives. Control takes place within the context of objectives. It is consented with the attainment of stated objectives rather than formation of new objectives. Any control system, therefore must fit and be consistent with the initial objective of the enterprise. Planning generally provide the framework for control process. Effective control in essence is concerned with making the performance conform to the quality, costs and other specification. Conscious planning is therefore the prerequisite for control management information system within the enterprise serves as a norm, or target of a frame of reference for compared actual results standards are set in advance. They indicate desired outcome. The actual outcome is compared with the desired outcome and appropriate adjustments are made to correct the deviation so that the gap between the two can be reduced (Shrestha, 1982:83).

## **1.2 Statement of the Problem**

Although Gorkhapatra Corporation is running is Profit for a long year however, it is not well prospered as it ought to be. This study is mainly designed to solve the above mentioned problems by talking into account the budget role in planning the profit. The major problems of application of budgeting programmer in Gorkhapatra Corporation are the conflict in its broad objectives. The present study will try to examine and analysis the practice of profit planning in Gorkhapatra Corporation.

Profit planning and control (PPC) model provides a tool for more effective supervision of individuals operations and practical administration of a business as a whole. So, the successful operations of any it largely depend upon the planning system that it has adopted. Profit plan is one of the most important managerial devices that play key role for the effective formations and implementation of strategic as well as tactical plans of an organization. Profit planning system requires the effective coordination between various functional budgets of an organization like as sales plan, production, material requirement budget, labour cost budget, cash budget and capitals expenditures budget.

Therefore GC has faced following problems and given study have been tried to find out solution for these problems

1. GC has failed to make effective budgeting program.
2. GC has not followed major problem for developing and implementation.
3. GC has not showed good performance, it has faced communication gap between top and lower level employees.
4. GC has failed to make effective strategy, on competitive with other media.

### **1.3 Objectives of the Study**

The main objective of the study is to analysis the impact of comprehensive budgeting on Gorkhapatra Corporation's profitability. The specific objectives as follows:-

1. To examine the present practice and effectiveness of profit planning in Gorkhapatra corporation.
2. To analyze the various functional budget of Gorkhapatra Corporation.
3. To analyze the variance between target and actual sales of the Gorkhapatra Corporation.
4. To point out the suggestions and recommendations for improving the profit plan.

### **1.4 Significance of the Study**

This research study is concerned with the profit planning in publications with case study of Gorkhapatra Sansthan, which analyze the proper applicability of profit planning system.

Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization by the help of the best utilization of resources. 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 regard to these most important single tools while managing their physical and financial target. If planning process of an organization is effective and result oriented the pace of development naturally steps forward.

Profit planning is the heart of management. It tells us profit is the most important indicators for judging managerial efficiency and do not just happened for this every organization has to manage it s profit. Various functional budgets are the basic tools for

proper planning of profit and control over them. It may be useful for those who wants to know the PPC in the GC and may also be help the for future researchers as a reference material.

In many of the PEs and corporations of Nepal. Budgets are prepared at random and profit-planning process is not applied in the real sense. In its consequence, most of the PEs and corporations suffer from poor performance. The significance of the study is really to examine whether the GC is applying profit planning system properly or not and analyse if there is any drawback in profit planning system.

### **1.5 Limitation of the Study**

This study confines on the profit planning of Gorkhapatra Corporation. In the context of Nepal, very few studies and researches have been made in respect of budgeting of profit planning of Nepalese public enterprises. This study holds some importance in the since that a periodic change required to collect the information about the approach and practice so as to highlight about the application of detailed and systemic approach of profit planning in Nepalese public utility and social enterprises. The present study analyzes the problem and prospects in budget application and implementation. This study also analyzes the effectiveness of PPC in representative enterprise. The present study will also examine and review the present and historical literature. Besides these, the present study will serve the general interest of various people as well as to the researchers of this area. Lastly the present study attempts to provide valuable suggestion and recommendations which will serve the manager making profit plans in the Gorkhapatra Corporation, and as well as this study will help to overcome the certain PEs problems regarding budgeting activities.

But the present study is not free from the following limitation.

- a) Limited time is available therefore every detail are not possible to be investigated.
- b) This study is only a case study hence the conclusion drawn from the study does not ensure wide applicability in all types of enterprises running in different situation.

- c) The data are based on at least five years trend and covering from the fiscal year 2062 to 2066
- d) The study is more concerned with the major problems faced by the enterprises.
- e) The whole study is mainly based on secondary data and the necessary detail information are collected from the management of Gorkhapatra Corporation.
- f) Availability of relevant data and other information of Gorkhapatra Corporation determine its scope.

## 1.6 Scheme of the Study

The study has been segregated into five chapters which are as follows:-

Chapter 1:	Introduction.
Chapter2:	Conceptual frameworks.
Chapter3:	Research methodology.
Chapter4:	Presentation and data analysis.
Chapter5:	Summary, conclusion and recommendation.

**Chapter one:-** Introduction chapter contains; general background, public enterprises in Nepal, an introduction of Gorkhapatra Corporation, statement of the problem, objectives of the study, limitation of the study.

**Chapter two:** - Conceptual framework of profit planning and control mainly includes picture of profit planning and control. Review of literature and review of previous research work.

**Chapter three:** - The research methodology contains, research design, the population and sample period covered, research question, tools used nature and sources of data and research variables.

**Chapter four:** - analysis and presentation of data contains presentation of target function budget and analysis of data using various statistical and financial tools.

**Chapter five:** - In this chapter includes as summary, conclusion and recommendation. It includes reference books, magazines news papers, previous dissertations, are shown under bibliography.

Questionnaire, documents received etc. are separately shown under appendices.

## **CHAPTER- II**

### **REVIEW OF LITERATURE**

#### **2.1 Conceptual Framework**

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 rationale 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 manufacturing public enterprises in Nepal with a special reference GURKHAPATRA CORPORATION has been undertaken as a case study to analyze the various financial budgets that are prepared by GURKHAPATRA CORPORATION, to sketch the trend of the profitability, to evaluate the variance between budget and actual of the concern and to examine practice and effectiveness of profit planning. Further, reason as to why profitability has been negative, and the factors responsible for such a state of affairs have been explored.

The present section, conceptual framework has been made with a view to recapitulate the basic concept of literature to show how to complete the present line of study. They have analyzed and searched using appropriate tools and techniques. The chapter mainly incorporates concept of profit and profit planning, important and limitation of profit planning development of profit planning. Level of forecasting, corporate planning, budgets and budgeting, process of profit planning and the fundamentals of profit planning are the subjects to be dealt here.

##### **2.1.1 Profit**

Profit is the income received by the organizer. It is the reward for the services of an entrepreneur. A firm makes profit when it receives a surplus after it has paid interest on capital; wage to labor which is equal to the difference between the total revenue and

total cost of production. Profit earned by the entrepreneur may be broadly divided into two categories viz. the gross profit and net profit. Gross profit of the entrepreneur refers to whole of the income earned by him. It consists of the reward for the factors of production supplied by the organizer himself, regard for management and reward for the organization of production.

Profit is primary objective of a business. The word profit implies a comparison of the operation of business between two specific dates, which are usually separated by an interval of one year. In order to optimize those corporate source of wealth on which national prosperity depends, the basic financial objective of companies is to maximize, with in socially acceptable limits, profit from the use of the funds employed by them. No company can survive long without profit for: profit is the ultimate measure of its effectiveness, and in a capitalist society, there is no feature for a private enterprise which always incurs losses. Profit is a signal for the allocation of resources and a yardstick for judging managerial efficiency. In fact, it is the growth of profit which enables a firm to pay higher dividend to its ordinary share holder. Profit result from transaction. Profit is the dominant goal in business, and profit making should be the main objectives in term of which the general effectiveness of an organization is measured. Profit is also defined as a surplus of revenues and the after the deduction of all the expenses incurred on earning it. Usually, profit does not happen; they are managed (Kulkarni, 1985:310-311).

Thus economic theories of profit have been categorized into three broad groups. The first look on profit is the reward for bearing risk and uncertainty, the second view profit and the consequence of fraction and imperfection in the competitive adjustment of the economy to dynamic changes, the third sees profit as the reward for successful innovation. The word profit has different meaning to business, accounts, tax collection, worker and economist, and it is often used in loose sense that buries its real significance and destroys the basic for discussion. In appraising a company, we must first understand how profit arise before we can decide improve the company's profit position. Usually, profit do not just happen, profit are managed (Lynch and Williamson, 1989:99).

Profits are the excess of income over cost of production. The expenses made on raw material, labor, interest, fuel, power are included in cost. There is controversy as to the definition of the term profit itself. Ordinarily, the term profit is defined in terms of accounting concept. According to accounting definition "profit is the residual of sales revenue minus the explicit cost of doing business." This profit is the amount available for ownership or equity after payment is made to all other factors used the form. J.M. Keynes held the view that profits resulted from favorable movement of the general price level. Mrs. John Robinson Chamberlain opined that greater the degree monopoly power, the greater the profits made by the entrepreneur (Joshi, 2002:276-277).

Hence, profit is the amount left after deduction of cost from revenue. It determines from cost and revenue. It is the reward of bearing risk, innovation. Every business enterprises invest huge amount to take a higher degree of risk and they are expected higher rate of return. Each business firm is primarily established with a view to earn profit. So, profit is necessary for any type of business.

### **2.1.2 Planning**

In general sense, planning is the determination of any thing in advance of action. It is essentially a decision making process that provides a basic for economical and effective action in the future. Effective planning sets the stage for integrated action to take places, reduces the number of unforeseeable crises, reduces the number of unforeseeable crises, promotes the use of more efficient methods and provides the basis for the managerial function of control thereby assuring focus on the organization objectives.

The Planning processes both short and long is the must crucial component of the whole system. It is both the foundation and the bond for the other elements because it is through the planning process that we determine what we are going to do, how we are going to do it and who is going to do it. It operates as the brain center of an organization and like the brain, it both reasons and communicates.

Planning entails regular measurement of progress towards objectives and goals and the execution of strategies and action program. Planning should be continuous process and not a once-a year exercise. It should involve all these, whose jobs have a significant effect on the fortunes of the company.

### **2.1.2.1 Planning and Forecasting**

Forecasting and planning are not the same. Forecasting expected future conditions. These expectations depend up on some assumption, which are very useful. Forecasting is our thinking about what will happens to us in future. Planning can be done only with forecasting.

Forecasting is not a plan; rather it is a statement and or a quantified assessment of future condition about a particular subject based on one or more explicit assumptions. A forecasting should always state the assumption upon which it is based. A forecasting should be viewed as only one input into the development of a plan. The management of a company may accept, modify or reject the forecast. Planning incorporates management decisions that are based on the forecasting, other inputs, and management judgment about such related item as sales volume, prices, sales efforts, production, and financing. It is important to make a distinction between the forecast and plan. Plan primarily because the internal technical staff should not be expected or permitted to make the fundamental management decision and judgments implicit in every plan. Forecasting as only step in planning is that forecasting conditional (Welsch, et al., 2001:172).

Forecasting is the best tool to be used for proper planning when company policy and forecast have been formulates, planning can start. This means planning, the tactical to be used in achieving the objectives, should be based on forecasts and policy (Horngreen; 1977:4).

### **2.1.2.2 Management Planning**

Management Planning is a continuous process as opposed to periodic endeavor. Since a projection can never be considered as the final product. It must be revised as condition as the final product. It must be revised as condition change and new information becomes available. The function should vary in scope and industry with the level of management responsibility then lower management should have definite planning responsibilities. Planning is the first function of management phases of time demands both re-planning and new plans to correct performance deficiencies and to cope with unanticipated events that are unfavorable and to take advantage of new developments.

**Management planning is a process that includes the following five phases:-**

- I. Establishing enterprises objectives and goals
- II. Developing premises about the environment of entity
- III. Marketing decision about courts of action
- IV. Initiating action to activate the plan and,
- V. Evaluation performance feedback for re-planning

## **2.2 Profit Planning**

Profit planning is defined as a comprehensive and coordinated plan, expressed in financial terms, for the operations and resources of enterprises for some specific period in the future. When the management plans for profit for a certain period of time, it is called profit plan. As an estimation and predetermination of revenue and expressed that estimates how much income still be generated and how it would be spent in order to meet investment and profit requirement. In the case of institutional operations it presents a plan for spending income in a manner that doesn't result in loss. [Ninemeier and.Schmidgall, 200:133] It represents an overall plan of operations, covers of definite period of time and formulates the planning decisions of management.

Profit planning is a detailed plan of action during a period of one year or less. Profit planning helps a firm's financial manager to regulate flow of funds, which is a primary concern. (Panday, 1997: 233).

Profit plan is financial a narrative expression of the expected result from the planning decisions. It is called the profit plan (or the budget) because it explicitly states the goal in terms of time expectations and expected financial result for each major segment of the entity (Welsch, et, al., 1986:34).

Profit plan is a short term financial plan. It is an action plan to guide managers in achieving the objectives of a firm. A profit plan is a comprehensive and coordinated. Plan resources of enterprises for some specific period in future (Flesher, 1980:144).

The broad concept of profit planning in a few word as, the profit planning and control means the development and acceptance of objective and goals and moving an organization efficiently to achieve the objectives and goals. (Glenn A. Welsch, Ronald W.

Hilton, Paul N. Gordon, Fifth edition) The term comprehensive profit planning and control is defined as a systematic and formalized approach for performing significant phases of the management planning and control function. Specially, it involves;

1. The development and application of broad and long range objectives for the enterprises
2. The specification of enterprises goals
3. A long range profit plan developed in broad terms
4. A system of periodic performance report detailed by assigned responsibilities
5. A short rang profit plan detail by assigned responsibilities
6. Follow-up procedures

Profit planning means the development and acceptance of objectives and goals and moving an organization efficiently the achieve objectives and goals. Profit planning is the heart of management. Without proper planning of profit it will not just happen. So, any types of enterprise should systematically plan for profit in proper way. The success of each enterprise in realizing its optimums profit in each year will be determined by the extend to which it establishes its objectives, develops coordinated plans to meet those objectives and exercise control results reach or exceed those planned. This entire process constitutes the budgetary planning and control program. It includes revenues, cost, profit, cash, and working capitals. Fixedassets, financing and dividends distributions. It extends throughout the entire organization from the chief executive to the frontline supervisory levels. Profit planning and control has the ultimate objectives of attaining the optimum profit. Profit planning in fact is a managerial technique. It 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 goal established by the top management in respect of some future period. It is a pre-determine detailed plan of action develop and distributed as an audit to current operations and as a partial basis for the subsequent evolution of performance. So, we can say that, “profit planning is a tool, which may be used by the management in planning the future course of action and in controlling the actual performance (Gupta, 1997: 521).

Profit is an out come of effective and efficient management, which is effected by various factors. Profit planning is that tools which managers all the factors efficiently and effectively. A profit planning is an advance decision of expected achievement based on most efficient operation standards of in prospect of time. It is established against which actual accomplishment is regularly compared (Manandhar, 1987:337).

Modern profit planning encourages action and recognizes the divisional and department autonomy and responsibility of mangers, motivating them to strive for attainment of the corporate goal. Profit planning is directed to the final objectives if the business and generally includes all of its important elements. Profit planning is especially effective in enabling middle management too help plan profit and control cost. Profit planning is management's primary tools to accomplish its objectives (Pradhan, 1984:36)

Since profit plan is flexible and depends upon the size of the firm, so that the formats and rules regarding profit plan also varies according to the nature of the business organization. Profit plan is prepared with in the environment of relevant variables and strength and weakness. Organizational broad objectives are defined and they are specified in particular goals. Basic strategies are communicated to the line and staff managers. Generally two types of profit plans are generated for short-term objectives tactical plans are developed. The type of profit plan depends upon the nature of business entity. Generally for manufacturing enterprises following plans are prepared:

- (1) Sales Plan
- (2) Profit plan
- (3) Raw material plan
- (4) Purchase budget
- (5) Inventory budget
- (6) Labor hours and cost budget
- (7) Manufacturing overhead Budget
- (8) Administrative expenses budget
- (9) Selling expenses Budget
- (10) Capital expenses budget
- (11) Flexible Budget

- (12) Cash budget
- (13) Projected income statement
- (14) Project balance sheet
- (15) Variance analysis of performance report.

Profit planning is a comprehensive plan expressed in financial term by which an operating program is effective for a given period of time. It includes the estimate of (a) the service activities and project comprising the program (b) the resources usable for their support,(Gray, 1997:18) Profit planning thus, becomes a well through out operational plan with its financial implication impressed as both long and short range profit in the form of financial statements, including balance sheet, income statement and cash and working capital projections.

### **2.2.1 Advantage of Profit Planning**

The following main arguments are usually given for profit planning and control.

1. It forces early consideration of basic policies.
2. It tends to remove the cloud of uncertainty that exists in much organization, especially among lower levels of management relative to basic policy and enterprises objectives.
3. It requires adequate and sound organization structure that is; there must be a definite assignment of responsibilities.
4. It frees executive from many day to day internal problems through predator mind policies and clear cut authority relationship. It thereby provides more excessive time for planning and creating thinking.
5. It compels all members of management from top down to participate in the establishment of goals and plans.
6. It reduces cost by increasing the span of control because fewer supervisors are needed.
7. It requires that management putdown in figures what in necessary satisfactory performance.
8. It installs at all level of management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decision.

9. It compels departmental managers to make plans of other departments and of the entire enterprises.
10. It compels management to plan for the most economical use of labor, material and capital.
11. It requires adequate and appropriate historical counting data.
12. It forces a management to give adequate attention to the effect of general business condition.
13. It pinpoints efficiency and inefficiency.
14. It promotes understanding among members of management of their co-workers problems.
15. It forces a periodic self analysis of the company.
16. It checks progress for lack of progress toward the objectives of the enterprises.
17. It rewards high performance and seeks to correct unfavorable performance.
18. It forces recognition and corrective action.
19. It aids in obtaining bank credit. Bank commonly require of projection of future operation and cash flow to support large loan.
20. It force management to consider expected future trends and conditions  
(Welsch,et al., 2001:60-61)

### **2.2.2 Basic Assumptions, Problems and Limitations of Profit Planning**

Profit Planning and control is a systemic approach to the solution of problems. It helps to serve the management. Still the usefulness of Profit Planning to very small business could have been circumvented by an early attempt to qualify the dreams of head strong but sloppy thinking entrepreneurs who never directly faced the uncertainties of their venture.

But there are so many assumption of using profit planning program. Firstly, the basic plans of a business must be measured in terms of money will be available for the need of the business. Secondly, it is possible in comprehensive why coordination every other aspect to establish optimum profit goals. Thirdly, Profit planning is preplanning not merely who to do it things workout as forecasted, but also what to do things workout differently from the forecast.

Profit Planning and control encompasses a systematic and integrated approach to project planning, to tactical planning and to strategic planning. (Welsch, et al.,2001: 39). But is not fully proof; it suffers from certain problems and limitations. The major problems in development of PPC system are: (Welsch, et al., 2001:60).

1. It is difficult, if not impossible, to estimate revenues and expenses in our company realistically.
2. It takes away management flexibility.
3. It creates all kinds of behavioral problems.
4. It is not realistic to write out and distribute our goals, policies, and guidelines to all the supervisors.
5. Our management has no interested in all the estimates and the schedules. Our strictly informal system is better and works well.
6. Profit planning and control, places too great a demand on management time, especially to revise budgets constantly. Too much paper work is required.
7. It adds a level of complexity that is not needed.
8. It is too costly, aside from management time.
9. It places the management in a straitjacket.
10. The managers, supervisors, and other employees, hate budgets.

Management must consider the following limitations in using the PPC system as advice to solve the managerial problems:

1. The profit plan is based on estimates.
2. It is not realistic to write out and distribute our goals, policies and guidelines to all it he supervisors.
3. Budgeting places to great a demand on management time, especially to revise budget constantly. Too much paper work is required.
4. A PPC program must be continually adopted fit in changing circumstance.
5. Not a substitute for management; it is totally wrong to think that introduction of PPC is alone sufficient to ensure success and to guarantee future profit.
6. It is too costly, aside from management time

7. Execution of profit plan not occurs automatically. Profit plan will be effective only if all responsible executive exert continuous and aggressive efforts to wards their accomplishment.
8. Danger of rigidity, for usefulness, the PPC must be flexible and dynamic in every sense of the word.
9. Proper evaluation, for finding out inefficiencies. Proper evaluation should be made and on the absence of proper evaluation, budgeting will hide inefficiency. So there should be continuous evaluation of the actual performances and standard also reexamined regularly.

## **2.3 Fundamental of Profit Planning**

Basically, comprehensive Profit planning and control offers a systemic, practical and proved approach to the management process properly viewed, Profit planning and control is comprehensive system to coordinate all aspects of the management process, carefully knitting together the cost ends of management and operations. This all inclusive concept of the Profit planning and control process is frequently minimized or completely overlooked in main of the literature and discussion on the subject.

### **2.3.1 Managerial Involvement and Commitment**

PPC program requires in management support, confidence, and participation and performance orientation. All levels of management, especially top management has to consider following points in order to make PPC program successful (Welsch, et, al., 2001:60).

Understand the nature and characteristics of Profit planning and control. Be convinced that this particular approach to managing is preferable for their situation.

Support the program in all its ramifications. Be willing to devote the effort required to make it operative and View the result of planning process as performance commitments.

### **2.3.2 Organizational Adaptation**

A Profit planning and control program must rest upon a sound organizational structural for the enterprise and clear-cut lines of authority and responsibility. The purpose of

organizational structure and the assignment of authority are established of framework within which enterprises objectives may be attained in a coordinated and effective way on a continuing basis. The scope and interrelationship of the responsibility of each individual manager are specified. To increase managerial and operational efficiency, particularly all enterprises, expect perhaps the very smallest ones, should be structurally disaggregated into subunits. The manger of each subunit should be assigned specific authorities and responsibility for the operational activities of that subunit. These subunits are often referred to as decision centers or responsibilities centers. Although the letter term is widely used, the former is more descriptive of the primary focus that is most fundamental. A responsibility center can be defined as an organizational unit headed by a manager with specified authority and responsibility.

### **2.3.3 Realistic Expectations**

Management must be realistic and avoid either undue conservation or irrational optimism. The care with which budget goals and objectives are set of such items as sales, productions levels, costs, capital expenditures, cash flow and productivity determines in large measures the future success of the profit planning and control program. To be realistic, expectations must be made in relation (a) to their specific time dimension and (2) to an assumed (projects) internal and external environment that will prevail during the time span. Within these two constraints, realistic expectations should be made to attain predetermined goals.

### **2.3.4 Responsibility Accounting**

There must be set up the sound basic responsibility accounting system in the profit planning program accounting system must be design to provided financial information separately for each organization unit, that is by assigned authority and responsibility which are enough generated by accounting system, includes the measurement of actual against objectives, goals and plan. Profit planning and control require a responsibility of accounting system that is one tailored to organizational responsibilities. Within this primary accounting structure, secondary classification of cost, revenues and other relevant of financial data may be used to meet the needs of the enterprise.

### **2.3.5 Time Dimension**

Effective implementation of the profit planning and control concept requires that the management of the enterprise established a define time dimension for certain types of decisions. In viewing time dimensions prospects in managerial planning, a clear-cut distraction should be made between historical considerations. Timing of planning activities suggests that there should be a definite management time schedule established for initiating and completing certain phases of planning process.

### **2.3.6 Full Communication**

Communication in the management and operation of an enterprise seems as a, major managerial problems. 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 conform working together, day in and day out by two or more individuals. Communication may be thought of as the link that brings together the human elements in an enterprise.

The goals and objectives set by management should be well communicated in all levels of management; PPC program can be successful when the communication is done in full. Full communication means making every body of the organization familiar with goals and objectives and to motive all members for their effective accomplishment.

### **2.3.7 Zero-Base Budgeting**

Zero-base budgeting has received great attention recently as a new approach to the budgeting process. It is method of budgeting in which managers are required to start at zero budget levels and to justify all costs as if the programs involved were being initiated for the first time. Under zero-base budgeting, every budget is constructed on the premise that every activity in the budget must be justified. Zero base budgeting has been used by private Governmental units both. In zero bases budgeting, there are no “givens”. It starts with the basic premise that the budgets for next year is zero and that expenditure old and new must be justified on the basis of its cost and benefit. In this budgeting the process of alternatives is more rigidly define (Ojha and Gautam, 2066).

### **2.3.8 Management Control Using PPC**

The primary purpose of control is to ensure attainment of the objectives, goals and standards of the enterprise. Control has many expression, narrative memoranda, policies and procedures, reports of actual results and performance reports. Comprehensive profit planning and control focuses a performance reporting and evaluation of performance to determine the cause of both high and low performances.

### **2.3.9 Behavioral View Point**

Profit planning and control program can only be successful when the people working in the enterprise are motivated. Goal orientation is characteristic of ambitious and competent is characteristic of ambitious and competent individuals who are normally involved in the management process. Such individuals have strong personal goal needs; their performance is enhanced though hierarchy of realistic goals with which they can identify. For implementing the profit planning and control program effectively, there should be a proper coordination between the individuals goals needs and an organization goal needs. From this perspective, behavioral consideration in regard of the rewards, performance, and result should be taken intensively (Ojha and Gautam, 2066).

### **2.3.10 Activity Costing**

Responsibility of accounting system generally accumulates cost by department and produce costing systems of associate cost with units of product or service organizations also frequent- with activities. By discomposing an organization's production process into a discrete set of activities, and then associating costs with each of those activities, management is a better position to determine the costs and benefits of continuing the activities. Moreover, by systematically identifying the activities, throughout the organization, managers can identify redundant activities eliminating activities that are not cost benefit effective and achieving greater coordination among the activities that remain (Ojha and Gautam, 2066).

### **2.3.11 Follow Up**

This fundamental holds that both goal and substandard performance should be carefully investigated, the purpose being threefold:

1. In the case of substandard performance, to lead in a constructive manner to immediate corrective actions.
2. In the 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.

### **2.4 Establishing the Foundation for PPC**

For successful of implementation of the profit plan program, there must be necessary establishing a sound foundation. An enterprise should take to establish sound foundation for initiating a profit planning and control program. Welsch Hilton and Gordon have summarized the steps into six points for PPC program. The steps are as follows:

- a) An evaluation of the organizational structure and assignment of managerial responsibilities and implementation of changes deemed necessary for effective planning and control.
- b) Commitments by the top management to the broad concept of PPC program.
- c) Identification and evaluation of controllable and non-controllable variables of the characteristics and environment of the enterprise.
- d) An evaluation of the organization of the accounting system to ensure that it is tailored to the organizational responsibilities.
- e) A policy determination about the time dimensions for PPC purpose.
- f) Development of a program of budget education for the inform management

### **2.5 Principles and Purposes of Profit Planning and Control**

The main objective of PPC is to assists in systematic planning and controls the operations of the enterprises. In fact it is best source of communication and an important tool in the hands of management. The main principles and purposes of PPC are as follows.

- To provide a realistic estimate of income & expenses for a period and of the financial position at the close of the period details by areas of management responsibility
- To provide a coordinated plan of action, which is designed to achieve the estimates, reflected in the budget
- To provide a comparison of actual result with those budgeted and an analysis and interpretation of deviations by areas of responsibility to indicate courses of corrective action and to lead to improvement in procedures in building future plans.
- To provide a guide for management decision in adjusting plans and objectives as uncontrollable conditions change.
- To provide a ready basis for making forecast's during the budget period to guide management in marking day to day decisions.

## **2.6 Process of PPC**

The following steps are the sequential phases of the PPC process:

External relevant variables identification and evaluation

Development of board objectives for the business organization/ enterprise.

Development and evaluation of company strategies

Executive management planning instructions

Development of specific goals for the enterprise

Preparation and evaluation of project plans

Implementation of profit plans

Development and approval of strategic and tactical profit plans

Use of flexible expense budgets

Use of periodic performance reports

Implementation of follow-up

## **2.7 Limitations of PPC**

PPC is an important tool for management. But each tool suffers from some limitation and its use is fruitful within these limits. PPC is also not a limitless tool. So it is essential that the management must consider the following limitations in using the PPC system as a device to solve managerial problems.

**Based on Estimates:** - Profit planning & control is not an exact science. It is based on estimates. The success of a profit planning depends to a large degree on the accuracy with which the basic estimates are made. The accurate estimates can be made. The accurate estimates can be made by using correct and modified statistical techniques and management.

**Danger of Rigidity:** - Profit planning and control is an estimation and quantitative expression of all revenues date. So there can be the tendency to attach some sort of rigidity or finally of them. PPC must be flexible and dynamic.

**Application for long period:** - the installation of a complete PPC is not possible in a short period. It should be continuously used in the business and should be revised and modified with the changed situation of the business.

Execution is not automatic: - A skillfully prepared PPC will not itself improved the management of an enterprise unless it is properly implemented for the success of PPC it is essential that it is understand by the entire related person inside the enterprise. It is very much required that each executive must fell the responsibility and should make efforts to attain the budget goals.

**Not a Substitute for management:** - PPC is not a substitute for the management. It is totally wrong to think that the introduction of PPC is alone sufficient to ensure success and to guarantee future profits. It is only achieving the end.

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 performances, standards also should be reexamined regularly.

**Costly Affairs:-** the installation of a PPC is an elaborate process involving to much time and costs.

**Lower Moral and Productivity:-** Unrealistic targets should not be set and used as a pressure tactic. By doing it PPC will lower moral and productivity. To some extent PPC may be used as pressure device but its extent must be carefully determined.

## **2.8 Components of PPC Program**

To fulfill the objectives of PPC, a PPC program should have all its components. Without the components of PPC, a PPC program can't succeed itself.

Welsch Hilton and Gordon have presented the following components of a PPC program.

### **A. The Substantive Plan**

Board objective of the enterprise

Specific enterprise strategies

Enterprise strategies

Executive management planning instructions (planning premises)

### **B. The Financial Plan**

1. Strategic Long-range profit plans.

Sales cost and profit projections

Major projects and capital addition

Cash flow and financial

Personnel requirements

2 Tactical Short-range (annual) profit plans

#### **A) Operating Plan**

##### **Planned income Statement**

Sales plan

Production (or merchandise purchase) plan

Administrative expenses budget

Distribution expenses budget

Appropriation type budgets

#### **B) Financial Position Plan**

##### **Planned Balance sheet**

a. Assets

b. Liabilities

c. Owners equity

### **C) Cash follow plan**

#### **C. Variables Expenses Budgets.**

Output Expenses Formulas

#### **D. Supplementary Data.**

Cost volume profit analysis, Ratio analyses,

#### **E. Performance Reports (Including any Special Reports)**

#### **F. Follow-up, Corrective Action and Planning Reports.**

## **2.9 Development of Profit Plan**

### **2.9.1 Sales Plan**

Sales plan is the starting point in the preparation of the comprehensive profit planning and control. All the other plans and budgets dependent upon the sales budget. The budget is usually presented both in units and dollars of the sales revenue or sales volume. The preparation of sales plan is based upon the sales forecast. A variety of methods are used to forecast the sales for the planning period.

Unless there is a realistic sales plan, particularly all other elements of profit plan will be out of kilter with reality. The sales plan is the foundation for periodic planning in the firm because particularly all other enterprise planning is built on it. The primary source of cash is sales, the capital additions needed, the amount of expenses to be planned, the manpower requirements, the production level, and other important operational aspects depend on the volume of sales. In harmony with the comprehensive profit plan, both strategic long-term and tactical short-term sales plans must be developed. Thus, one commonly observes a five-year strategic sales plan. Many management decisions commit a large amount of resources involving a life span of many years. Basic strategic and major moves often involve irreversible commitments of resources and long time span (Welsch, et, al;2001:139-140).

A sales plan incorporates management decisions that are based on the forecast, other inputs and managements judgment about such related items as sales volume, prices, sales efforts, production and financing.

The primary purpose of a sales plan is (I) to reduce uncertainty about future revenues. (ii) to incorporate management judgments and decision into the planning process (iii) to provide necessary information for developing other elements of a comprehensive profit plan (iv) to facilitate management's control of sales activities (Welsch, et, al; 2001:139-140).

### **2.9.2 Sales Planning and Forecasting**

It is important to make distinction between sales planning and forecasting because they are often confused. A forecast is not a plan; it is a statement and/or a quantified assessment of future conditions about a particular subject (e.g., sales revenue) based on one or more explicit assumptions. 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 the forecast. In sales volume, prices, sales efforts, production and financing.

A sales forecast is converted to sales plan when management has brought to bear managerial judgment, planned strategies, commitments of resources, and the managerial commitment to aggressive actions to attain the sale goals. In contrast, sales forecasting is a technical staff function (Welsch et, al; 2001:172).

It is important to make a distinction between the sales forecast and the sales plan primarily because the internal technical staff should not be expected- or permitted – to make the fundamental management decisions and judgments implicit in every sales plan. Moreover, the influence of management actions on sales potentials is difficult to quantify for sales forecasting. Therefore, the elements of management experience and judgment must mold the sales plan. Another reason for identifying sales forecasting as only one step in sales planning is that sales forecasts are conditional. They normally must be prepared prior to management decisions or plans in such areas as plant expansion, price changes, promotional programs, production scheduling, expansion or contraction of marketing activities, and other resource commitments. The initial forecasts- and there should usually be more than one to indicate probable sales under various alternative assumptions –are an important source of information in the development of managerial strategies and resources commitments (Welsch, et, al. 2001:173).

### 2.9.3. Strategic and Tactical Sales Plan

A comprehensive profit plan, strategic long term and tactical short sales plan must be developed, the usual case is a five or ten years strategic sales plan and one year tactical sales plan.

Strategic or long term sales plans usually involve in depth analyzes of future market potentials, which was built up from a basic foundation such as population changes, state of economy, industry projection and finally company objectives. Long term managerial strategies would affect such areas as long term pricing policy, development of new products and innovations of presents products, new directions in marketing efforts, expansion or change in distribution changes and patterns.

Tactical or short-term sales plan is prepared to plan sales for 12 months for first quarter. At the end of each month or quarter throughout the year, the sales plan is restudied and revised by adding a period in the future and by dropping the period just ended. Thus, tactical sales plan are usually subject to review and revision on a quarterly basis. The short term sales plan includes a detailed plan for each major product and for grouping of minor products. Short term sales plant must also be structured by marketing responsibility for planning and control purpose. Short term sales plans may involve the application of technical analysis; however, managerial judgment plays a major role in there determination. A short- range sales plan should include considerable detail, whereas a long -range plan should be in broad terms (Welsch et, al. 2001:173-175).

### 2.9.4 Components of Comprehensive Sales

The components of sales plan are as follows: (Welsch, et, al. 2001:176)

S.N.	Component	Strategic Plan	Tactical Plan
1.	Management policies and assumptions	Broad and general	Detailed and specific for the year
2.	Marketing Plan (sales and services revenues )	Annual amount, major groups	Detailed; by product and responsibility
3.	Advertising and promotion plan	General; by year	Detailed and specific for the year
4.	Distribution (selling) expense plan	Total fixed and total variable expenses; by year	Fixed and variable expenses; by month and by

			responsibility
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Source: Annual Report Gorkhapatra Sansthan

### 2.9.5 Developing a Comprehensive Sales Plan

To develop a comprehensive sales plan the following process should be followed.

(Welsch, et, al. 2001:176)

- Step1      Develop management guidelines for sales planning.
- Step2      Prepare sales forecast
- Step3      Assemble relevant data
  - Manufacturing capacity
  - Sources of raw material and supplies forces
  - Availability of key people of labor forces
  - Capital availability of alternatives distributions channels
- Step4      Develop strategic and tactical sales plans
- Step5      Considerations of Alternatives
- Step6      Developing pricing policies
- Step7      Developing product line consideration
- Step8      Price cost volume consideration

### 2.9.6 Methods of Projecting Sales

The following methods are applied for the projecting sales. (Welsch, et, al. 2001:240)

#### 1. *None mathematical (personal judgment) method*

- Sales forces composite
- Sales department (supervisor) composite
- Chief executive Decision method

#### 2. *Statistical methods*

- Economic rhythm method
- Correlation method
- Historical analogical method

#### 3. *Specific purpose methods*

- Industrial analysis methods

- Product line analysis method
- End use analysis method

#### ***4. Combination of method***

### **2.10 Production Plan**

Production plan is the second step of budgeting. Production budgeting concern with determining the quantity of the product to be produced each units of time. Production budget is prepared to coordinate the sales budget and inventory policy of organization. When preparing production plan, the manager must have an optimum coordination between sales, inventory and production levels. An efficient and coordinated production plan is necessary for economical manufacturing.

“The production budget specifies the planned quantity of goals to be manufactured during the budget period. In developing production budget, the first step is a stability policy relative to inventory levels. The next step is the determination of the total quantity of each production that is to be manufactured during the budget period. The third step is to schedule this production budget is the initial step in budgeting manufacturing operation. To plan production effective, the manufacturing executive most have or overlap information relative to the manufacturing operations necessary for each product. They must have at hand information relative to the use and capacities of each manufacturing departments. The company costs amount should provide certain historical data essential in planning production, quantities and costs. The direct of profit planning and control should provide staff assistance when needed. When the recommended production is completed by the production department it should be submitted to the executive. Committee for appraisal and then to the president for tentative approval prior to its use as a basic for developing the materials, labor and factory overhead budgets.” (Welsch et, al. 2001: 212-213)

Production budget includes the production, finished goods inventory work in process inventory and factory overhead. We can understand the production planning mathematically as where.

Production =planned sales+ ending inventory- initial inventory

When the production plan has been completed by the production manager. It should be given to the executive committee for evaluation and then to the president for tentative approval prior to its use as a basic for developing the direct materials, direct labor and factory overhead budgets.

### **2.10.1 Responsibility for Production Planning**

The completed marketing plan should be given to the manufacturing executive who is responsible for translating it into a balanced production program consistent with managerial policies and subject to certain constraints. Planning scheduling and dispatching of the actual production through the year are the functions of the production departments therefore; it is essential that these functions be performed by the production managers. The managers have first hand knowledge of the plant of personnel capabilities availability of material and production process. Although responsibility rests directly upon the production managers, top management policies must be considered in such matters as inventory level stability of production and capital additions (plan capacity).

### **2.10.2 General Consideration in Planning Production and Inventory Levels**

To develop the production, manufacturing executives must resolve the problem of coordinating sales, inventories and production so that the lowest possible overall costs result. The importance of coordinating of production planning cannot be overemphasized because it affects so many decisions required to develop the production plan include the following (Welsch et, al. 2001:213-214).

- Total production requirements (by product) for the budget period.
- Adequacy of manufacturing facilities (expansion or contraction of plan capacity).
- Economic lots or runs.
- Inventory policies about levels of finished goods.
- Availability of direct materials, purchased components, and labor.
- Length of the processing time.
- Plan capacity policies, such as the limits of permissible departures from a stable production level throughout the year.

- Timing of production throughout the budget period, and by product and responsibility centers.

### 2.10.3 Long Range Vs Short Range Production Planning

Planned levels of production are important long-range and short-range issues. To develop a long-range plan (say, five years in future), broad estimates of production levels are necessary to plan plant capacity requirements (involving capital additions), factory cost structures, personnel requirements, only major increases or decreases in inventories need to be taken into account.

Developing a tactical short-range profit plans requires a different approach because of the need for greater precision and detail. The short-range production plan should be in harmony with the time dimensions used in the short-range profit plan. Thus, the common pattern should be an annual production plan detailed by products and by months or quarters. Also, the production activities should be planned by responsibility centers within the manufacturing division (Welsch et, al. 2001:214).

### 2.10.4 Developing the Production Plan

Production managers must translate the quantities in the sales budget in to unit production requirements for the budget period for each product while considering management inventory policies. The production plan is developed prior to the end of the current year; in the beginning inventory for the budget period must be estimated after trimmings the budget production. It should be produced by interim time period. Interim production must be planned to (i) provide sufficient goods to meet interim sales requirements (ii) keeping interim inventory level within policies constraints and (iii) manufacture the goods as economically as possible. An efficient requirements, essential inventories levels and stable production level.

The following formula is generally used to calculate the planned production.

Planned production

Requirements for sales (units)	xxxxx
Add: desired final inventory of finished goods	xxxxx
	<hr/>
Total required production	xxxxx
Less: initial inventory of finished goods	xxxxx
	<hr/>
Planned production for the year	xxxxx

### **2.10.5 Setting Inventory Policies**

In most business inventories represent a relatively high investment and may have a significant impact on the major functions of the enterprises and its profit. Each of the related functions causes different, and frequently inconsistent, inventory demands. Inventory policies should include (i) establishment of inventory standards such as maximum and minimum levels of turnovers and (ii) the applications of techniques and methods that will assure conformity to select inventory standards. Budgeting requires that inventory levels from month to month. In determining inventory policies for finished goods, management should take care of these important factors (Welsch et, al; 2001: 220-221).

1. Quantities (in units) needed to meet sales requirements.
2. Cost of holding inventory.
3. Storage facilities
4. Adequacy of capital to finance inventory production some time in advance of sales.
5. Length of production period.
6. Distribution time requirements.
7. Protection against raw material storage.
8. Perish ability of items.
9. Protection against price increases.
10. Risk involved in inventory.
  - Price declined
  - Lack of demand
  - Casualty loss and theft.
  - Obsolescence of stock
  - Customer returns policies

**There are mainly three types of production policies as under:**

#### **i. Stable production Vs unstable inventory policy**

In every specified period, fixed production units are to be produced equally while ending inventory of finished goods is to be unstable in this policy; therefore, budgeted sales of the period are unequal.

## **ii. Unstable Production Vs Stable inventory Policy'**

The production units are to be fluctuated or unstable in each period and units of final inventory are to be stable at the end of each period. The number of units produced and budgeted sales are directly related.

## **iii. Flexible in both Production and inventory policy**

The flexible units are produced as well as flexible units of final inventory are maintained in this approach for specific budget period. Something this policy may be beneficial and something it may be harmful for the production budget but it reduces. Some disadvantage of both first and second policies to some extent.

These policies of production depend upon the nature of sales and inventory policies. For example, assuming the seasonal sales, it is possible to maintain a stable production level possible to maintain a stable production level only if inventories are allowed to fluctuate inventory with sales. On the other hand, a stable inventory level is possible only if production is allowed to fluctuate directly with sales from the point of view of economic operations; it is generally desirable to keep both inventories productions stable, a situation that is impossible given seasonal sales.

In many companies where sales of the primary product are seasonal, production levels are stabilized by developing new products that can be started or that have inverse seasonal patterns. Stabilization of production is desirable for a number of compelling reasons and generally results in significant reduction of cost and improvements in operations.

One potential hazard of significant ups and down in productions is the effect on personal. Periodic layoff and subsequent effort to hire employees tends to lower moral and may discourage competent employees. Such a policy is counter to an important objective to management, which is to provide reasonable job security.

## **2.11 Materials and Purchase Plan**

### **2.11.1 Materials Plan**

This material budget deals with the requirement and procurement of direct materials, indirect materials are dealt with under the works overhead budget. The budget should

be related to the production budget and the period of the budget should be of short duration because this budget has an important bearing on the cash.

While preparing the material plan there must be serious consideration to coordinate between (1) production requirements for raw materials (2) raw materials inventory levels, and (3) purchase of raw materials.

To assure that right amounts of raw materials will be on hand at the time required and to plan for the costs of such materials, it is essential that the tactical short-term profit plan include (1) a detailed budget specifying quantity and cost of materials required and (2) a related budget of raw materials purchase. Thus, planning raw materials usually requires the following four sub-budgets.

**1. *Materials Budget***:- This specifies the planned quantities of each raw material, by time, by product, and by using responsibility center.

**2. *Purchase budget***:- Purchase budget specifies the quantities of each raw material needed, therefore, a plan for materials purchases must be developed. The purchases budget specifies the estimated quantities to be purchased, and the required delivery dates.

**3. *Materials Inventory Budget***:- This budget reports the planned levels of raw materials inventory in terms of quantities and costs. The difference in units between materials requirements as specified in materials budget and the purchase budget is reflected as increases or decrease in the inventory budget.

**4. *Cost of Materials Used Budget***:- This budget is an estimate of cost of output planned for a budget period and may be classified into material cost budget labor budget and overhead budget, cost of production includes materials, labor and overhead.

Materials budget should be designed in such a way that the related activities and cost will be budgeted in terms of responsibility center interim time periods and by type of finished goods.

### 2.11.2 Materials and Parts Inventory Policies

Welsch Hilton and Gordon have mentioned the primary consideration for materials and parts inventory policies, are as follows:

1. Timing and quantities of manufacturing needs
2. Economic in purchasing through quantity discounts
3. Lead-time
4. Availability of materials and parts
5. Capital requirements to finance inventory
6. Perishability of materials and parts
7. Cost of storage
8. Storage facilities needed
9. Expected Changes in the cost of materials and parts
10. Risk involved in inventories
11. Protection against shortages
12. Opportunity costs

### 2.11.3 Purchasing Policy

Management policy with respect to purchase and inventory is specified. The basic timing factors are (I) how much to purchase at a time (II) when to purchase. A well-known approach to computing the economic order quantity (EOQ) uses the following formula.

Formula of EOQ

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

Where,

EOQ = Economic order Quantity

A = Total requirement (Annual quantity used in units)

O = Average annual cost of placing an order

C = Annual carrying cost of carrying one unit in inventory for one year

Next question or the time when a purchase is determined by re-order point (ROP)

$$ROP = \text{Average usage} \times \text{Average lead time} + \text{Safety Stock}$$

## **2.12 Planning and Controlling Direct Labor Costs**

Direct labor is defined as those labor costs directly identifiable with the production of specific units of finished goods. The direct labor budget includes the planned direct labor, requirements necessary to produce the types and quantities necessary to produce the types and quantities of outputs planned in the production budget. The primary reason for using a separate direct labor budget are to provide planning data about; the amount of direct labor required number of direct labor employees needed, labor cost of each product unit, cash flow requirements and a basis for control of direct labor budget should be developed b responsibility centers interim periods, and products.

Planning labor cost involves major and complex problem areas: (i) Personal needs (ii) recruitment (iii) training (iv) job description and evaluation (v) performance measurement (v) union negotiations and (vii) wage and salary administration. A comprehensive profit-planning program should incorporate appropriate approaches applicable to each problem, area. A profit planning program cannot solve special personal problem, but it direct careful special personal problem, but it direct careful consideration to them and aids in planning them in perspective. Effective planning in long term and short term labor cost will benefit both the company and its complies (Welsch, et, al. 280).

Labour generally is classified as direct or indirect. Direct labor costs include the wages paid to employees who work directly on specific productive output. As with direct materials costs, labor costs that can be directly traced to specific production are defined as direct. In direct labor involves all other labor costs, such as supervisory salaries and wages paid to toolmakers, repair personnel, storekeepers, and custodians. Direct material and direct labor costs are frequently referred to collectively as the prime costs of product (Welsch et, al. 2001:280).

### **2.12.1 Approaches in Planning Direct Labor Costs**

The approach used to develop the direct labor budget depend primary on the (i) method of wage payment (ii) type production process involved (iii) availability of standard labor times and (iv) adequacy of the cost accounting records relating to direct labor cost.

Basically, there are three approaches of the direct labor budget (Welsch et, al. 2001:281).

1. Estimate the standard direct labor hours required for each units of each product; then estimate the average wage rates by department, cost center, or operation. Multiply the standard time per unit of product by the average hourly wage rate, giving the direct labor cost per unit of out-put for the department cost center or operation by the units direct labor cost rate obtain the total direct labor cost by product.
2. Estimate ratios of direct labor cost to some measures of out-put that can be planned realistically.
3. Develop personnel tables by enumerating personnel requirements (including costs) for direct labor in each responsibility center.

### **2.12.2 Objectives of Direct Labor Plan**

- To assess labor requirement.
- To prepare manpower planning.
- To estimate cash requirement.
- To give information for cash budget.
- To estimate per unit labor cost.
- To control the labor budget.

### **2.12.3 Planning Direct Labor Hours and Wage**

Internal factors may indicate the most practical approach to use for planning direct labor hours. An important function of industrial engineering is to develop standard labor time for various operations and products. In some producing departments, reliable labor time standard can be developed. In some cases, it is impractical to estimate direct labor time except in term of average based on experiences. Four approaches commonly used in planning labor times are the following:

1. Time and motion studies.
2. Standard costs.
3. Direct estimate by supervisor.
4. Statistical estimate by staff group.

Therefore;

The planned direct labor hours= planned production × standard rate

If it is possible to relate planned production to direct labor hours and to plan wage rates realistically for each productive department, computation of planned direct labor cost involves multiplying planned labor hours by planned wage rates (Welsch, et, al; 2001: 282-285).

It is also important for service and retail companies to budget labor costs. Labor accounts for a large portion of expenditures in banks, Restaurants, Hotels, Hospitals, and transportation companies. The classification direct labor is not generally used by such companies, labor cost are usually referred to as operating expenses (Welsch et, al; 2001: 289).

## **2.13 Expenses (Overhead) Budget or Plan**

In developing a profit plan, expenses must be planned carefully. Planning expenses should flow on (1) Projecting cash out flow, and (2) effective cost control:

Managers should view expenses planning and control as necessary to maintain reasonable expenses levels to support the objectives and planned program of the enterprises, but rather on utilization of limited resources. Viewed in this light, expenses planning and control should focus on the relationship between expenditures and 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.

### **2.13.1 Cost Behavior**

**1. Fixed expenses:** Those expenses that is constant in total from month to month regardless of fluctuation in output or volume of work done. Because of any expense can change, this concept most applied (a) to a realistic or relevant range of output and (b) in relation to given set of condition (management policies, time constraints, and characteristics of the operation). Examples of fixed expenses are series, property taxes, insurance and depreciation (strength-line)

**2. Variable expenses:** those expenses that change in total, directly with changes in output or volume of work done. The output must be measured in terms of some activity

base, such as units completed, direct labor hours, sales dollars, or number of service calls, denuding on the activity in the responsibility center. Examples of variable expense (cost) in a factory are direct materials, direct labor, and power usage.

**3. *Semi variable expenses:*** Those expenses that are nether fixed nor variable because they possess some characteristics of both. An output changes, semi variable expenses change in the some direction but not in proportion to the change in output (Lynch, 1999).

### **2.13.2 Manufacturing Overhead Budget**

This budget gives an estimate of the works overhead expense to be incurred in a budget period to achieve the production target. The budget includes the cost of indirect materials, indirect labor and indirect work expenses. The budget may be classified into fixed cost and variable cost and semi variable cost. It can be broken into departmental overhead budget to facilitate control. In preparing the budget, fixed workers can be estimated on the basis of past information after taking into consideration the expected changes which may occur during the budget period. Variable expenses are estimated on the basis of the budgeted output because these expenses are bound to change with the change in output.

### **2.13.3 Selling and Distribution Expenses Budget**

“Mainly there are two types of selling expenses (1) sales office expenses which cover the cost of salesman and their administrative support (2) Sales direction and promotion expenses. Which cover the cost of direction the sales effort and promotion change such as adverting?”

Distribution expenses include all costs relate to selling, distribution and delivery of product to customers. In many companies, this cost is a signification percentage of total expenses. Careful planning of expenses affects the profit potential of the firm.

**Primary aspects of planning distribution expenses are as follows:**

- Planning and coordinate
- Control of distribution expenses.

### **2.13.4 Planning Administrative Expenses**

This budget cover the expenses incurred in farming policies, directing the organization and controlling the business operations in other words the budget provide an estimate of the expenses of the central office and of management salaries. The budget can be prepare with the help if past experience and anticipated changes. Budget may be prepared for each administration department. So that responsibility for increasing such expenses may be fixed and related to the different executives.

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 function of the enterprise rather than in the performance of nay one function. Because a large portion of administrative expenses is fixed rather than variable, the notion persists that they cannot be controlled. Aside from certain top management salaries, most administrative are determined by management decision. It is common to find administrative expenses “top heavy” when measured by the volume of business done. General administrative expenses are close to top management; therefore, there is strong tendency to overlook their magnitude and effect on profits. Each administrative expense should be directly identified with a responsibility center, and the center manager should be responsible for planning and controlling the expense. This fundamental of expense control is especially important for administrative cost because there is often a failure to pinpoint responsibility for expense of a general nature (Lynch, 1999).

### **2.14 Planning and Capital Expenditure**

Capital expenditures are invested, because they require the commitment of resources today to receive higher economic benefits in the future. Capital expenditures become expenses in the future as their related goods and services are being used to earn higher future profits from future revenues or to achieve future cost saving (Ronald, et, al. 2001:394-396).

#### **2.14.1 Capital Budgeting**

Investment decision regarding long term assets for increasing the revenue of the organization is known as capital budgeting. It is the process of determining which capital investments will be undertaken. There are three stages of capital budgeting;

proposed long term investments, it is the decision making process that determines the type of plant and equipment a firm will own, how much will be invested in such assets, and when the expenditure will be made. Capital investment decisions are among the most, if not the most, important decisions that financial managers must take.

Capital budgeting is the making of long term planning decision for investment and their financial capital budgeting them consists in planning the developing of available capital for the purpose of maximizing the long – term profitability of the firm (Horngreen; 1977:452).

Capital expenditure becomes expenses in the future as their related goods and service are being used to earn higher future profits from future revenues or to achieve future cost savings. Therefore, capital expenditures involve two planning and controlling phases: (a) Investment and (b) expenses (Welsch, et, al; 2001:394-395).

Capital expenditure budget is the firm's formal plan for the expenditure if money to purchase fixed assets. It is as internal corporate document that lists the allocate investment projects for a given fiscal period (Gray; 1997: 119).

Capital budgeting involves the generation of investment proposals, the evaluation of cash flows, the selection of projects based upon acceptance criterion and finally continual revaluation of investment projects after their acceptance (Vanhorne; 1990:66).

The vary nature of capital investments make them important. Capital investments involve relatively large dollar amounts. They represent commitments that extend over long periods of time, and once a capital investment has been made, it is hard to undo without making a major sacrifice (Henderson, et, al; 1984:118-119).

### **2.14.2 The Capital Expenditure Budget Process**

Capital expenditures involve the long-term commitment of large amounts of resources, decisions; concerning them have a significant, long-term effect on the economic health of a company phase.

A Process for Planning and Controlling Capital Expenditures,  
(Welsch et, al. 2001:394-395)

- a) Identify and generate capital additions projects and other needs.
- b) Develop and refine capital additions proposal-collection of relevant data about each proposal, including any related alternatives
- c) Analyze and evaluate all capital additions, proposals, and alternatives. Emphasis should be given to the validity of the underlying financial and operational data.
- d) Make capital expenditure decisions to accept the best alternatives and the assignment of project designation to selected alternatives.
- e) Develop the capital expenditures budget:
- f) Strategic plan- Re plan and extend the long- term plan by dropping the past year and adding one year into the future.
- g) Tactical plan- Develop a detail annual Capital expenditures budget, by responsibility center and by time that is consistent with a comprehensive profit plan.
- h) Establish control of capital expenditures during the budget year by using periodic and special performance reports by responsibilities centers.
- i) Conduct post completion audits and follow-up evaluations of the actual result from capital expenditures in periods after completion.

### **2.14.3 Evaluation of Investment Decision**

Capital expenditure decision means the selection of one alternative from the completing capital expenditures alternatives or projects by the management. While doing such decision focus should be given mainly on tow over riding problems; first investment decision selecting the best alternatives based on their economic worth to the company, and second financing decisions- determining the amount and source of fund needed to play for the selected alternative. These cash constraints may necessarily limit the projects and proposals that can be initiated. There are numbers methods available for making such decisions usually following methods are used for evaluating investment proposals.

## A. Non- Discounted Cash Flow Method

Pay back period (PBP)

The pay back period is the number of required to recover the initial investment.

$$\text{Pay Back Period} = \frac{\text{Initial Investment}}{\text{Annual Cash Flow Taxes}}$$

Average Rate of Return (ARR)

This accounting measure represents the ratio of the average annual profit after taxes to the investment in project;

$$\text{Average Rate of Return} = \frac{\text{Average earning After Taxes}}{\text{Initial Investment}}$$

## Discounted Cash Flow Method

1. Net present value (NPV)

Net present value is the present value of future returns discounted at the firm's cost of capital, minus the cost investment.

$$\text{NPV} = \sum \frac{A^t}{(1 + K)^t} - C$$

Where,

K = Cost of Capital

T = No. of years

C = Initial Cash outlays

A = Expected Cash inflows

2. Profitability Index (PI)

PI is the benefit cost ratio of a project, which is determined by dividing the present value of future net cash inflows by the initial cash outflows by the initial cash outlays.

$$\text{PI} = \frac{(1+K)^T}{A_0}$$

Where,

K = Cost of Capital

T = No. of years

A = Expected Cash inflow

A<sub>0</sub> = Initial Investment at time Zero

### 3. Internal Rate of Return (IRR)

Recall that the internal rate of return for an investment proposals the discount rate that equals the present value of the expected cash outflows with the present value of the expected inflows:-

$$A_0 = \frac{A_1}{(1+R)} + \frac{A_2}{(1+R)^2} + \dots + \frac{A_n}{(1+r)^n}$$

Where,

R = Internal rate of return

A<sub>0</sub> = Initial Investment at time Zero

A<sub>1</sub>, A<sub>2</sub>, A<sub>n</sub> = Cash inflow at future

<u>Decision Criteria</u>		
<u>Methods</u>	<u>Criteria</u>	<u>Results</u>
ARR	Higher the ARR	Accepted
PBP	Lower the PBP	Accepted
IRR	Higher the IRR or (IRR>K)	Accepted
PI	PI> 1	Accepted

## 2.15 Analysis of Budget Variances

Variance in general is the difference between two contemplated assumptions. It shows the gap or deviation between budgeted or planned goals and actual results. Performance report just indicates these variances and the meaningful analysis of them is possible through the techniques of variance analysis. As such, variance as to whether it is favourable or unfavourable.

The variance indicated through performance reports has some managerial meaning. If the variance is significant, a painstaking managerial attention is required to locate the underlying causes. Management can apply a number of approaches or techniques to analyze variance and to find out underlying causes. Some of the primary approaches are as follows:-

1. Conference with managers of responsibility centers, supervisors and other employees involved in the particular responsibility centers.
2. Analysis of the work situation including the flow of work, coordination of activities, effectiveness of supervision and other prevailing circumstances.

3. Direct observation.
4. Direct investigation by line managers.
5. Internal audits.
6. Special studies.
7. Investigation by staff groups.
8. Variance analysis.

Variance analysis is involved a mathematical analysis of two sets of data in order to gain insight into the underlying causes of a variance. One amount is treated as the base, standard or reference point. Variance analysis has wide application in financial reporting. It is frequently applied in the following situations:-

1. Investigation of variance between actual results of the current period and the actual results of a prior period.
2. Investigation of variance between actual results and standard costs.
3. Investigation of variance between actual results and planned or budget goals reflected in the profit plans.

We can analyze the variance in the following areas:

- a. sales variance
- b. material variance
- c. direct labor variance
- d. manufacturing overhead variance

*Generally, the following steps involved in analyzing variance which are as:-*

- i. setting standard
- ii. measurement of performance
- iii. analyzing variances
- iv. taking correcting action

There two kinds of variance i.e. favourable and unfavourable variance. We should analyze the variances on each of the functional budget variance and so on. Management of any enterprise should set a control limit of variances and those variances beyond the limits should be investigated property. Variance analysis is an important tool which

increases the usefulness of periodic performance reports. It helps management to take corrective action.

## **2.16 Role of Ratio Analysis in Profit Planning**

A ratio analysis is the process of determining interpreting numerical relationship based on financial statement. Ratio analysis is the powerful tool of company's strength and weakness analysis. Ratio analysis of business enterprise centers on effects to drive quantitative measures or guides concerning the expected capacity of the firm to meet its future financial obligations or expectations. Present and past data are used for the purpose in whatever extrapolations necessities they are made to provide an indication of future performance.

"A comparison of ratios of the some firm overtime is important in evaluating changes in trends in the firm's financial condition profitability"(Van Horne; 1990:670).

The relationship between two accounting figures is known as simply ratio. It is expressed in mathematical terms. The relationship can be expressed as percent or as a quotient. A ratio is not more difficult to calculate and understand.

### **2.16.1 Types of Ratio**

Several ratios can be calculated from the accounting data contained in the financial statement. In general following ratios are on practices:-

1. Liquidity ratios
2. Leverage ratios
3. Profitability ratios
4. Activity ratios

### **2.16.2 Relation with Profit Planning**

The ratio analysis can be of invaluable aid to management in the discharge of its basic function of forecasting, planning, coordination, communications and control. By an analytical study of the past performance of the business, it helps in predicating and projecting the future. In assists in communication by conveying information, .which is pertinent and purposeful to those for whom it is meant. In promotes coordination by a study of the effective control of business operation by undertaking and appraised for

both the physical and monetary targets. Hence, ratio analysis becomes an integral part of target. Hence, ratio analysis becomes an integral part of profit planning system (Grace; 1964: 496).

## **2.17 CVP Analysis**

### **2.17.1 Concept of CVP Analysis**

Cost- Volume-Profit analysis is the process of examining the relationships among revenues, costs and profit for a relevant range of activity and for a particular time frame. It is one of the most important powerful tools that managers have at their command in short-term planning. It is an analytical tool for studying the relationship between volume, cost, price and profit. CVP analysis can be used for the analysis of break- even volume- break even analysis contribution margin analysis- for profit planning. This assumption of constant underlying conditions and the short-run relationship have been criticized by the many authors of financial management and accounting. Cost- volume and profit analysis is a power full tool in the hands of manager for profit planning. The contribution margin analysis provides the best possible answer to the management's many questions. Most management requires a careful analysis of cost behavior in relationship to output volume and which is possible only through CVP analysis. Besides, CVP analysis deals with how profit and cost change with change in volume.

CVP summarize the effect of changes in an organization's volume of activity on its costs, revenue and profit. The managers of profit seeking organization usually study the relationship of revenue (sales), expenses (costs) and net income (net profit). This study is commonly called cost-volume-profit analysis.

### **2.17.2 Role and Need of CVP Analysis in Profit Planning**

Mostly, planning depends on past and present happening. So, Profit Planning also depends on the past performance and existing present situation usually, profit do not happen, profit are managed and planned. Profit planning for future is possible if the selling price, unit variable cost, fixed cost and sales volume of the required period can be estimated. For such estimation, CVP analysis is greatly helpful in management decision- making especially in costs control and Profit Planning. So, CVP analysis provides a lot of information and alternatives to have the strategies and utilization of

resources. Because CVP analysis answer the following and it is very important in Profit Planning.

- a. What is the required sales volume to cover the additional fixed charges from the proposed new project?
- b. What profit will result if X % increase 'n' the sales volume?
- c. What will be the effect in income be the firm achieves a reduction in variable cost (say material and labor)?
- d. What are the additional sales volumes required to make good on X % reduction in selling prices so as to maintain the current profit level?
- e. What will be the operating profit or loss at X sales volume?
- f. What will be the effect on operating of the firm if sales mixed are changed?
- g. What sales volume is necessary to produce an X amount of operating profit?
- h. What will the effect on profit be if the company's fixed cost and increased or decreased?
- i. What sales volume will be needed to achieve the budgeted profit?
- j. What will be the effect on income if there is an increase in FC by an X amount due to new plant but will decrease the labor costs by 'Y' volume per unit?

## **2.18 Planning and Controlling Cash Flows**

### **2.18.1 The focus of Cash Planning**

A cash budget shows the planned cash in flows, outflows, and ending position by interim periods for a specific time span. Most companies should develop both long-term plan about their cash how the short-term cash budget is included in the annual profit plan. A cash budget basically includes two parts: (1) the planned cash receipts (inflows) (2) the planned cash disbursements (outflows). Planning cash inflows and outflows gives the planned beginning and ending cash position for the budget period. Planning the cash inflows and outflows will indicate (1) the need for financing probable cash deficits or (2) the need for investment planning to put excess cash to profitable use.

### **2.18.2 Primary Purpose of Cash Budget**

Welsch, Hilton and Gordon have mentioned for the primary purposes of the cash budget as follows:

Establish the need of financing and/or the availability of idle cash for investment.

Establish a sound basic for continuous monitoring of the cash position.

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

Coordinate cash with (a) total working capital, (b) sales revenue, (c) expense (d) investments and (e) liabilities.

Identify cash expenses or shortages by time periods.

**Chart - II**  
Anticipated Cash position Format  
For the Year.....Ending  
***Cash Receipt and Disbursements.***

<b>Items</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>
<u>Cash Receipts</u>			
Accounting receivables			
Loans			
Investments interest			
New capital issues			
Notes receivables			
Royalties and commissions			
Disposal of assets			
Cash			
Other sources			
<b>Total Receipts</b>			
<u>Cash disbursements</u>			
Account payable			
Wastage			
Cash purchase			
Salaries and commission			
Advertising			
Royalties			
Rent. Rates and Taxes			
Dividends and interest			
Loan Redemption			
New Assets			
Other expenses			
<b>Total Disbursements</b>			
Surplus/Deficit			
Add: Cash balance at beginning			
<b>Total Disbursement</b>			
Desired closing balance			
<b>Additional Finance Required to maintain cash balance</b>			
<b>Surplus Funds available for investment</b>			

## 2.19 Performance Evaluation

Performance reporting for internal management use is an important part of a comprehensive profit planning and control system. The performance reporting phase of a comprehensive PPC program significantly influences the extent to which the organization's planned goals and objectives are attained.

To indicate the extensive reporting requirements a business needs and to focus on performance reporting, the following overview of financial reports is presented and briefly explained (Welsch, et, al; 2001:542).

1. Report to owners- this is the traditional annual report to the owners and other special reports prepared to the owners. These reports, by and large, are based on "generally accepted accounting principles" and generally report data that have been subject to an audit by an independent CPA.
2. Special external reports- these are reports to government agencies, regulatory commissions, creditors, investigative agencies and other group external to the active management. Frequently, these reports are extensive and constitute a significant management attention.
3. Internal reports- these confidential reports are prepared within the company for internal use only. They do not have to meet the needs of external groups, nor the taste of "generally accepted accounting principles" but rather the taste of internal management needs. Internal report is sub divided into the different sub classifications.

Statistical reports

Special reports

Performance reports

All companies, regardless of their size, have reporting requirements for all the categories listed above. As the size of complexity of the company increases, is the greater need for regimentation of the reporting as suggested above?

***Essential features of performance report/ (performance report should be):-***

1. Repetitive and related to short time periods.
2. Accurate and designed to pinpoint significant distinctions.
3. Tailored to organizational structure and locus of controllability.
4. Constructive in tone.
5. Designed to implement the management – by exception principle.
6. Simple, understandable, and report only essential information
7. Prepared and presented promptly.
8. Adapted to the requirements of the primary users.

The extent to which the various managers utilize the performance reports depends upon main factors some behaviors and come technical one important is the extent to which the performance reports serve the evaluation and decision-making needs of the user. Communication is a stable problem, and it is enhanced by performance reports, if the different needs and experience of the users are taken into account. A foreman response is different from a vice president.

**Top-management** personal need reports that give a complete and readily comprehensible summary of the overall aspects of operations and an identification of major events. The summaries must be supported in sufficient detail to facilitate tracing significant deviations to their source.

**Middle-management** is usually defined as those members of management in charge of the major subdivisions of the business, such as sales, production, and finance. Middle management is responsible for carrying out the responsibilities assigned to the subdivisions within the broad policies and objectives established by top management. Middle management is close to and more concerned with operations than top management, although it also has important planning functions. Performance reports for middle management, although including summary data, are also characterized by detailed data on day-to-day operations.

**Lower-level management** is principally concerned with coordination and control of day-to-day operation. Therefore, control reports should principally be concerned with production and cost control. Reports to supervisions should be detailed, simple,

understandable, and limited to items that are directly related to the supervisor's operational responsibilities (Welsch, et, al; 2001:548).

## **2.20 Completion and Application of the Profit Plan**

The planning process coordinates a long-rang profit and a short-rang profit plan. The development of an annual profit plan ends with the planned income statement of cash flows. These three statements summarize and integrate the detailed plans developed by management for the planning period. They also report the primary impacts of the detailed plans on the financial characteristics of the company.

### **2.20.1 Essential sub-budgets**

1. Planned statement of cost of goods sold.
2. planned balance sheet
3. planned income statements
4. Planned statement of cost of goods manufactured
5. Planned income statement of cash flows.

In profit planning, the budget director has an important responsibility. Aside form designing and improving the overall system, the budget director has been described as an advisor to the various managers to help develop plans for each responsibility center, which are sub budgets, which are given above.

## **2.21 Budgeting**

Greater budgetary transparency enables better oversight, better access to credit, better policy choices and greater legitimacy. Without access to information, legislators, auditors, civil society groups, media and people cannot effectively participate in decision making nor can they hold the executive to account for the use of public resources and funds.

Transparency and public participation enhance the credibility of policy choices and the effectiveness of policy interventions. Lack of transparency can lead to the selection of unpopular and inappropriate programmed and to corrupt and wasteful spending.

Budget transparency can benefit countries financially, since more transparent budgets tend to have better access to international financial markets and lower borrowing costs.

Nepal has been ranked 45th position among 94 countries in an Open Budget Index (OBI) released by International Budget Partnership (IBP) in 2010. The survey measures whether governments produce and disseminate to the public 8 key budget documents required by international good practices, and it examines effective budget oversight and public participation in national budget decision making.

Nepal's ranking is slightly higher than the average score of 42 but lower than several other South Asian countries. Nepal's score indicates that the government provides its people only a little bit of information about the budget and its financial affairs. With this score, Nepal falls in C category. Nepal obtained nil in three indicators - pre-budget statement, enacted budget and citizen's budget - out of the eight indicators.

Beyond improving availability and comprehensiveness of key budget documents, there are other ways in which Nepal's budget process can be made more open, states the IBP report. "These include ensuring the existence of a strong legislature and supreme audit institutions that provide effective budget oversight, and providing greater opportunities for public engagement in the budget process."

The survey has recommended that Nepal needs to publicize the Enacted Budget, produce and publish a Citizens Budget and Pre-Budget Statement, improve the comprehensiveness of the Executive's Budget Proposal, provide opportunities for the public to testify at legislative hearings on the budget, empower Social Accountability Institutions to make public the comprehensive audit reports, including reports on extra and budgetary funds.

### **Good performers**

There has been nearly 20 per cent improvement in the average performance of the 40 countries that have been measured over three consecutive Open Budget Surveys, which is a positive sign. Some of the most dramatic improvements came from previously low-scoring countries, such as Mongolia and Uganda, which still do not meet best practices but have improved over time.

The report finds that that only 7 of the 94 countries surveyed released extensive budget information. Those top-tier countries are: South Africa, New Zealand, United Kingdom, France, Norway, Sweden and the United States.

Notable exceptions to these correlations include South Africa, which was the top performer of any country; India, Sri Lanka and Ukraine, which are relatively low-income countries but perform relatively well; Colombia, Mexico and Indonesia, which had OBI 2010 scores that were two times as high as other countries that rely on oil and gas revenue.

While neither country is up to par, newly democratic Afghanistan scored 21 points higher than newly democratic Iraq. China is becoming a major donor of foreign aid, but itself is among the least transparent countries in the world, scoring just 13 out of 100. Saudi Arabia and Malaysia both are relatively high-income countries, but Saudi Arabia scores just 1, while Malaysia scores 39.

Seventy-four out of 94 countries assessed in the survey failed to meet basic standards of transparency and accountability when it comes to their national budgets. Of the 94 countries, 40 countries released no meaningful budget information. The worst performers include China, Saudi Arabia, Equatorial Guinea, Senegal and newly democratic Iraq, which provide little to no information to their citizens about how the government is spending the public's money.

Data reveal a strong correlation between lack of transparency and accountability, and countries that rely heavily on oil and gas revenue, receive significant amounts of foreign aid, and have authoritarian governments. The 24 countries assessed that are dependent on oil and gas revenue had an average OBI 2010 score of just 26 out of 100.

The 32 aid-dependent countries surveyed had an average OBI 2010 score of 30 out of 100, which is 14 points worse than countries not dependent on foreign aid. The 21 countries classified as "authoritarian" regimes by the Democracy Index received an average OBI 2010 score of 17 out of 100, while the 14 "full democracies" scored an average of 72.

There are also some geographic correlations: The U.S. and Western Europe tend to be more transparent, while the Middle East and Africa tend to be less transparent, with other regions of the world falling in the middle.

### **Enhancing transparency**

To see improvements in transparency, public engagement and oversight in the short term, International Budget Partnership recommends that governments should make public all the documents they produce, which would require virtually no additional effort or cost by the governments involved but would dramatically improve the openness of budgets in large parts of the world. The legislature should begin conducting public hearings on the budget, and auditors should establish mechanisms for getting public input on problems with specific programmes and what should be audited.

In the longer term, the IBP report recommends a movement toward a global norm on budget transparency and participation that codifies broadly accepted principles and guidelines. Such a norm would provide civil society organisations, the media and legislature a powerful tool to leverage improvements within countries.

The countries that currently provide no or scant budget information should publish their Executive's Budget Proposal, Enacted Budget and Audit Reports, and the legislature in these countries should begin to organise public budget hearings prior to approval of the budget.

Countries should strengthen the authority, independence and capacity of budget oversight institutions, and the voice of the public should also be allowed as a further check and balance. Donors should strongly encourage budget transparency in the countries to which they provide aid by offering incentives to countries that demonstrate better budget transparency practices and providing technical assistance to countries seeking to make their budget systems more transparent and accountable (pbhattarai2001@gmail.com).

## **2.22 Review of Previous Research Work**

The research work on comprehensive budgeting process and its impact on profitability mainly focused on the impact of budgeting on profitability. As profit planning and

control covers major area of planning process in every business organizations. The previous researchers made in the area of profit planning and control have made into considerations for the sake of reviewing how profit planning and control were practiced in Nepalese corporation. There are many research works made on profit planning and control in Nepalese context. But those previous research had not emphasis the effect of budgeting in overall profitability. Those previous research have been made on manufacturing and non- manufacturing concern and except of few of them are not in depth. An attempt is made here to review some of the researchers, which have been made on profit planning and control in the context of Nepal.

**Mr. Gunaker Bhata (2005)** has submitted a dissertation on the topic "Profit Planning in Royal Drugs Limited" this research of Bhatta was mainly concerned with the current practice of profit planning and examines that to what extent the RDL is apply profit planning system Primary as well as secondary data have been used in the research reporters.

**His Major objectives:**

- a. To analyze the various functional budgets those are prepared in public enterprise of Royal Drugs Limited.
- b. To sketch the trend of profit or loss.
- c. To evaluate the variance between budgeted and actual of the enterprise.
- d. To examine practice and effectiveness of profit planning.

**Findings:**

- Objective of RDL are not clear, whatever it aims to minimize profits or to maximize social service is not clearly distinguished.
- There is a lack of entrepreneur ship and business in the operation of the enterprise.
- Authority and responsibilities are not clear among the department management and working managers.
- There is a more conflict and lack of co-ordination between departments.
- Responsibility counters to control of cost are not clearly defined.
- Internal and external variables providing opportunities threats and strengths and weaknesses are not identified.

**Mr. Laxmi Prasad Regmi (2006)** has made research on “Planning process and its impact on profitability a case study of Harisiddi Brick and Tiles factory”, submitted to faculty of management Shanker Dev. campus for the partial fulfillment of MBS on 2004, August. In this study Mr. Regmi has pointed out following major finding and recommendation which are as follows:

**Findings:**

- HBTF doesn't have a systematic special plan for the formulation and an implementation of comprehensive profit planning.
- HBTF has not practiced of participatory management system, the decision making power in HBTF is concerned only with the top level management.
- HBTF is unable to define clearly the duty and responsibilities of the employees although it is managed by private section.
- The factory cannot meet the breakeven sales; it is running in heavy loss.

**Keshab bdr. (2007)** has conducted a research on the topic, "Profit planning in Nepal Electricity Authority and Nepal Telecom." This research work is basically concerned is to highlight the current practice of profit planning and its effectiveness in the companies other specified

**His Major objectives are:**

- a. To examine the present profit planning premises adopted by the companies.
- b. To analysis the difference between budgets and actual achievement of the companies.
- c. To point out suitable suggestion and recommendation. To conduct this research, both primary and secondary source of data have been used. K.C. has pointed various finding or recommendations. Few major findings and recommendations are as follows:

**Findings:**

- Specific goals and objectives are not conveyed to lower level of staff and it denotes the absence of TTE principle of management.

- There is lack of proper coordination between the various responsible departments.
- There is no cost classification system. Overhead are not classified systematically and it creates problem of analyze its expenses properly.
- Absence of skilled and purely academic manpower in budgeting section, the company has unable to prepare systematic future plan.
- There is no arrangement of any accounting and management planning training by the company.
- Actual sales are very below than budgeted sales.
- There is a lack of entrepreneurship in the operation of the company.
- The companies are suffering from low contribution margin and high fixed cost.

**Sagar Mishra (2008)** has a significant contribution on the topic "Profit Planning in Tokla Tea Estate (TTE)". The data were collected from both primary and secondary sources. The basic objectives of this research paper are to examine how far the different functional budgets are being applied as a tool of profit planning in the estate. Regarding the basic objective, other sub

**His Major objectives are:**

- a. To interpret the trend of profit/loss and cost of the company in the light of profit plan.
- b. To identify the sales plan for the company in the high of strategic and tactical sales plan.
- c. To analyze the production plan and actual production trend of the company.
- d. To review the Tokla tea estate's profit planning on the basis of overall managerial budgeting.

**Findings**

- Inadequate evaluation of relevant internal and external variables.
- Problems of maintaining the quality of the products.
- Inadequate profit and productively due to lack of skilled manpower, excessive fixed cost and inventory.
- Unrealistic sales for casts etc.

**Sharma Narayan. (2009)** “Revenue Planning & Management of Manufacturing Public Enterprises” (A case study of Singh Durbar Vaidya Khana Vikas Samiti) had the following major findings and recommendations.

**His Major objectives:**

1. To analysis the actual sales and budgeted sales.
2. To examine revenue generate by SDVKVS.
3. To recommendation and suggestion for RDL.

**Findings**

- SDVKVS has adopted only product/categorized budget. But it has not adopted practice of preparing monthly budget.
- There is no surprise sale.
- There are no actual bad debts shown in an account.
- In the calculation of profit volume ratio, it has shown that its fixed cost is high.
- The pricing policy needs revision and adjustment of pricing policy organization is not fare.

**2.23 Research Gap**

All the studies mentioned above about profit planning and controls are basically related with the profit planning system of Nepalese business enterprises. These studies have pointed out the similarities findings. The conclusion of those researchers is that there is no proper planning and control system in Nepalese proposes enterprises. Therefore this study is designed to highlight the comprehensive budget process and its impact on profitability. Previous study has not been yet made emphasizing the effect of budgeting on the profitability. This research work covers time period of five years for the propose of trend analysis. This study will fruitful to those interested scholars, students, teachers, businessman, stakeholders, civil society and government for academically as well as policy perspective.

## **CHAPTER- III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research methodology is a systematic, scientific and planned way of collection analysis and interpretation of data and facts to solve the research problems and accomplish the basis objectives of the study.

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

It is defined as the objective and systematic method of finding solution to a problem covering systematic collection, recording, analysis, interpretation and reporting of information about various facets of a phenomenon under study. In other words, research refers to the systematic method consisting of enunciating the problem, collecting facts or data, analyzing the facts critically and reaching conclusions based on them.

The main objectives of this research are to analyze, interpret effectiveness of Gorkhapatra Corporation with help of various financial statements, statistical tools and non-financial subject matters. Other sub objective is also formulated and the research methodology is followed to achieve the objectives goals of this research work.

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain object/objects in view. It would be appropriate to mention that research projects are not susceptible to any one complete and inflexible sequence of steps and the type of problems to be studied will determine the particular steps to be taken and their order too.

However, the following steps provide a useful procedural guide line so far as research methodology is concerned.

### **3.2 Research Design**

Research design is a plan, structure and strategy of investigation conceived so as to obtain answers to research question and to control variance. Those information and data are presented in an analytical and descriptive research design besides these quantitative data presentation the research. This study is closely related with the various functional budgets and other accounting statements as well as the actual result of budgets.

### **3.3 Period Covered**

The time period of five year is covered from 2062 to 2066. Analysis is basically made on the basis of this five years data, which is provided by GC.

### **3.4 Nature and Source of Data**

This study primary and secondary data have been used. Primary data has been taken from interview and questionnaires taking with various officers of GC, staff, and employees. Secondary data has been taken from published and unpublished documents such as: - magazine, publication of corporation, council of ministry of finance, national planning, many books booklets, libraries and website.

### **3.5 Research Question**

The different functions budgets were being applied as tools for profit planning and control in what they impact on profitably. The following research questions were designed:-

1. What process is followed for profit planning by GC?
2. What are the overall managerial problems and what suggestion can be recommended for their proper solution?
3. What steps should be taken to improve the profit planning and control system in GC?
4. What are the major problems faced by the corporation in developing and implementing in profit plan?

### 3.6 Tools Used

To analyze the selected date, some financial and statistical tools are used. Collected dates are managed, analyzed and presented in proper tables and formats. These tables and formats are interpreted and explained wherever necessary.

The financial and statistical tools used cover CVP analysis, BEP analysis, Ratio analysis, Percentage ratio analysis, S.D. Mean, Coefficient of variation; Graphs, Diagrams and flexible budgets have been used as per need.

#### a.. Mean

Among the several tools of measuring central value, the mean has been used in this analysis where and when necessary. The mean is the arithmetic average of a variable. Arithmetic Mean of a series is given by

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

#### b. Standard Deviation

Standard deviation (S.D.) is the most popular and the most useful measure of dispersion. It indicates the ranges and size of deviance from the middle or mean. It measures the absolute dispersion. Higher the value of standard deviation higher is the variability and vice versa. It is the positive square root of average sum of squares of deviations of observations from the arithmetic mean of the distribution.

It can be calculated as follows:

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

#### c. Coefficient of Variation

The percentage measure of coefficient of standard deviation is called coefficient of variation. The less is the C.V the more is the uniformity and consistency and vice versa. Standard deviation gives an absolute measure of dispersion. Hence where the mean

value of the variable is not equal it is not appropriate to compare two pairs of variables based in S.D. only. The coefficient of variation measures the relative measures of dispersion, hence capable to compare two variables independently in terms of their variability.

$$\text{Coefficient of Variation (C.V)} = \frac{\sigma}{X} \times 100$$

### **3.7 Research Variables**

The main research variables of this study are as sales, production, profit and loss, cash flows, manpower expenses, capacity utilization, total assets inventory expenses, capital expenses, cash budget, balance sheet are the research variable of the profit study.

# **CHAPTER – IV**

## **DATA PRESENTATION AND ANALYSIS**

### **Introduction**

A profit planning and control program administered in an enlightened way permits greater freedom at all management levels, which is the formal expression of the enterprise's plans, goals and objectives stated in financial term for specific future period of time and a systematic approach for attaining effective management performance. It is a systematic approach for attaining effective management performance. Planning is the systematic method for the effective and efficient management of change. It includes determining where the company is to goals well as how to reach in the destination.

Profit planning is called the pre – plan of revenue and expenditure. It estimates how much income will be generated and how it should be spent in order to meet investment and profit requirement. Profit is the major element of each and every business endeavor for survival, further development and fulfilling social expectation. However, the concept of profit is changing from time to time.

Most of the public enterprises have been established under Corporation Act in Nepal. Public enterprises were established as a strong means of development in order to prepare infrastructure services, to produce to required goods in the country, to help in controlling the price situation to contribute significantly in the country's economic advancement. Still public enterprises in Nepal do not follow profit planning and program in the management activities.

The main purpose of this chapter is to examine the budgeting procedure in the context of profit planning in GC. To accomplish these objectives, this chapter analyzes the various functional budgets, their actual accomplishment and related variances of the Corporation. Data are analyzed by using statistical tools such as mean, S. D., C.V., Correlation of Co efficient, Regression method and budgeting tools inclusive of as different types of budget, ratio analysis and CVP analysis etc.

GC does not prepare long – range profit plan. So, this study is focused mainly on short – term profit plan. However, the sales, production and other related figure of the previous

year are also presented and analysis to know the overall economic and financial trend and to estimate the possible future trend of GC. For this purpose, this study covers the period five years from FY 2061/062 to 2065/66.

## 4.1 Sales Plan

The sales plan is the foundation of business. The primary source of cash is sales for the capital additions, the manpower requirement, the amount of expenses to be planned, the production level and other important operational aspects depend on the volume of sales. Therefore, the sales budget or plan must be realistic.

The preparation of sales budget is the starting point for the development of profit plan the sales budget is prepared on the basis of sales forecast. The sales plan includes the promotion and advertising plan, the selling expenses plan, and the marketing plan. The marketing plan frequently referred to as the sales budget, quantities sales in unit and rupees for each major subdivision of sales.

### 4.1.1 Sales Trends and Plan of GC

Following table shows the picture of sales trends (targets and achievement) from FY 2061/062 to 2065/66.

**Table 4.1**  
**Sales Targets and Achievement**

In Rs.			
<b>FY</b>	<b>Sales Targets</b>	<b>Actual Sales</b>	<b>Capacity Utilization %</b>
2061/062	165987000	138322376.40	83.33
2062/063	168804000	148643817.87	88.06
2063/064	168496000	144013527.20	85.47
2064/065	152450000	139759816.12	91.67
2065/066	164454000	143003267.47	86.96
<b>Total</b>	820191000	713742804.90	87.02
Mean in '000'	164038.20	142748.56	72.58

Source: Annual Report (Gorkhapatra Corporation)

The above table shows that the sales targets and achievements. The above table show that achievements are always below targets. The actual sales achievements are 72.58%

in an average of 91.67 % is made in the FY 2064/2065, the achievement is 88.06 % and 86.96 % in the FY 2062/063 and 2065/066 respectively. It is 85.47 % and 83.33 % in the FY 2063/064 and 2061/062.

The analysis shows that each year's sales are below of previous years because, it faced political effect changing environment, perfect competitive with reputed other magazine like Kantipur, other international media. The analysis of the budgeted and actual sales figure of each year, it makes clear that targets are not based on the previous year's sales performance. While preparing sales budget for coming year, previous year's sales performance should also be considered. But in G C sales are budgeted without considering the previous year's sales performance and therefore the gap between the budgeted and actual is found very vague.

In order to find out the nature of variability of budgeted and actual sales of different years, it is necessary to calculate the arithmetic mean, standard deviation and co-efficient of variation of budgeted and actual sales figure of G C for the five F Y 2061/062 to 2065/66 The detail calculation is presented in table no. 4.1.

**Table 4.2**  
**Use of Statistical Tools**

<b>Particulars</b>	<b>Budgeted Sales (X)</b>	<b>Sales Achievement (Y)</b>
Mean Rs. '000'	1,64,038.20	1,42,748.56
Standard deviation ( $\sigma$ ) Rs	6014015.643	36,03,963.776
Coefficient Variation(CV)	3.67 %	2.52 %

Source: Gorkhapatra Corporation (Annual Report)

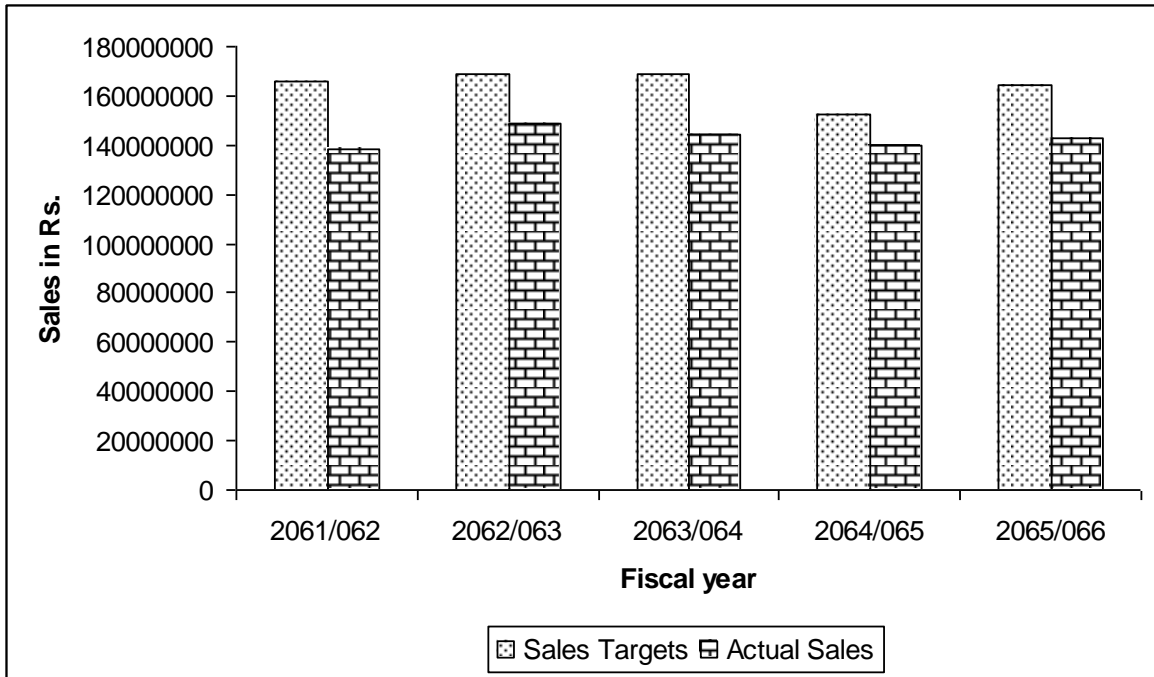
Calculates standard deviation based Microsoft EXCEL where the entire population given as arguments, including text and logical values. Text and the logical value FALSE have the 0 value; the logical value TRUE has the value 1. CV is calculated by  $CV = \frac{\sigma}{X} \times 100$ .

And Correlation coefficient between budgeted sales and actual sales is calculated by

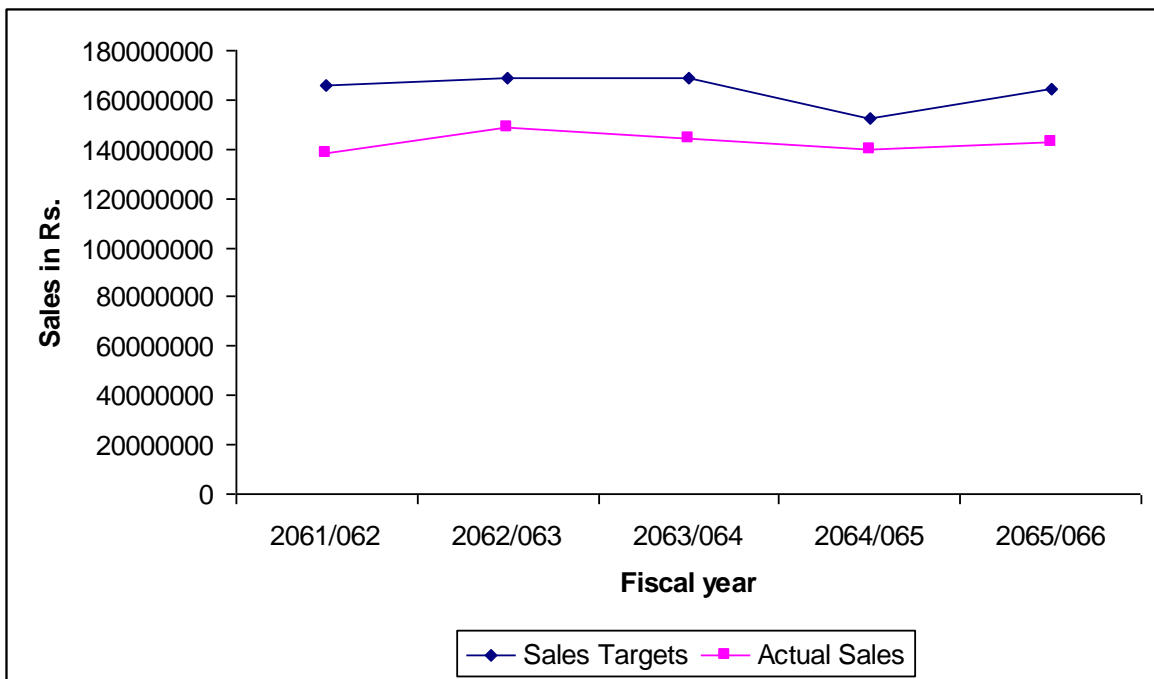
using,  $r_{xy} = \frac{\text{cov}(X, Y)}{\sigma_X \sigma_Y}$

This analysis shows that actual sales deviated from year to year than budgeted sales. But budgeted sales are set at not high expectation, because actual sales are 87.02 % in average of target sales figure. The sales achievement and sales targets of GC from the FY 2061/062 to 2065/66 can be presented in graph and bar diagrams, which is as below.

**Diagram 4.1  
Cash Target and Sales Achievement**



**Figure:4.2  
Sales achievement and sales targets**



The above graphical presented shows the gap between budgeted and actual sales. The gap of budgeted sales and actual sales is not so big. If this trend continues for the future,

the actual sales will further increase in the coming year. But only the gap in the FY 2061/062 was big.

To find out the correlation between budgeted figures and actual figures, Karl Pearson's co-efficient is used the symbol of 'r', denotes budgeted figure (X) are assumed to be independent variable and achievement figure (Y) are assumed to be dependent variable. It is assumed that achievement will increase as targets increase or vice - versa. The value of 'r' showed that there is high positive correlation between budgeted and achievement sales. The significant of the value 'r' is 0.506.

The probable error of 'r' is 0.2244. Since, 'r' is more than P.E. (i.e. > P.E.). So, it is significant and be taken as an evidence of correlation. Hence, analysis of 'Karl Person's Correlation shows that budgeted sales and actual sales have closer relationship and it is significant because the value of r is more than the value of P.E.

A regression line also can be fitted to show the degree of relationship between budgeted sales and actual sales and to forecast the achievement with given targets. For this purpose, actual sales achievements have been assumed to be dependent upon budgeted sales.

So, the regression line of achievement 'Y' on budgeted 'X' (or Y on X) is as follows:

$$Y - \bar{Y} = r \times \frac{\sigma_y}{\sigma_x} (X - \bar{X})$$

According to the figure from Appendix No. 1

$$\text{Or; } Y - 142748400 = 0.506 \times 3602400/601400 \times (X - 164038200)$$

$$Y - 142748400 = 0.303095177 \times (X - 164038200)$$

$$Y - 142748400 = 0.303095177 \times X - 49719187.26$$

$$Y = 0.303095177 X - 49719187.26 + 142748400$$

$$Y = 0.303095177 X + 93029212.74$$

By this regression equation, it is clear that there is positive relationship between planned sales and actual sales.

Another statistical tool least square method can also be used to analyze the trend of actual sales and to estimate the future sales for a given time. Straight squares will show

the relationship between years or time and actual sales. To fit the straight line trend, the sales figure is considered dependent factor and time is considered as independent factors.

Where 'X' is the time when fit the straight – line trend and the possible actual sales can be estimated for a given year by calculating the values required to fit the straight – line trend.

**Table 4.3**  
**Fitting Straight – Line Trend by Least Square**

(Rs in '00000")

<b>Fiscal Year</b>	<b>Actual Sales (Y)</b>	<b>X</b>	<b>X<sup>2</sup></b>	<b>XY</b>
2061/062	1383.22	- 2	4	- 2766.44
2062 /063	1486.44	- 1	1	- 1486.44
2063 /064	1440.13	0	0	0
2064 /065	1397.60	1	1	1397.60
2065/66	1430.03	2	4	2860.06
<b>Total</b>	<b>ΣY=7137.42</b>	<b>ΣX=0</b>	<b>Σ X<sup>2</sup> =10</b>	<b>ΣXY=4.78</b>

Source: Annual Report (Gorkhapatra Sansthan)

Since, the FY 2063 /064 is assumed as base year, therefore zero value is assigned to that the F/Y and negative for the year before the F/Y 2064 /065 and positive for the year after 2065 /066. Fitting the straight line trend,

$$Y_c = a + bx$$

Where,

$$a = \frac{\sum Y}{N} = \frac{7134.42}{5} = 1427.484$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{4.78}{10} = 0.478$$

Substituting the value in straight- line equations.

$$Y_c = 1427.484 + 0.478 X$$

This trend line showed the favorable sales figure for the future. Rs. 47,800 will increase the sales revenue every year if the trend of past years continued in the future.

By using this trend equation, we can estimate the actual sales for fiscal year 2065/ 066 is 3

$$\begin{aligned} Y_{2065/066} &= 1427.484 + 0.478 \times 3 \\ &= 1427.484 + 1.434 \\ &= \text{Rs.1428.918 ('00000')} \end{aligned}$$

The following conclusion can be drawn out of the above analysis:

- a. Sales forecasting is not accurate. So, target sales are higher than actual achievement.
- b. The mean of target sales is very high than actual achievement of sales.
- c. The S.D. of target sales is very high than actual sales.
- d. There is high positive correlation between target and actual sales.
- e. The regression equation shows that there is high positive relationship between budgeted and actual sales.
- f. Straight – line showed the positive trend for future.

## **4.2 Production Budget of GC**

Preparing of production budget is the second step in developing profit plan. A production plan is prepared in relation to sales budget. A production plan incorporates the estimates of total volume of production with the scheduling of operation by days, weeks, months and years. It specifies the number of units of each product that must be produced as per the sales forecast.

Gorkhapatra Corporation does not prepare a long – term production plan for the future. So, the following equation is applicable in the context of G.C.

### **Production Plan = Sales Plan**

G C has a number of publications, which are grouped under daily and monthly. G C's publication is sold at different prices. The past trends of production of G C are as follows:

**Table 4.4  
Production Target and Achievement**

In Rupees

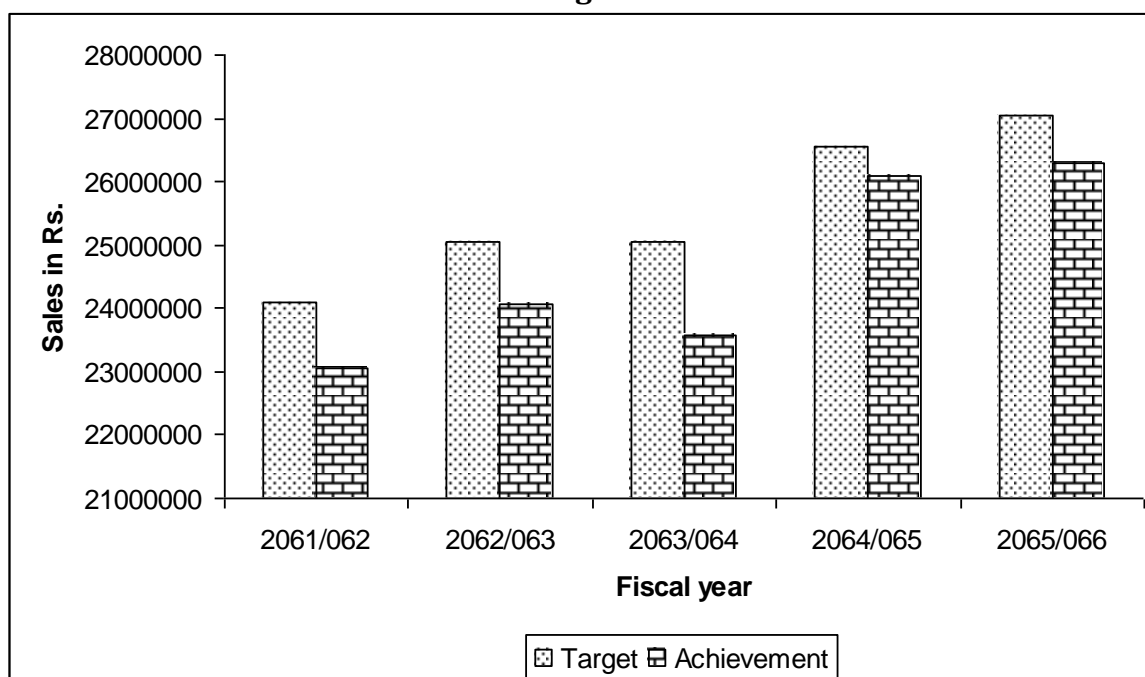
FY	Monthly			Daily		
	Target	Actual	%	Target	Actual	%
2061/062	24095000	23055400	95.68	150000	142500	95.00
2062/2063	25056550	24056550	96	165000	144503	87.57
2063/2064	25060000	23585400	94.11	170000	140243	82.49
2064/065	26550000	26098365	98.29	155000	133565	86.17
2065/066	27040000	26285500	97.20	148000	128715	86.96

Source: Gorkhapatra Corporation

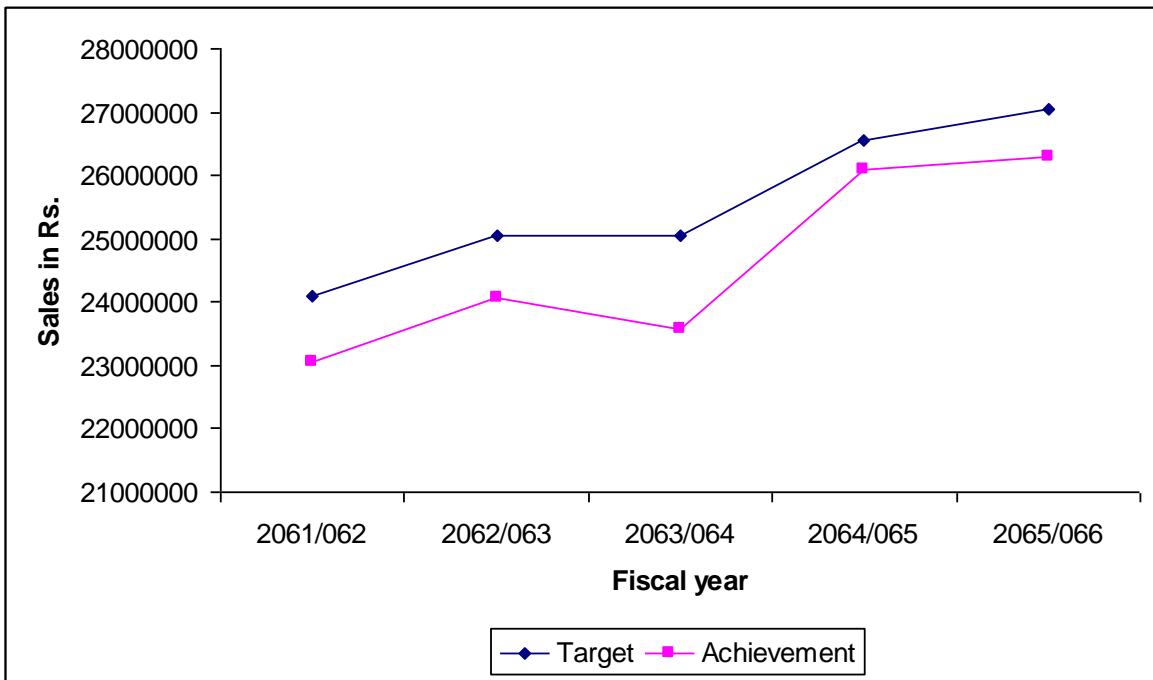
During the analysis period, it can be observed that the highest achievement of Daily paper (i.e.Gorkhapatra and The Rising Nepal) was 98.29 % in the F Y 2064 /065 where as the lowest achievement was 94.11 % in the F Y 2063 /064. This shows an immediate improvement in Actual Sales of GC.

The production plan can also be analyzed with the help of Graph and bar diagrams as follows:

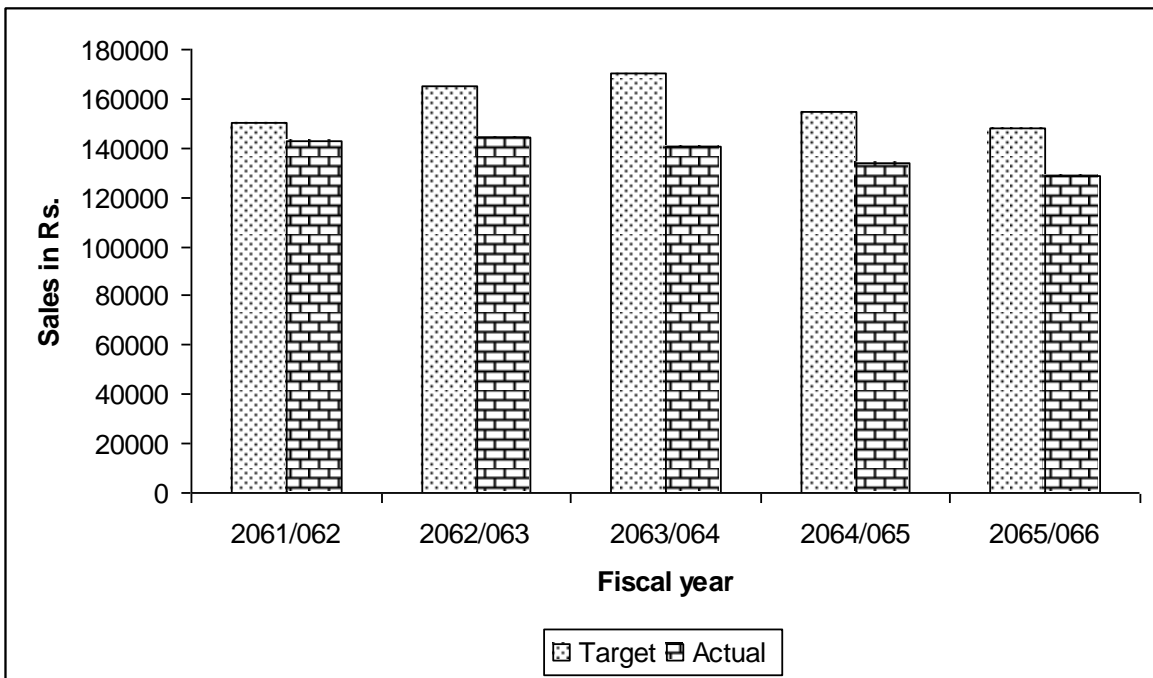
**Diagram 4.3  
Production Target & Achievement**



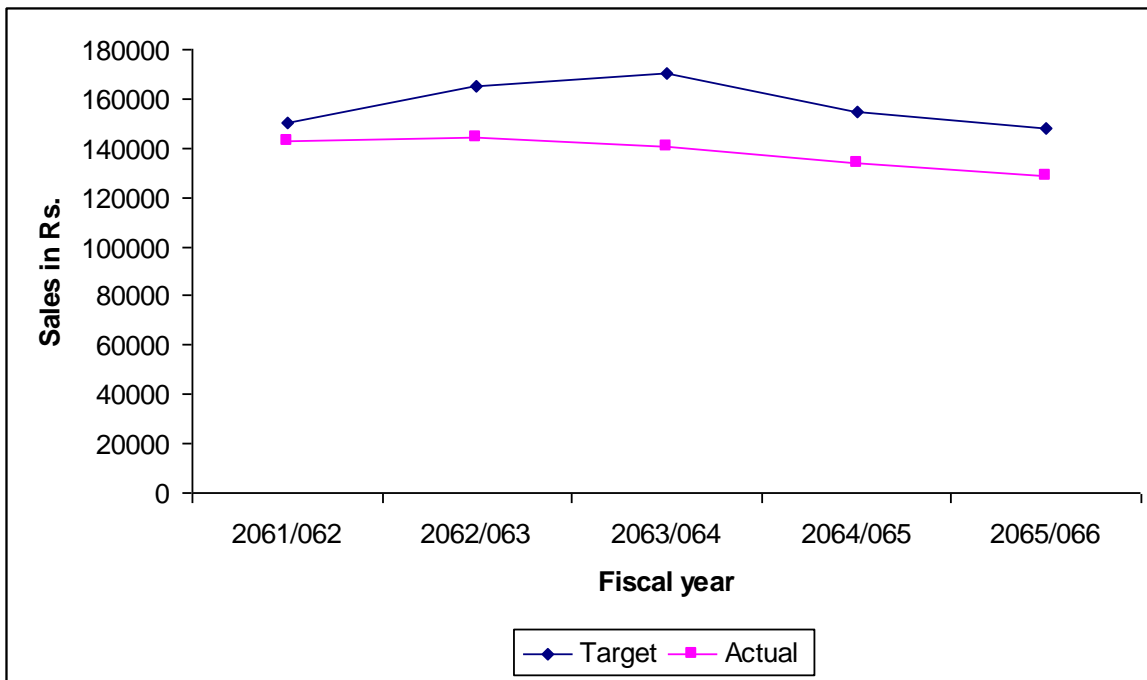
**Figure. 4.4**  
**Target and Actual Production**



**Diagram 4.5**  
**Target and Actual Production**



**Figure.4.6  
Target and Actual Production**



To find out the nature of variability of target and actual production of different fiscal years, arithmetic mean, standard deviation and co-efficient of variation are to be calculated. The detail calculation is presented as under.

**Table 4.5  
Use of Statistical Tools**

<b>Statistical</b>	<b>Budgeted Production ( X )</b>	<b>Actual Production ( Y )</b>
Mean	25560200	24615600
S.D.	1078953.20	1326521.77
C.V.	4.22 %	5.39 %

Source: Gorkhapatra Sansthan

Calculates standard deviation based Microsoft EXCEL where the entire population given as arguments, including text and logical values. Text and the logical value FALSE have the 0 value; the logical value TRUE has the value 1. CV is calculated by  $CV = \frac{\sigma}{X} \times 100$ .

The above table showed that the position of budgeted production and actual production. The S.D. and C.V. of actual production are not very higher than budgeted production. The value of correlation coefficient (i.e.  $r = 0.981$ ) indicates that there is

high positive relationship between target and actual production. Since the value of Correlation Co-efficient 'r' is greater than the probable error of 'r' (i.e. PE = 0.0119), it can be said that there is perfect correlation between budgeted and actual production. (See appendix No. 2)

### **4.3 Planning Manufacturing Overhead**

After the production plan has been completed, expenses budgets should be developed for each responsibility center of the organization. Manufacturing overhead is that part of total production cost is not directly identifiable with specific products or jobs. Manufacturing overhead consists of indirect materials, indirect labour and all other miscellaneous factory expenses; such as taxes, insurance, depreciation, supplies, utilities and repairs.

G C did not prepared manufacturing expenses budget and did not follow of the practice of allocating these cost to products. The corporation has record of the expenses incurred under the head of manufacturing expenses separately for every year. The following table shows the total actual manufacturing expenses incurred for five year.

**Table 4.6**  
**Manufacturing Expenses**

<b>Fiscal Year</b>	<b>Production Cost</b>	<b>% change</b>	<b>Amount ( in Rs)</b>
2061 /062	13,31,54,706.80	67	8,99,93,859.13
2062 /063	14,82,90,629.70	68	10,12,94,536.98
2063 /064	16,85,13,079.20	61	10,28,91,573.02
2064 /065	15,07,61,143.20	67	10,14,71,422.10
2065/066	15,21,44,023.20	66	10,09,54,276.63

Source: Annual Report Gorkhapatra Corporation

The above table shows the increasing trend of manufacturing expenses. The manufacturing expenses of the fiscal year 2061 /062, 2062 /063, 2063 /064, 2064 /065 and 2065/066 are 67 %, 68 %, 61%, 67% and 66 % of production. The manufacturing expenses of G C are very high because of poor expenses planning, excessive of break down inefficient machines, political situation, frustrated employees, lack of proper supervision and regulation, high repairs cost etc. The above table shows that G C has high manufacturing expenses, which represents more than 70 % of productions. There is not a system of allocating indirect manufacturing cost according to product. The Corporation needs to after categories manufacturing overheads into controllable and uncontrollable on the basis of responsibility center. It can be concluded that the production cost of GC is in fluctuating trend.

The details of expenses incurred under the head of manufacturing expenses are presented in the following table for the two fiscal years.

**Table : 4.7**  
**Detail Manufacturing Expenses**

Particulars	Amount (in Rs)	
	2064 /065	2065/066
Salary	2,68,38,266.54	2,69,22,762.67
Dashian	20,53,130	20,14,176
Bidako Satta Bhatta	41,90,413.94	40,70,954.53
Additional Fund	24,38,278.47	24,30,536.66
Upadan	24,88,746.02	43,38,814.64
Donation	-	60,000
Medical treatment exp.	20,28,857.59	25,70,186
Life insurance	36,60,210.70	31,78,909.52
Overtime	10,85,978	5,72,250
Other Allowance	5,38,728	5,37,811.50
Clothes expenses	14,88,100	14,75,700
Night allowance	3,68,285	3,19,681.50
Transportation allowance	5,30,663	2,60,250
Health expenses	5,25,341	6,74,831
Clothes expenses	3,200	3,200
Pad Purti Baithak Bhatta	-	-
B.O.D. meeting Bhatta	-	-
Sub committee meating	2,400	2,400
D. & travel allowance allowance	1,57,778.44	2,19,348.72
Telephone, Telex & Fax	5,59,760.02	7,00,507.09
Postage tickets	-	-
Electricity charge	10,79,931.06	9,80,124.33
Water	-	-
Insurance	63,975.45	-
Bank commission	-	125
News charge	18,04,921.49	15,49,117.95
Wages	6,175	25,650
Telephone installation charge	2,000	2,000
Other service charge	3,45,104.53	3,17,750
Transportation expenses	2,740	43,019
Hospitality	1,87,900	1,95,040

Program expenses	13,000	2,39,396
Bishesh Awashar expenses	1,29,416.32	51,427.64
Bhaipari Aaune	13,640	20,384
Storage rent	-	-
News transportation	-	-
Complex repairing	27,676.35	-
Machine repairs	61,945	1,43,780
Vehicle repairs	-	26,400
Others repairs	22,370	1,04,926
Booklets	2,01,062	2,01,430
Books	690	2,238
Stationery	5,10,012.53	3,43,279.19
Electricity goods	75,785	53,126
T.P. Roll	99,459.33	67,300
Other goods	10,29,752.60	6,92,017.09
Petrol	1,55,647.58	2,05,466.32
Kerosene	35,435	40,320
Other Fuel	3,36,121.58	4,02,013.63
Aa. ye. Cha. Sa.	9,600	51,300
Article remuneration	44,85,545	48,06,705
Audit fee	-	-
Newsprint paper	2,83,16,922.85	3,01,46,769.78
Booklets paper	23,49,519.46	11,06,077.45
Job Box Paper	7,800	20,267
Staff training expenses	-	-
Advertisement Promotion	-	-
Marketing promotion	2,875	-
Advertisement commission	15,367.50	42,436.04
News paper sales commission	-	-
Ink	20,77,398.04	16,23,007.82
Graphic Art film	6,64,838.98	6,83,703.29
Aluminum Plate	24,83,593.45	24,80,396.26
Photo graphic machine	6,55,710.70	2,13,724.30
Blanketed	1,05,715.02	59,608.50
Chemical	5,24,341.37	5,58,805.49

Print expenses	45,62,422.76	2,32,716.83
Other print commodity	20,874.43	1,07,000.05
Aapalikhan	-	-
Image setter film	26,000	16,55,720.92
Interest expenses	-	-
Depreciation	-	-
Loss on sales on assets	-	-
Total	10,14,71,422.10	10,09,54,276.63

Source: Gorkhapatra Sansthan

**Table : 4.8**  
**Fitting Straight-Line Trend by Least Square**

Fiscal Year	Actual MFG Expenses	X	X <sup>2</sup>	XY
2061 /062	899.94	-2	4	-1799.88
2062 /063	1012.95	-1	1	-1012.95
2063 /064	1028.92	0	0	0
2064 /065	1014.71	1	1	1014.71
2065/066	1009.54	2	4	2019.08
Total	∑Y=4966.06	∑X=0	∑X <sup>2</sup> = 10	∑XY=220.96

Source: Gorkhapatra Sansthan

Since, F/Y 2063/64 is assumed as base year, therefore the value of X is zero in this year & negative for the year before 2063/064 and positive for the year after 2063/064, fitting the straight line trend,

$$Y_c = a + bx$$

Where,

$$a = \frac{\sum Y}{N} = \frac{4966.06}{5} = 993.212$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{220.96}{10} = 22.096$$

Substituting the value in Straight line equation.

$$Y_c = 993.212 + 22.096X$$

This trend line is showed the unfavorable of manufacturing expenses figure for the future. Rs 22, 09, 600 will increase the manufacturing expenses of every year if the trend of past years continued in the future.

#### **4.4 Planning Administration, Selling and Distribution Expenses**

Administration 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 enterprises, rather than in the performance of any one function. Because, large portions of administrative expenses are fixed rather than variable, the notion persists, that cannot be controlled.

Selling and distribution expenses include all costs related to selling, distribution and delivery of products to customers. In many enterprises of companies, this cost is a significant percentage of total expenses, carefully planning of such expenses effects the profit potential of the firm or enterprises.

Distribution expenses are not product costs and should not be allocated to specific products. A separate distribution on expenses plan should be developed for each responsible center in the distribution function.

G C has not prepared the estimated administration selling and distribution expenses budget. So, it is impossible to compare the actual expenses with budgeted amount. But the company clearly recorded the actual expenses incurred under the head of administrative, selling and distribution expenses. There is no adequate transparent policy regarding administration, selling and distribution expenses in G C. The following table shows the total actual administration, selling and distribution expenses of G C for different five years.

**Table: 4.9**  
**Administrative, Selling and Distribution, Expenses**

<b>Fiscal Year</b>	<b>% Change</b>	<b>Amount (In Rs)</b>
2061 /062	-	4,32,53,522.88
2062 /063	6.8	4,64,22,453.56
2063 /064	-10	4,20,83,986.95
2064 /065	9.2	4,63,93,226.04
2065/066	-3.1	4,49,69,181.73

Source: Gurkhatra Corporation

The above table clearly indicated that the corporation's administrative, selling and distribution expenses are fluctuated. The administrative selling & distribute expenses increased highly in the F/Y 2064/065 by 9.2% from the previous year that was decreased by 10%.

The detail of expenses incurred under the head of administrative, selling & distribution expenses are in the following table for two years.

**Table: 4.10**  
**Detail Administrative Selling & Distribution Expenses**

<b>particulars</b>	<b>Amount (in Rs)</b>	
	<b>2061/062</b>	<b>2065 /066</b>
Salary	1,83,41,235.06	1,83,38,614.31
Dashian	14,39,498.000	14,66,047.000
Bidako Satta Bhatta	28,01,273.39.0	30,07,303.600
Additional Fund	17,08,369.090	16,91,920.240
Upadan	16,25,322.380	20,64,565.640
Donation	-	30,000.00000
Medical treatment exp.	14,97,734.480	19,40,955.100
Life insurance	17,22,452.080	19,91,730.570
Overtime	14,30,459.700	14,14,125.710
Other Allowance	10,43,738.340	9,89,398.4300
Clothes expenses	12,32,700.000	1,21,53,000.00
Night allowance	52,725.00000	64,038.50000
Transportation allowance	-	-

Health expenses	3,89,787.3600	4,54,017.1600
Clothes expenses	10,367.20000	21,025.10000
Pad Purti Baithak Bhatta	2,100.000000	58,300.00000
B.O.D. meeting Bhatta	80,500.00000	94,500.00000
Sub committee meeting	40,800.00000	35,065.00000
D. & travel allowance allowance	4,90,146.1400	2,66,890.3200
Telephone, Telex & Fax	5,60,789.3800	6,43,632.2300
Postage tickets	34,796.40000	38,461.00000
Electricity charge	6,49,025.4900	6,26,482.6500
Water	6,63,426.0900	7,04,683.44
Insurance	2,79,817.2300	24,732.86.000
Bank commission	51,128.11000	84,187.22000
News charge	-	-
Wages	96,911.00000	73,921.00000
Telephone installation charge	9,000.000000	-
Other service charge	8,04,425.5200	8,10,780.4100
Transportation expenses	8,443.000000	23,933.00000
Hospitality	3,16,784.9200	4,02,948.0100
Program expenses	8,92,405.8100	5,40,326.6500
Bishesh Awashar expenses	78,681.00000	3,51,040.0000
BhaipariAaune	55,841.00000	1,00,513.7200
Storage rent	10,58,546.390	5,02,258.5000
News transportation	39,58,044.970	22,29,387.120
Complex repairing	64,091.70000	59,571.39000
Machine repairs	4,330.000000	6,955.000000
Vehicle repairs	3,70,158.9300	3,65,067.4200
Others repairs	57,101.00000	80,932.81000
Booklets	1,30,752.6800	1,02,119.7500
Books	13,242.00000	42,076.00000
Stationery	2,68,190.4400	2,61,298.1600
Electricity goods	23,968.00000	28,020.40000
T.P. Roll	-	-
Other goods	3,71,544.5000	3,75,274.9900
Petrol	9,05,827.0400	7,45,910.5100
Kerosene	1,920.000000	-

Other Fuel	1,41,408.5400	1,33,903.0800
Aa. ye. Cha. Sa.	50,900.00000	58,200.00000
Article remuneration	-	-
Audit fee remuneration	60,000.00000	60,000.00000
Newsprint paper	-	-
Booklets paper	-	-
Job Box Paper	-	-
Staff training expenses	1,500.000000	28,500.00000
Advertisement Promotion	42,500.90000	-
Marketing promotion	3,600.000000	-
Advertisement commission	1,16,465.0000	1,72,562.2300
News paper sales commission	-	71,705.50000
Ink	-	-
Graphic Art film	-	-
Aluminum Plate	-	-
Photo graphic machine	-	-
Blanketed	-	-
Chemical	-	-
Print expenses	6,750.000000	-
Other print commodity	-	-
Applicant	1,28,265.7800	-
publicity	2,03,435.0000	76,000.00000
<b>Total</b>	<b>4,63,93,226.04</b>	<b>4,49,69,181.73</b>

Source: Annual Report Gorkhapatra Sansthan

The above table shows that administrative, selling & distribution expenses cover the 30.43 percent and 31.45 percent of sales amount of F Y 2061 /062 and 2065 /66 respectively. It shows that expenses are increasing. If expenses can not be managed effectively expenses will increase and profit will decrease in the future period.

The G C's planning manager should follow following aspects of planning administrative, selling and distribution expenses.

- (I) Planning and Co - ordination
- (II) Control of administrative, selling and distribution expenses.

## 4.5 Planning Human Resources

Labour is one major elements of production. Manpower is such power, without it no organization can operate. Effective planning and systematic control of labour cost is essential to achieve the organizational goals. Human resources planning refer to staff enrichment, recruitment, performance appraisal, union negotiations and remuneration administration.

In the broad sense, labour cost includes all expenditures connected with employees, including top executives, middle level management, staff officers, editorial officers, supervisors and skilled as well as unskilled employees. The direct labour budget includes the estimation of direct labour requirements for the production of the types and quantities of output planned in the production budget.

G C has temporary and permanent staffs working in the Corporation. They are paid salary on monthly basis. G C has large number of employees working under various units. Present statuses of employees are presented below.

**Table : 4.11  
Manpower Plan**

Department / unit	No. of Staff
Management & Board	8
Administration Department	71
Finance Department	55
Editorial Sector	87
Production Department	197
Art and Photography Department	11
Marketing Promotional and Distribution Department	131
Business Department	32
Press and engineer unit	42
District Reporter	42
<b>Total</b>	<b>636</b>

Source: Gorkhapatra Corporation

The total number of employees working in the Corporation is 636. All these employees are fixed salaried staff. The number of officer level employee and administration employee are high. So, most of the expenses are paid to them. G C has not any effective program to increase the productivity of manpower. The Corporation has not been able to introduce motivational measurement, and the system of punishment and reward. So, most of the employees are frustrated.

## 4.6 Profit and Loss Account

Budgeted profit and loss A/C is prepared after preparing all functional budgets; budgeted P/L A/C indicates the possible future profit & loss for the accounting year. G C prepares the profit and loss A/C at the end of fiscal year to know the profit or loss situation of the corporation. G C is suffering from huge amount of loss every year. Actual profit and loss A/C of the of the corporation for the F Y 2061/062 and 2065/2066 is presented in the following table:

**Table: - 4.12**  
**Profit and Loss Account**

Particulars	2061/2062	2065/066
A. Income from sale of News Paper	13,97,59,816.12	14,30,03,267.47
B. Cost of manufacturing expenses	(10,14,71,422.10)	(10,09,54,276.63)
<b>C. Gross profit (loss) A-B</b>	<b><u>3,82,88,394.02</u></b>	<b><u>4,20,48,990.84</u></b>
D. Administrative, Selling & Distribution	(4,63,93,226.04)	(4,49,69,181.73)
E. Interest expenses	(52,85,921.61)	(62,18,982.93)
F. Depreciation	(1,97,25,971.42)	(1,45,03,266.79)
<b>G. Operating Profit (loss) C-D-E-F-G</b>	<b><u>92,28,798.94</u></b>	<b><u>52,94,872.87</u></b>
H. Other income	-	67,638.13
I. Profit on sale of assets	(5,04,154.64)	-
K. loss on sale of assets		
<b>L. P/L before Staff Bonus</b>	<b><u>(1,10,01,327.08)</u></b>	<b><u>(91,40,755.79)</u></b>
M. Staff Bonus	-	-
<b>N. Net Loss</b>	<b><u>(1,10,01,327.08)</u></b>	<b><u>(91,40,755.79)</u></b>
O. Balance of Profit / (Loss) B.F.	6,04,31,679.50	4,94,30,352.42
<b>P. Profit / (Loss) Transferred to B S</b>	<b><u>(4,94,30,352.42)</u></b>	<b><u>(4,02,89,596.63)</u></b>

Source: Gorkhapatra Sansthan

The comparative profit and loss A/C of G C, which has been shown above, clearly showed that the Corporation is suffering from huge amount of loss and the trend of loss is increasing.

At the end of Ashad 2062, the net loss amount of this Corporation was Rs. 11001327.08 but it was increased by Rs 1860571.29 and become total loss of Rs. 9140755.79 for the year 2062 /063. The amount of profit transferred to balance sheet at the end of Ashad, 2065/66 was Rs. 40289596.63.

The following table shows the five years profit and loss trend of G C since F Y 20601/062 to 2065 / 066.

**Table: 4.13**  
**Profit & loss**

<b>Fiscal Year</b>	<b>Amount(Rs)</b>
2061 /062	5167669.56
2062/063	353188.17
2063 /064	(2449955.97)
2064 /065	(1100132.08)
2065/66	(9140755.79)

Source: Gorkhapatra Sansthan

During the year analysis period i.e. F Y 2061 / 062 to 2062/ 063, the Corporation incurred the profit in 2060 /061 and 2061/ 062 then the Corporation suffering huge amount of loss every year from 2063 / 064.

The huge loss of G C is the effects of poor planning and control of management. There is no proper care with competition of communication. There is great problem of excess burden of fixed expenses, huge administrative, political pressured, careless of management, no responsible for their duty, low productivity of manpower due to lack of proper training, unnecessary expenses to overall profitability of the Corporation.

#### **4.7 Balance Sheet**

Balance sheet is the statement of assets and liabilities of a firm. It shows the overall financial condition of the firm. G C prepares its balance sheet at the end of each financial year but it does not prepare the projected balance sheet for coming fiscal year. The balance sheet of G C is presented in the following table:

**Table: 4.14**  
**Balance Sheet**

<b>Particulates</b>	<b>2061 / 062 (in Rs)</b>	<b>2065 / 066(in Rs)</b>
<b>Authorized Capital:</b> 300000 ordinary share @ Rs 100	3,00,00,000	3,00,00,000
<b>Issued Capital:</b> 250000 ordinary share @ Rs 100	2,50,00,000	2,50,00,000

<b><u>Paid – up Capital:</u></b>		
115166 ordinary share @ Rs 100	1,15,16,600	1,15,16,600
<b><u>Reserve and Surplus:</u></b>		
Provision Fund	26,98,825.62	26,98,825.62
Profit and Loss A/C	4,94,30,352.42	4,02,89,596.63
<b><u>Secured loans:</u></b>		
Citizen Investment fund	2,25,00,000	2,44,18,500
Nepal Bangladesh Bank	3,48,00,000	-
Nepal Bangladesh Bank Fixed deposit Bill Collateral	25,30,000	1,90,00,000
Nepal Investment Bank	5,99,833.24	4,43,433.16
Total		
<b><u>Current liabilities and Provision</u></b>		
<b>Total</b>	12,40,75,611.28	9,83,66,955.41
	10,03,23,441.02	10,01,21,256.61
	<b>22,43,99,052.20</b>	<b>19,84,88,212</b>
<b><u>Fixed Assets:</u></b>	4,65,04,004.39	4,11,60,469.72
<b><u>Current Assents, Loan &amp; Advance:</u></b>		
Stock		
Sundry Debtors	2,11,27,797.04	22,42,821.35
Cash at hand and Bank	8,43,38,212.76	8,90,70,837.87
Advance and Loan	35020064.41	29453214.00
	37408973.70	36560869.08
<b>Total</b>	<b>224399052.30</b>	<b>198488212</b>

Source: Gorkhapatra Sansthan

#### 4.8 Cash Flow

Cash budget demonstrates cash flows. It shows the planned cash inflows and outflows, including beginning and ending cash balance of the corporation.

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

Preparation of cash budget is the responsibility of the corporation treasurer. Planning cash inflow and outflows helps to verify the beginning and ending cash position for the budget period. Cash shortage will disturb the operations and excess cash remains idle, without contributing anything towards the enterprise profitability. The corporation should consider other functional budget in the process of preparing cash budget.

#### 4.9 Performance Evaluation and Management Control

Performance reporting for internal management is used in an important part of a compressive profit planning and control system. The performance – reporting phase of a comprehensive PPC program significantly influences the extent to which the

organization's planned goals and objectives are attained. For all firms regardless of the sizes have reporting requirements to show their overall performance.

In Nepal, Nepalese public enterprises have no certain systematic and deep approach to performance evaluation because related managers have no deep knowledge about the PPC. Being the Government owned enterprise; G C does not care of their performance. For performance evaluation, various techniques and criteria can be used in enterprises.

Out of various techniques and criteria, the following method and criteria is employed to evaluate the performance of G C.

- (a) Financial Ratios.
- (b) Variance analysis.
- (c) Identification of Cost variability.
- (d) Flexible Budgeting.
- (e) Cost volume profit Analysis.

The major sources and application of Cash flow for the F Y 2063/2064 and 2064/065 of G C are as follows:

**Table: 4.15  
Detailed Cash Flow**

(Indirect method)

Particulars		Amount (in Rs)	
		2061/062	2065 /066
<b>A</b>	<b>Cash flow from operating activities</b>		
	Net profit (loss) during the year	(1,10,01,327.08)	(91,40,755.79)
	Adjustment:-		
	Depreciation	52,85,921.61	6,21,892.93
	Loss on Assets	5,04,154.64	-
	Operating loss before working Capital Change	(52,11,250.83)	(29,21,772.86)
	( Increasing)/ Decrease in inventories	(1,56,37,583.89)	1,88,84,975.69
	( Increasing)/ Decrease in Sundry Debtors	(36,96,542.44)	(47,32,625.11)
	( Increasing)/ Decrease in loans & advance	(19,47,513.76)	8,48,104.62
	( Increasing)/ Decrease in liabilities	11,02,682.67	(2,02,184.41)
	<b>Net Cash from operating activities</b>	<b><u>(2,53,90,208.25)</u></b>	<b><u>1,18,76,497.93</u></b>
<b>B.</b>	<b>Cash Flow from Investing activities</b>		
	Sale of Fixed assets	4,04,265.38	49,376.31
	Purchase of Fixed assets	(1,26,38,275.62)	(9,24,827.57)
	<b>Net Cash from investing activities</b>	<b><u>(1,22,34,010.24)</u></b>	<b><u>(8,75,448.26)</u></b>
<b>C</b>	<b>Cash flow from Financing activities</b>		
	Borrowing of Bank loan	3,63,73,599.92	-
	Re - payment of Bank loan	-	(1,65,67,900)
	<b>Net Cash from Financing activities</b>	<b><u>3,63,73,599.92</u></b>	<b><u>(1,65,67,900.08)</u></b>
	Increase /Decrease in Cash & Cash equivalent	(12,50,618.57)	(55,66,850.41)
	Opening balance of Cash & Cash equivalent	3,62,70,682.98	3,50,20,064.41
	<b>Closing Balance of Cash &amp; Cash equivalent</b>	<b><u>3,50,20,064.41</u></b>	<b><u>2,94,53,214.00</u></b>

Source: Gorkhapatra Sansthan

From the above table it is clear that net cash from operating activities is negative in F Y 2061 /062 and positive in F Y 2065 /066 because of decreasing in inventories and loan & advance. Similarly, net cash from investing activities is negative in F Y 2061/062 and 2065 /066, cash flow from financing activities is positive in F Y 2063 /064 by Rs. 36373599 because of borrowing of Bank loan and negative in F Y 2065 /066 by Rs 16567900.08. The closing balance of cash is decrease in F Y 2065/066 with compared to F Y 2061 /062.

#### 4.10 Identification of Cost Variability

Identification of variances of cost is necessary in planning and control of the cost. Thus, the knowledge of cost behavior is very important. Generally, cost behaviors in two ways relation to the volume output. First it does not change with the change in out put and second it changes proportionately with the change in output. Cost can be classified as following.

**I) Fixed cost:** - Costs which are constant in total, for certain period of time say year to year of month regardless of fluctuating in output or volume of production.

**(II) Variable cost:-** Those cost or expenses, that are change in total directly proportionately which changes in output.

**(III) Semi – variable cost:-** Those cost which are neither fixed nor variable because they are some feature of both.

In the context of G C, it hasn't mentioned any clear – cut basis about cost classification as fixed and variable cost by applying the function and variability nature of cost. So, there is rough practice of classification the expenses in variability and fixed components are as under.

**Table: 4.16**  
**Gorkhapatra Corporation Cost Behavior**

Cost items	Behavior	Amount
1. Depreciation	Fixed	62,18,982.93
2. Administrative cost	Fixed	2,69,81,509.04

3. Production cost 40%	Fixed	2,00,29,328.48
<b>Total Fixed cost</b>	Fixed	5,32,29,820.45
Raw material purchase	Variable	5,08,80,955.41
Selling & distribution	Variable	1,79,87,672.69
Production cost	Variable	3,00,43,992.71
<b>Total Variable cost</b>	Variable	9,89,12,620.81

Source: Gorkhapatra Sansthan

From the above table, we can say all cost is roughly classified. There is not expressed semi – variable cost and not certain rules and regulation of cost classifications. G C does not use scientific method to classify the cost.

#### 4.11 Flexible Budgeting

A flexible budget estimates cost at several level of activities. It is the presentation of estimated cost at several level of activity. Flexible expenses budget is complementary to tactical profit plan, it helps to provide expense plan for tactical profit plan and expenses plan adjusted to actual output for comparison with actual expenses in periodic performance report. This means that all costs must be identified as how they behave with a change it volume whether they vary or remain fixed.

G C does not prepare its flexible budget. On the basis of the cost and other data of F Y 2062 /063, a flexible budget of G C has been presented below. To prepare this budget sales revenue has been assumed to remain unchanged i.e. variable cost ratio 0.6917 is remaining constant and total fixed cost will remain constant. To prepare the flexible budget, all costs must be identified generally by its nature.

The following table presents the flexible budget of G C at 50% to 110% of capacity utilization for the F Y 2065 /066.

**Table: 4.17**  
**Flexible Budget**

(In Rs)

Particulars	Activity level in Percentage				
	50	70	90	100	110
Sales Revenue (in Rs)	7,65,00,000	10,71,00,000	13,77,00,000	15,30,00,000	16,83,00,000
Less:- Variable	5,29,15,050	7,40,81,070	9,52,47,090	10,58,30,100	11,64,13,110

cost @ 69.17%					
Contribution Margin	2,35,84,950	3,30,18,930	4,24,52,910	4,71,69,900	5,18,86,890
Less:- Fixed Cost	5,32,29,820.45	5,32,29,820.45	5,32,29,820.45	5,32,29,820.45	5,32,29,820.45
<b>Net Profit / Loss</b>	<b>(29,64,487.045)</b>	<b>(20,21,089.045)</b>	<b>(1,07,76,910.45)</b>	<b>(60,59,920.45)</b>	<b>(13,42,930.45)</b>

Source: Gorkhapatra Sansthan

The above table shows that flexible budgeted of G.C at 50 to 110 percent capacity utilization. G.C can meet sales revenue of capacity utilizations. These tables also indicate the GC has been operating lower capacity utilization however, it has enabled to earn negatively.

## 4.12 Cost – Volume – Profit Analysis

The analysis of relationship between cost, volume and profit is known as Cost – Volume and profit is known as Cost – Volume – Profit analysis. CVP is an analytical tool for studying the relationship between volume, cost price and profit. It is also an important tool use for the profit planning in a business. Cost volume – profit analysis is a management accounting tool to show the relationship between these ingredients of profit planning.

The CVP analysis of G C is based on the following assumptions:

- I. C V P structure is based on the accounting data of F Y 2062 /063 of G C.
- II. The selling prices, Variable expenses volume ratio and fixed expenses per annum are assumed to be remaining constant.
- III. Activity base is selected in terms of sales rupees and incomes but income from advertise is also include.
- IV. Fixed cost included operational and non- operational fixed cost.
- V. Non – operating income and non – operating expenses are assumed be remaining constant.
- VI. Computations are made on total basis, not in product wise.
- VII. Inventories are non include (because Products of G C are perishable)

Computation and presentation of BEP and CVP analysis of GC based on FY 2062 /063 are as under:-

**Table: 4.18**  
**Income Statement**

Particulars	Amount (Rs)
Sales Revenue	14,30,03,267.47
Less:- Variable Cost	9,89,12,620.81
Contribution Margin	4,40,90,646.59
Less:- Fixed Cost	5,32,29,820.45
Net Profit (Net loss)	(91,39,173.86)

Source: Gorkhapatra Sansthan

### a. Variable Cost Volume Ratio (V/V Ratio):-

$$V/V \text{ Ratio} = \frac{\text{Total variable cost}}{\text{Total Sales}} = \frac{98912620.81}{143003267.47} = 69.17 \%$$

The V/V ratio 0.6916 shows that the proportion of variable cost is Rs. 0.6917 to each Rs. of sales volume.

#### **b. Profit Volume Ratio (P/V Ratio):-**

$$\begin{aligned} \text{P/V Ratio} &= 1 - \text{V/V Ratio} \\ &= 1 - 0.6917 \\ &= 0.3084 \end{aligned}$$

By the help of P/V Ratio can V/V ratio, we can calculate the break even (BEP) point of the G C.

#### **c. Break - Even Point (BEP in Rs)**

$$\begin{aligned} \text{BEP (In Rs)} &= \frac{\text{Fixed Cost}}{\text{P /V Ratio}} = \frac{5329820.45}{0.3084} \\ &= \text{Rs } 172599936.60 \end{aligned}$$

This result shows G C will be in break even point when the sales revenue will be Rs 172599936.60.

#### **d. Margin of Safety of Budgeted year 2065 /066**

$$\begin{aligned} \text{Margin of Safety} &= \text{Budgeted Sales} - \text{BEP Sales} \\ &= 164454000 - 172599936.60 \\ &= \text{Rs } (8145936.60) \end{aligned}$$

The above negative margin of safety indicates that the budgeted sales will not that the budgeted sales will not recover the company for BE Sales.

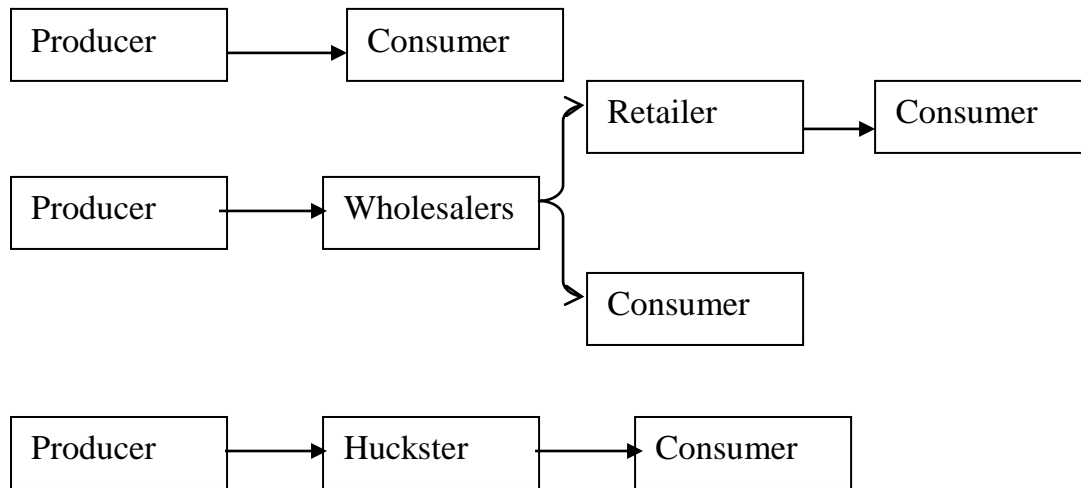
Therefore if the present cost structure remains constraint and the sales revenue will be according to budget then the loss F Y 2065 /066 will be Rs 2512206.85.

From the above analysis; it is clear that G C didn't achieve its BEP any year during the analysis period. The fixed cost is very high, which caused huge loss every year.

### **4.13 Marketing Plan**

G C supplies publication directly to various stationary, consumer and various channels also follow. The publication of Gorkhapatra Corporation is continuously going down popularity as shown by the decreeing in sales volume because G C has not adopted the

latest technology and strategy. The distribution channels usually followed by G C for marketing are as follows:



For sales promotion, G C is doing through the Medias like; own news paper, Radio Nepal, Nepal Television etc. It has direct contract with stationery stores also for sales. Generally, G C face competition with national market and other publication like; Kantipur Publication, Apka publication etc. G C follows cost plus pricing method for Yuva Manch, Madhupark, Muna but Gorkhapatra and The Rising Nepal sold at below cost.

#### 4.14 Major Findings of the Study

G C has been suffering from various internal and external problems in the process of formulating and implementing profit plans. The Corporation is at loss. The planner or budget maker sums more ambitious. The techniques of budget preparation seem to be unsystematic, unscientific and imperfect. The flexible budget showed that the Corporation would be at loss even if 110 percent capacity utilization is attained. Similarly, the analysis of ratios showed that the financial performances of the Corporation were very poor. The future picture of the Corporation from the viewpoint of profit will not be bright unless and until heavy fixed cost, administrative expenses and the other cost of production are reduced.

#### Findings:

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

- Sales and production forecasts are unrealistic.
- G C is seriously affected by the problem of excessive fixed cost.
- There is under utilization of available capacity in G C.
- G C has not proper practice of segregated cost into fixed and variable.
- Periodic performance report has not been in use to fixed the underlying causes of poor achievement.
- The G C can not meet the Break – even sales; it is running in heavy loss.
- GC has been suffering from loss for the F/Y 2063/64, 2064/65 and 2065/66.
- There are perfect correlations between budgeted and actual sales and actual production.
- Actual Production cost is higher in F/Y 063/064, 064/65 and 065/66 then actual sales which is a main problem of G.C. effect in profit.
- Overheads are not classified systematically which create different to analysis expenses effectively.
- The information system of GC was not effective, the lower level staff normally did not get information about overall operation
- The flexible budget shows that not to utilized capacity. GC earns operating loss.
- G.C liquidity ratio and profitability ratios were not satisfactory.
- It is found that the formulation and implementation of planning procedure is very poor, which has adversely affected the overall profitability and there is no system of taking corrective action for improvement.

## **CHAPTER – V**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Summary**

Planning is the primary essence of management and all other functions are performed within the framework of planning. Management must plan for future financial and physical requirements just to maintain profitability and productivity of the business concern. The main objective of planning in business is to increase the chances of making profit.

Profit planning is a main part of an overall planning process and is an area in which financial function plays major role. Profit planning is one of the most important management tools used to plan and control business operations. Profit planning is an artistic work. The format of profit planning or budgeting is neither predetermined nor rigid. This varies with the nature of data, size of transactions, and the person who develops the formats. Undoubtedly, it should be neat, clear and comprehensive.

The effective operation of a business concern resulting into the excess of income over expenditure fully depends upon the extent that management follows in proper planning, effective Co-ordination and dynamic control. Comprehensive profit planning and control or budgeting continuous in virtually organizations. Profits plans can be broadly divided into two groups as functional plan, direct labor plan and expenses plan. Functional plan includes Cash flow plan, Capital expenditure plan, projected income statement and projected balance sheet. Profit planning and control process does not finish in this point. It is a continuous process when the actual events or transaction occurred that the process of variance analysis is started.

Time dimension is another important consideration in profit planning. Profit plans are prepared for two time dimensions, strategic long – range plan for five or ten years and tactical short range plan for one fiscal year.

An effective implementation and continuous follow up system is very important for budgeting or profit planning and control system. Use of functional budgets as a tool of profit plans and widely applied techniques profit planning and control system but due to the backward condition of industrialization in Nepal, this concept is not widely used.

Nepalese public utility enterprises, G C has been taken as reprehensive public utility enterprise. This study has been tried to analysis and examines the practice, procedure and techniques of preparing various functional budgets. This study also has tried to answer of certain question started in the statement of the problem.

The present study has examined the planning process and its impact on profitability. G C has been taken for this purpose as representative public enterprise.

As the basic objective of this study is to examine the effect of planning or profitability of G C, this study has tried to analyze and examine the practice, procedure and techniques of various functional budgets. It also has tried to answer the questions started in the statement of the problem. For this, various budgets accounting and financial statements have been analyzed using suitable statistical and financial tools. Both primary and secondary data has been used in this study. Statistical tools like mean, standard deviation, co efficient of variation, regression, and time series have been applied in analyzing data. For financial analysis; financial ratios, CVP analysis, Variance analysis and flexible budgets have equally been used.

Detailed presentation of data relating to G C consist of presentation of targets and actual for long – term period, targets and actual for short – term period, making system and qualitative aspects.

Related Literature has been reviewed consist various books and reports, periodicals, articles, Government official Publications and unpublished dissertations. A general concept of profit planning has been given in conceptual framework.

The study has been organized in Six Chapters consisting of introduction, Conceptual Framework, Literature review, Research methodology, Data presentation and analysis and Summary, Conclusion and Recommendation.

## **5.2 Conclusions**

After analyzing in detail the present practice of budgeting and profit planning of G C, this study has drawn the following conclusions:

G C does not prepare the long – term strategic profit plan but it prepares tactical short – term profit plan that is usually referred as budget. Time period covered by the budget is one fiscal year. G C does not fix the target for the budgeted period. For example; growth objective, capacity utilization, return on net capital employed etc. are not focused. G C has not adequately considered controllable and non – controllable variables affecting the corporation. They has no in depth analysis of the Corporation’s strength and weakness. This research work shows the following strength and weakness of this Corporation.

**(a) Strengths:**

- i. Goodwill
- ii. Experienced Staffs

**(b) Weaknesses:**

- i. Competition with Kantipur Publication and International Medial Network Nepal (PVT) Ltd.
- ii. High procedure cost.
- iii. Lack of space for work.
- iv. Poor management.
- v. Lack of Corporation plan.

The objective of the Corporation is not clear, with regard to profit making and market penetration. The sales price of the products has been fixed at lower rate than in the production costs, such as Gorkhapatra and The Rising Nepal. G C does not fix the target for specific goal for the planned period. Such as growth objective, capacity utilization, return on net capital employed etc. are not targeted to achieve some specified level. The plans are prepared from top level only. There is no better communication between the top level and lower level management regarding the Corporation’s goals and objectives.

Different statistical tools show the positive relationship between planned sales and actual sales. Distribution channels of the Corporation are adequate. It has four channels of distribution or marketing system. Actual production is made in accordance with the actual sales. Therefore, production activities are not done according to the budgeted production but this done according to the recent data of actual sales. It can improve its profitability by utilizing its idle capacity and effective cost control program. The

expenses are not diagnosed as controllable and non controllable expenses. Thus there are not effective cost control programs.

The Corporation is suffering from excessive fixed cost and non – manufacturing expenses. But the Corporation is not sensitive towards costs reducing program. It has not a system of periodical performance reports. Corporation is not seriously conscious to its poor performance, no satisfactory achievement of specific goals that were targeted. Achievement of goals is low according to following reasons:-

- i. Corporation market.
- ii. Poor management.
- iii. Too much income sources from other sources, such as advertisement and other pointing services.
- iv. Lack of Co – ordination between the lower and higher level Staff and departments.

Gorkhapatra Corporation is facing competition from other publication. But there is lack of special program to face the competition. G C has adopted the policy of lowering the price of its publication in relation with, the price of the competitor's publication to win the competitor. Actual production is below than planned production. The production budget is prepared on the basis of sales budget but actual productions are made in accordance to actual sales. Cash budget, capital expenditure, direct labor budget were not prepared systematically. EOQ was not followed while purchasing the new materials budgets were prepared just to fulfill the formalities but these were not used effectively for profit planning process. It has been suffering from the under utilization of available capacity.

G C does not prepare direct labor budget. All personnel are paid monthly wages and salary. All expenses on salary and wages are planned in administrative expenses budget. Flexible budget showed that G C will be in loss even at 110% capacity level which indicates that the Corporation will not be able to eliminate loss and make profit until implements the cost reduction program. Planning department of G C has no adequate authority to decide and create new ideas to formulate various plans.

Since the Corporation is operating below the break – even point, it is almost impossible to bring the Corporation into the track without massive reduction on expenses and proper implementation of planning procedure. The management of G C changes, according to changes of political changes of Government. So, G C is suffering by Government change (political change).

### **5.3 Recommendations**

After the detailed analysis, researcher conclude the major findings from which it is found that the Corporation has not followed the profit planning system systematically and properly that impact negatively in overall profitability. The study has finally come up with the following recommendations to develop, implement and improve the process of profit planning in G C.

- G C should develop the long – term strategic plans for every aspects of its operation.
- G C should try to overcome its weaknesses by using the strengths. G C should have in – depth analysis of the Corporation’s strengths and weaknesses.
- G C should revise the pricing policy. The cost of production should be considered while pricing of the publication. It should attempt to control its production cost.
- There should be controlled the operating as well as non – operating expenses to increase the net profit of G C. The unproductive expenses should be reduced by management and administrative staffs of G C.
- G C should be prepared sales budgets on the realistic ground. Sales forecasting should be made after analyzing all variables that affect the market of the Corporation; effective program should be introduced to study the market.
- G C should develop production plan by interim time periods.
- Cost reduction is only the way to increase the Corporation’s profitability. Therefore cost reduction program should be introduced for each responsibility centers. There is excess burden of administrative and office expenses. Such expenses should be evaluated on the basis of the achievements.
- G C should manage effective sales promotion activities.
- G C should develop periodical performance reports about activities of Corporation.

- The study has found that there is a serious lack of professional management in G C. So, moves should be made to establish a skilled management to make sure that realistic plan are set and effectively implemented with continuous follows ups.
- For the proper Co – ordination with in organization line and staff authorities and responsibilities should be clearly defined. This will considerably help to solve the problem of conflict between departmental managers.
- Programs to improve the employee productivity should be made effective. Incentive plan to raise employee morale and motivation should be developed. Employees should be rewarded and punished on the basis of their work performance.
- G C needs to classify costs in scientific manner i.e. variables, semi – variable and fixed, so that cost can be better analyzed, effectively planned and controlled.
- G C should be developed planning experts to develop planning activities.
- For effective control of cost and expenses, the principle of flexible budget is important. G C has not use flexible budget at present. So, it should prepare flexible budget at present. So, it should prepare flexible budget for various volume of activity.
- G C should have to consider break – even analysis while preparing sales plan and adopt contribution margin approach to improve profitability.
- Capital expenditure should be planned in advance and discounted cash flow techniques should be applied to evaluate the proposals.
- Profit planning manuals should be communicated from top to lower levels. All personnel should be made to participate on decision – making and planning process.
- G C should decide and make policy about research and development, productivity, capacity utilization and costs control.
- G C is in loss mainly due to excessive non – manufacturing costs and excessive idle capacity. Management should initiate rigorous measures to avoid this situation. Cost reduction program should be formulated and applied and present cost – capacity structure should be changed, efforts to reduce fixed costs should be made.
- When developing the tactical profit plan, the expenses for each responsibility center should be carefully assessed. After the production plan has been

completed, expenses budgets should be developed for each responsibility center in the organization. Classification of an expenses item as controllable and non – controllable must be made with in a specific framework of responsibility and time.

- Finally, in the G C a systematic approach should be made towards comprehensive profit planning. Systematic approach can considerably contribute to increase the strength and the profitability of the Corporation.

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## APPENDIX-1

### Correlation between sales target and actual sales

FY	X (sales target)	Y (actual sales)	x <sup>2</sup>	y <sup>2</sup>	xy
2061/62	1659.87	1383.22	2755168.417	1913297.568	2295965.381
2062/63	1688.04	1486.44	2849479.042	2209503.874	2509170.178
2063/64	1684.96	1440.14	2839090.202	2074003.22	2426578.294
2064/65	1524.5	1397.6	2324100.25	1953285.76	2130641.2
2065/66	1644.54	1430.03	2704511.812	2044985.801	2351741.536
Total	$\sum X =$ 8201.91	7137.43	$\sum X^2 =$ 13472349.72	$\sum Y^2$ =10195076.22	$\sum XY =$ 11714096.59

Source: annual report of GC.

Correlation between budgeted (x) and actual (y)

$$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - (\sum X)^2} \sqrt{N.\sum Y^2 - (\sum Y)^2}}$$
$$= \frac{5 \times 11714096.59 - 8201.91 \times 7137.43}{\sqrt{5 \times 13472349.72 - (8201.91)^2} \sqrt{5 \times 10195076.22 - (7137.43)^2}}$$
$$= 0.506$$

∴ Correlation (r) = 0.506

## **APPENDIX-2**

### Correlation between targeted and actual production

FY	X (sales target)	Y (actual sales)	x <sup>2</sup>	y <sup>2</sup>	xy
2061/62	240.95	230.55	58056.9025	53153.3025	55551.0225
2062/63	250.57	240.57	62785.3249	57873.9249	60279.6249
2063/64	250.6	235.85	62800.36	55625.2225	59104.01
2064/65	265.5	260.98	70490.25	68110.5604	69290.19
2065/66	270.4	262.86	73116.16	69095.3796	71077.344
Total	$\Sigma X =$ 1278.02	$\Sigma Y =$ 1230.81	$\Sigma X^2 =$ 327248.9974	$\Sigma Y^2 =$ =303858.3899	$\Sigma XY =$ 315302.1914

Source: annual report of GC.

### Correlation between targeted and actual production

$$r = \frac{N\Sigma XY - \Sigma X \cdot \Sigma Y}{\sqrt{N\Sigma X^2 - (\Sigma X)^2} \sqrt{N\Sigma Y^2 - (\Sigma Y)^2}}$$

$$r = \frac{5 \times 315302.1914 - 1278.02 \times 1230.81}{\sqrt{5 \times 327248.9974 - (1278.02)^2} \sqrt{5 \times 303858.3899 - (1230.81)^2}}$$

$$= 0.981$$

∴ Correlation (r) = 0.981