

1. CHAPTER I

Introduction

1.1 Introduction

Nepal is a landlocked country wedged between two neighboring economic powers India and China. Its economy is a high cost economy due to indirect access to sea. The economy is encapsulated by high transportation cost leading to increasing dependence on India. Nepal's trade deficit is more than 60% with India. Though Nepalese consumers are hard hit for large quantity of necessary, intermediate and luxury goods are imported from India and overseas, which are expenses. In recent years Chinese goods have strongly penetrated Nepalese markets for their assured quality and prices match with interest of Nepalese consumers. Poverty is an intergenerationally transmitted rural phenomenon and an intractable problem with existence of a large degree of rural indebtedness in Nepal. A high extent of poverty is attributed to lack of assets and resources to sustain household economy with large size of families. More than 32% of the people live in a subsistence economy receiving less than US \$1 per day. Poverty migrates from south to north in Nepal. It is more acute in hills and mountains as compared to Terai and the Kathmandu valley. Poverty in Nepal has a strong co-relation with ecological conditions as well as socio-economic variables such as caste, occupation, sector of employment, education level, composition of income and family size. Due to acute poverty line, Nepalese youth are moving in search of blue color jobs in different nations like Gulf countries, Malaysia, South Korea and other parts of the world due to the fall in the effective demand for employment at home. Therefore, it is envisaged that Nepalese youth are moving from north to south and poverty moves from north to south. Hence, the major concern is that Nepalese cheap labor must be utilized in modernizing the Nepalese industry. Yes, there is a proverb that "single time food is enough as possible to development of nation but it is also not possible". Yes, today the nation has a higher remittance which sustained the economy in spite of political crises and civil war. In spite of rugged topography and terrible high altitude lands, there becomes an effort to attain growth and development of the

total 147,000 sq. km, land area limits 17.0 percent, which is not at all time suitable for cultivation of food and cash crops throughout the kingdom, except in the terai. Mid- hill is specifically appropriate only for tropical products. Although Nepal is rich in bio-diversity its resource base is poor. The commercial potential of bio- diversity comprising eco- system and species is not yet estimated and exact status of sub terrain resource is not known. So, industrialization is necessary to manufacture and identification of resources. Heavy dependency is identified in agricultural farming. True and modern method of development is not yet known by Nepalese farmers. People have no jobs other than farming. More than 79.0 percent people of the nation are involved in farming. True and expected economic growth is in evitable reason but such thing is not for seen in Nepalese economy. To reduce the over burden contents on Nepalese economy, there would require modernizing the manufacturing industry under new method of industrialization. Manufacturing industry is only mean to reduce underemployment, employment and reduce the import of goods as well as increases the internal foreign currency. For the industrialization planning, focuses on four key considerations are essential.

1. Balanced development of various sector of the economy
2. Reasonable rate of industrial growth
3. Order of priority in which industries are established
4. Extent of industrialization act.

It is realized that industrialization can bring the social change, employment, increments in social status, true purchasing power etc.

Industrialization in developing countries requires more rapid social transformation than that which was required in the early stages of western industrialization. Thus, it remains true that "industrialization is not merely a technological revolution; it involves profound social changes which must be fully taken into account if the process is to result in higher material standard and a greater degree of human welfare". Hence, many factories, industry under industrialization can accelerate the economy, employment, social status etc. Therefore, a consent planning is an evitable course of planning for the least developing, developing nation.

1.2 Background

1.2.1 Current state of world and Nepal

Ever- growing economic development of a country has become first and foremost priority of every country. Every effort is directed towards the achievement of this goal. Social and economic securities with better life are the requirement of every nation. Every nation has its own resources, competency and way of functioning supported by its own internal mechanism. The present day world has made it possible to share the advantages of competency and resources of every nation with each other. Effective and efficient utilization of the resources that a country possesses and sharing the benefits of the global economy in the interest of the people have become the realities of the world. All those challenges and opportunities can be met and utilized efficiently in desired way only through the effective plan today; global economy is estimated to have grown by 5.1% in 2004, highest in the decade, because of the strong economic growth of U.S.A, China, India emerging market economics and other developing countries. India and China have leading growth rates in Asian countries recording 6.70% and 9.50% respectively. Even though, Nepalese growth rate was near about 3.50%. Hence, growth rate is low affecting on the wealth of nation.

China and India have a target to be a leading nation by 2025 A.D. Nepal can take advantages from such economic. Market of India and China covers 2.5 billion populations. Manufacturing sectors is one of the leading sectors which accelerate the G.D.P of nation.

1.2.2 History of cottage industry

Ancient history reveals that, Nepal had few small cottage industries; such small cottage industries were the major sources of earning foreign currency. There would be a Benepa Dati Trade route in around seventeenth century (1639A.D). The route had highly encouraged the Nepal- Tibet trade, which in turn, encouraged to cottage type industry. It was considered that export- oriental- industries were appreciated in those days highly. King Prithvy Narayan Shah had emphasized the growth and development of cottage and

rural industries. There was evident that Nepal learnt the technology of paper making 900 years ago. This was mentioned by Kaultyla and Hiuen-tsing history of India and China respectively. Previously, history revealed that many industries of cottage type were flourished. And it was a source of foreign currency earning. But it could not continue even up to Rana Regime because of lack of the modernization of such industries.

1.2.3 Industrialization during Rana regime

The history of industrialization in Nepal dated back to 1936 (Pradhan, 1989). In the same year, Indian entrepreneurs with Nepali counter parts established a Jute Mill at Briatnagar, south east Nepal, adjacent to Indian border. However, the Rana regime (1836- 1951) had little concern with the industrialization of the country. During the Second World War, the shortage of manufactured consumer's goods from the more developed countries forced to establish domestic industries. Fourteen new joint stock companies were set up during the war (1939- 1951) and nineteen in the following five years (1946- 1951). Rice milling and oil extraction were the most important areas in which the new companies operated, but they also manufactured matches, paper, soap, furniture, cotton and wood textiles, jute(two mills), glass and ceramics. When the war ended the distribution of goods decreased. So many industries established between 1939 and 1950 went into heavy losses and were eventually forced to close down. For instance, more than half of the rice and oil mills established during 1946/ 47, 1989). The period was noted for social unrest. Strikes and lock outs frequent between 1953 and 1956, in the jute and cotton mills. Potential investors become cautious and preferred to invest their savings in less risky areas. Not a single joint stock company was established until 1960. During the Rana regime there was no industrial policy. The then HMG of Nepal after 1951 A.D, recognized that, the cottage industries will have a very important place in the economy because of hilly reasons of Nepal.

1.2.4 The plan period (1956-1970)

Nepal began its planning periods from 1956 A.D. Nepalese economy suffers from structural constraints. Industrial planning is an inevitable requirement of the nation. The announcements of new industrial policy were started in June 1958. The first elected government in 1958 made efforts to speed up the activities in various projects such as cottage industries, Establishment of industrial development cooperation (IDC) was established and later converted into Nepal industrial development corporation (NIDC) in 1959 to assist private industries and encourage small industries, Establishment of the timber corporation with a view to utilizing the forest products in the most scientific way and finally industrial estate were set up in Balaju through Indian aid, a detailed survey of Phulchoki and industrial state Bandipur were pleated.

The second plan (1962- 1965) recognized, "a certain number of new industries would be set up in the private sector, preference being given to such industries as are designed to reduce unemployment through utilization of raw materials available in the country and to build up a foreign exchange rescue by lessening imports and promoting exports Under the third plan (1965-1970) facilities such an execution of income tax, export duty, import duty, provision of foreign exchange for the priority sector industries, reputation of certain percentage of profits and capital were to be provided, and the plan emphasized that cement, lime and mica factories were to be established in the public sector and other industries were established either in the public sector or the private sector in accordance with the priority fixed. (Dahal, 2004:528)

1.2.5 The plan period (1970- 1990)

The fourth plan (1970- 1975) emphasized significantly on encouragement to the establishment of industries mainly in the private sector. Priority was also given to labor intensive industries, and the plan also recognized that the facilities to be provided to industries in each class would be clearly stated in view of the long term requirements of the country. Establishment of a number of industrial districts outside the Katmandu valley was envisaged and this trend was supported to contribute to regional development.

The objective of the fifth plan (1975- 1980) was to increase the output of the industries already established and set up some new industries. Despite power failure and labor unrest in the second part of the plan period, the industrial production registered a yearly growth of 6.7%. The main principles of the sixth plan (1980- 1985) was to highlight the development of cottage and small industries. Emphasis was placed on the progress of cottage and small industries so as to multiply employment prospects for low- income people and help in reducing the inequality. An industrial policy was evolved in 1981 together with industrial enterprises act and foreign investment act. The main objectives of the existing industries spur foreign investment and provide stimulus for industries in remote areas (part 1991). During the seventh plan (1985- 1990) a new industrial policy was launched in 1987. It aimed at raising self- replace (increasing the contribution at industry G.D.P formulating job opportunities, and reducing the balance of payments (Dahal, 2004)

1.2.6 From the eighth to tenth plan (1990- 2007)

The eighth plan was formulated with great enthusiasm and liberal economic policy by the newly elected government to encourage private sectors particularly in economic growth of the country. The eighth plan had emphasized on industrial development and the main objectives were to:

- a. Generate extra income and job prospects by enhancing the inter- relationship between the production- oriented industrial sector and other economic activities of the country,
- b. Boost the export- sector as a major source to earn foreign exchange by enhancing production, productivity and quality of exportable commodities,
- c. Import substitution by stimulating cottage and small industries and other industries to full- fill internal demand,
- d. Generate essential infrastructure for the utilization of mineral resources which have to increase capacity for commercial exploitation, and Boosts national production through the development of industries dependent on existing mineral deposits.

These objectives were backed by series of policies:

- a. Priority to be accorded to those industries that are export- oriented and import-substituting,
- b. Preference to be given to the private sector, foreign investment and joint collaboration,
- c. Foreign investment to be stimulated to foster foreign capital, modern technologies, management and technical skills in the internal industries,
- d. Orchestration to be made in the preference assessment and approbation of technologies appropriate to the nation and to encourage small industries in research and development,
- e. Necessary policies and guidelines to be devised to privatize public enterprises and raise the effectiveness of the corporation,
- f. A 'one- window' scheme would be furnished so that all amenities for coal and export rate investors can be obtained from an individual source,
- g. Industries of national significance to be developed, planning excessive priority and supplying appropriate inducements, in addition, the establishment of industries would be promoted through inducements in sectors where they have not come up with a view to ensuring balanced advancement of the nation,
- h. Institutional arrangements to be made to furnish technical aid and inducements, raw material inputs and market access for outputs generated by small scale and cottage industries,
- i. Local and foreign investment and technologies to be drawn to under takings in an orderly manner (NPC, 1992; 65- 66). The industrial growth rate during the eighth plan was 5.2% against the target of 12.4% (NPC, 1998). During this period, initiated various reforms through enacting acts to make industrial sector competitive and promote industrial development in Nepal.

These acts comprised

- a. Industrial policy 1992 and industrial enterprises act 1992;

- b. Foreign investment policy, 1992 and foreign investment and technology transfer act 1992; and
- c. Company act 1996.

During the ninth plan (1995- 2000), despite the initial positive results witnessed after the promulgation of industrial enterprises act and foreign investment and technology transfer act, industrialization suffered a setback due to deteriorations and lack of effectiveness in service industry. The growth rate of industrial index (base year 1985/ 86) declined to 2% in F/Y 2009/ 010 against the average growth rate target of 13% industrial sectors annual value added confined to 0.06% against the target of 9.1% envisaged in the ninth plan. The contribution of the industrial sector in G.D.P market 9.1% 2009/ 010, which was far below the average target of 14% set of the ninth plan. "The long- term vision of industry sector is to make the areas of comparative advantage more competitive, and promote and strengthen the role of private sector while minimizing the negative impact on environment to achieve a sustainable industrial development in the long run. The long- term goal of this sector is to enhance production and productivity and to create investment- friendly industrial environment. During the tenth plan (2002/2007) period the annual average industrial growth rate is expected to grow by 7.8%, while total industrial investment is projected to level Rs. 40 billion. The tenth plan also aims at creating additional 250,000 employment opportunities in the industrial sector. The major strategies designed for industrial development during the tenth plan comprises.

- a. Intellectual property will be protected;
- b. An industrial action plan will be prepared and implemented based on industrial perspective plan;
- c. The garment, woolen, carpet, pashmina and handicraft industries will have promoted and expanded at the regional level,
- d. Existing labor laws will be reformed and made flexible to connect the welfare and interest of investors and workers to industrial production;

- e. Industrial promotion will be launched in accordance with WTO, SAFFTA and BIMST-EC provision;
- f. Foreign direct investment (FDI) will be contracted and encouraged to invest in the areas of comparative advantage and
- g. Industrial act and other acts will be updated timely for the long- run development of the industrial sector. This is an overview of planning what were performed and what is being going over on. The manufacturing industries established in different planning periods are as follows. This would reveal an impact of budgeting plan in manufacturing industries. (Dahal, 2004:531)

1.2.7 Contribution of Manufacturing Sectors in Nepalese Economy

Various industrial policies promulgated since the sixties encouraged private sector to participate in industrial activities. The industrial policy 1992 embarked upon encouraging industrial development through the operation of market forces, substance reduction in licensing and strengthening support institutions. The industrial enterprises Act 1996 reduced tax incentives but created new avenues for enhancing private sector participation. The share of manufacturing sector in GDP estimated to be less than 10% declined to 8.097% and 7.98% in the F/Y 2010/011, 2009/010 reply. This decline largely attributed to ongoing conflict engulfed by recursion in the economy. The private sector provided employment to 313,123 persons including workers, administrations and technical, composing 191,853 persons from large manufacturing establishments and 121,270 persons from small manufacture establishment as of census 2001 (BS, 2002). The manufacturing and small manufacturing establishments were largely undertaken by private sectors. The state owned enterprises run by the government are also in the process of privatization. The major industrial groups operating under private sector are involved in various industries relating to food, beverage, tobacco, textile, leather, and leather products footwear, wood and wood products, paper and paper products, chemical products, rubber products, manufacture of curtly, hand tools etc. and manufacturer of electrical, industrial machinery apparatus and appliances. In addition to large and small

size manufacturing units, cottage and industries have made revenue contribution for the country. A total of 10 industries are in the hands of private sector and are in operations at a very small scale. This sector has been instrumental to address the problem of unemployment and poverty and to boost up export trade of the country. Hand looms, woolen carpets, hand knife products, woolen products, pashmina, handmade paper, ornaments and jewelries, artistic products, rural tanning and leather goods, cargo goods etc. are the few examples which fall in this category. Total firms registered under this sector during the F/Y 2008/09 were 9890 with total investment of Rs. 7720 million. In the first eight months of the F/Y 2009/010 additional 5116 industries of this scale have been registered with the capital investment of Rs. 3000 million.

1.3 Statement of the problem

Manufacturing industries play vital role in the economic growth of developing countries. It is evidence that savings of foreign currency can be made by reducing imports of daily usage goods. Hence, the fund available can benefit to establish the manufacturing industry. it will help to make conducive environment for the manufacturing sectors. Today, identification of scarce resources inside the country is one of the challenges and other challenges are to use management tools for efficient utilization of scarce resource. Today, modernization of industry can benefit the efficient use of resources. Nepal has unfavorable balance of payments. Globalization is one of important phenomenon which must be enjoyed so frequently. Nepal has entered into BIMESTIC, SAFTA and in WTO. Nepal has adopted liberal economy. Hence, to strengthen the economy has become a big challenge. It should be attainable after continuous use of management tools. Budgeting is one of the important management tool defined as a "comprehensive and coordinated plan, expressed in financial terms, for the operations of an enterprise for some specified period in the future. Private investment has so much prominently found in Nepal. Reviewing the history, manufacturing industry is backbone of countries. Nepal has a cheap- labor, cheap resources. Hence, effective utilization of resources makes product prize competitive. Therefore the government of Nepal for national interest initiated public enterprises. But many public enterprises suffered from revenue losses.

Table No. 1

Statement of Revenue and Losses of Public Enterprises (In lakh RS)

S .N.	PE'S	2008/09	2009/010	2010/011
1	Agro-lime industry Ltd	-47.00	-368	-200
2	Dairy development corporation	89.00	105.88	28.56
3	Herbs Production and Processing Company Ltd.	-95.00	-55.69	-81
4	Hetauda cement industry Ltd	-895.00	134.03	150
5	Janakpur cigarette factory Ltd	148.00	71.26	8.72
6	Lumbini sugar factory Ltd	-740.00	-814.33	-293.00
7	Royal drug Ltd	-822.00	-361.27	-446.95
8	Udaypur Cement Industry Ltd	-1194.00	-1352.76	-2067.02
	Total	-4290.00	-3453.55	-2879.13

(Pant, 2010:260)

From the above data it was revealed that out of eight public enterprises, six were found in revenue losses. There were dairy development corporations and Janakpur cigarette factory Ltd which were found in revenue gains. And the revenue losses of the companies were 4290, 3453.55 and 2879.13 in lakh for 2008/2009, 2009/2010 and 2010/2011 respectively. Therefore, the public enterprises were not able to play a dominate role in development of nation. Therefore A former chancellor of the exchequer of the United Kingdom rightly said that “It is not the business of the government to be in business and that neither in it the business of the government to be a government of business.” So the role of the government is to promote and regulate the business, not for the job of doing the business. Hence Private sector plays an essential role for sufficient development of the nation. Industrialization is possible through private investment. Hence, the following key problems are identified concerning profit planning and control with special reference to private investment with current state of challenge of WTO, BIMESTIC and SAFTA.

) Whether the norms of PPC tools are applied in Nepalese manufacturing or not?

-) Whether profit planning and control technique meets the WTO, BIMESTIC and SAFTA treaties or not?

1.4 Limitations of the study

The study is concerned with the use of profit planning and control in manufacturing companies. The study is not free from the following limitations.

The study does not explore economic aspects and political issues.

1. The study doesn't care non- trading concerns.
2. The research is based on primary data.
3. The Study is made on use of the profit planning and control in Specific industries

1.5 Objectives of the study

The developing countries are emphasizing industrialization, out of which, manufacturing is one of the sector which helps to made industrialization. Hence, the study has following objectives.

1. To examine the practices of PPC technique in Nepalese manufacturing organizations.
2. To examine the private contribution requires meeting the BIMESTEC, W.T.O and other regional co-operations and treaties.
3. To recommend the findings of the research.

1.6 Organization of the Study

The study has the purpose of examining, analyzing and interpreting the profit planning and control system in fifty respondent manufacturing companies. The study is organized within the framework of fifty respondent manufacturing companies.

Chapter 1 Introduction

It contained a brief history of development of manufacturing sectors in Nepal. It also covered the economic growth attained during the periods onward 2046 B.S.

Chapter 2 Review of Literature

The chapter contained the theories about profit planning and its tools such as, sales budget, production budget, material purchase budget, labor budget, overhead budget, capital expenditure budget, cash receipt and disbursement budget, activity based budgeting, zero based budgeting, flexible budgeting. The chapter also contained previous research performed by others.

Chapter 3 Research Methodology

The chapter contained the tools and methods used to gather the data and procedure used to analyze as well interpret the data.

Chapter 4 Data Presentation and Analysis

The chapter contained the presentation of the data gathered from primary sources. The result drawn after analysis was arranged in table formats. The techniques applied were also shown. Decisions were attached together in each table. Major findings were drawn together with test.

Chapter 5 Summary, Conclusion and Recommendation

The chapter contained summary of the research topic. It helps to overview the subject matter. Conclusion and recommendations about profit planning practices in manufacturing sectors were presented.

CHAPTER II

REVIEW OF LITERATURE

2.1 General Concept of Profit Planning and Control

The growth and success of every organization depend upon the profit earned by it. Usually profit does not just happen. Profit is the output of well manage activities. When management performs its activities in an organized manner for profit of an organization then it is known as profit planning. Profit planning is a major component of overall planning process of an organization. It is a plan of the firm's expectation and is used as a basis of measuring the actual performance of manager and their units. Profit planning is a comprehensive and coordinated plan express in financial terms for the operation and resources of an enterprise for some specific period in the future.

Profit: Profit is the primary measure of success of all business enterprise. Although in modern days many alternatives objectives of firm have been used, but no organization has been able to completely wipe out the profit maximization objectives or the objective of earning reasonable rate of profit. Profits are the main test of the business enterprise's performance. Simply profit starts from the excess of income over cost of production, but the term profit is very controversial and there are several different interpretation about this “an economist will say that the profit is the reward of efficient labor has produced and that it provides a base for negotiating a wage increase. An internal revenue agent might regard it as a base for determining income tax. The accounts will define it simply the excess of firm's revenue over expenditure. Management thinks profit as: a tangible expression of the goals it has set for the firm.

- a. A measure of the performance towards the achievement of goals
 - b. A means of maintaining the health, growth and continuity of the company.
- Economist theories on profits may be put in three broad groups. The first looks upon profit as the reward for bearing risk and uncertainties; the second views

profits as the consequence of frictions and imperfection in competitive adjustments of the company to dynamic changes; the third sees profit as the reward for successful innovation.”

(Dean, 1977:6)

Profit is the reward for bearing risk, of enterprise, the risk of venturing in business, the risk of owning sometimes in hope of selling it later However all the economists do not agree that profits arise due to risk and uncertainties.

“For the dynamic manufacturing industries, the most suitable definitions are profits depict them as the gains in national income that are generated by the managerial drive for distinction through creative innovation.”

(Dean, 1977:12)

F. B. Hawley defines ‘profit’ as the reward for taking business. J. M. Keynes held the view that profits resulted from favorable movements of general price level.

Planning: Every business needs a detailed plan of the activities, which are to be performed. Planning is a systematic way to achieve the pre-determined objectives and targeted goal of business. By the mean of planning process, one can determine what is going to do. Planning means deciding in advance what is to be done in future. It is a method of thinking out acts and purpose beforehand. Planning starts from forecasting and determination of future events. It is the first essence of management and all other functions are performed in advance of doing actions in future. Planning is the process of developing enterprise objectives and selecting future course of action to accomplish them. It includes

- a. Establishing enterprises objectives
- b. Developing premises about the environment in which they are to be accomplished
- c. Selecting a course of action for accomplishing the objectives
- d. Initiating activities necessary to translate plans into action and

e. Current re-planning to correct current deficiencies

(Welsch, 1992:3)

Planning is continuous process to be performed in organization. In the passage of time an organization should make the new plans and re-plans of the existing plans. A forecast is prediction of future event, condition or situation. Where as plan includes a program of intended future actions and desired results. Forecasting predicts the future events in such a manner that the planning process can be performed more accurately. “When company starts to develop policy then it wills starts, the forecasting of the company plan. This means planning the strategy and tactics to be used in achieving the objectives should be based on forecasting and policy.”

(Halsall, 1974:4)

John J. Hampton in his words, planning is the specific process of setting goals and developing way to reach them. Stated another way, planning represents the firm's efforts to predict future events and be prepared to deal with them.

Planning is an imagination, foresight, sound judgment etc. that is mental and intellectual process. The top level, medium level and lower level manager or all level managers participate in planning task, but planning differs as per the level. Planning is deciding in advance what is to be done in future. Planning is not only to make plan, rather it should be implemented by better utilization of resources for targeted & predetermined goal achievement. Planning is the feed forward process to reduce uncertainty about future. The planning process is based on the conviction that management can plan its objectives and condition that state of the enterprise that determines its density after analyzing and defining planning concepts, the following features of planning can be drawn:

1. Planning is goal oriented task.
2. Planning is primary function of management.
3. Planning includes all managerial activities.
4. Planning is an intellectual process of management.
5. Planning includes both short range and long range time span
6. Planning is used to reduce the uncertainty about future.

7. Planning is directed towards efficiency.
8. Planning is for to achieve pre-determined objectives and targeted goals.

For successful planning, following condition requires in the business organization:

-) Effective administration.
-) Effective Management Information System (MIS)
-) Reliable statically and other data.
-) Central planning authority.
-) Specific objectives and targeted goals and their priority basis.
-) Strong and stable government and policy.

Planning is performed for a specific period. It is divided into two types based on the period covered.

2.1.1 Strategic Long Range Planning:

Strategic planning is a top management function. Mission and overall objectives and policies are formulated by top management .A long range planning is closely concerned with the concept of corporation as a long living institution. It refers to the selection of company objectives and most likely to accomplish those objective. Long range planning cover 5- 10 years varying with the objective and type of the organization. It is one of the most difficult time span involved in planning as many problems of short range planning can be traced to the absence of clear sense of direction and the practice which a compressive long range plan practices.

The main purposes of long range planning are:-

1. To provide a clear picture of how the company is handled.
2. To keep enterprise in strong position.
3. For evaluating management personnel.
4. To expedite new financing.
5. To be alert towards new techniques.
6. For focusing long-term opportunities.

2.1.2 Tactical Short Range Planning:

The short range planning is selected to conform to fiscal quarters or years. Because of the practical need for comforting plans to accounting periods and somewhat arbitrary limitations of the long range it is usually based on the prevailing beliefs that the degree of uncertainty over long period makes planning of questionable value. Tactical short range plans cover about a year and are less formal and detailed a long range plans. It is done at all levels and involves directing the organization activities, overall strategies objectives consisting with the organization mission and policies. Single plans are developed for unique situation so it provides consistency for ongoing operations.

The main purpose of tactical planning is:

1. To acquire and facilitate resources, personnel and raw materials.
2. To control cost through planned acquisition and avoid higher cost purchasing.
3. To create new opportunities through assessing the environment and evaluating resources.
4. To avoid problems related to red tape.

2.1.3 Profit Planning and Control

Profit plan is estimation and predetermination of revenues and expenses that estimate how much income will be generated and how it should be spent in order to meet investment and profit requirements. In the case of institutional operation it presents a plan for spending income in a manner that does not result in a loss.

Hence Profit planning represents an overall plan of operations, covers a definite period of time and formulates the planning definitions of management “Profit planning is a well thought out operational plan with its financial implications expressed at both long and short range profit plans and budgets in the forms of financial statements, including balance sheet, income statement and cash and working capital projections.” (Matz and F.Usury, 1985:472) Whenever any person translates his operating plans into financial

terms and used his estimates of the probable income, expenses and profit as a guide in planning and conducting the operation of a business, he is in fact profit planning.

Profit planning is a part of an overall planning process and is an area in which the finance functions plays a major role. The term comprehensive profit planning and control is defined as a systematic and formalized approach for performing significant phase of management planning and control function. Especially it includes

The development and application of board and long range objectives for the enterprise.

-) The specification of enterprise goals.
-) A long range profit plan developed in board terms.
-) Short range profit plan detailed by assigned responsibilities (division, products and projects)
-) A system of periodic performance reports detailed by assigned responsibilities,
-) Follow up procedures

The term comprehensive profit planning may be broadly defined as a systematic and formulated approach for accomplishing the planning, coordination and control responsibility of management In modern age, profit plan and control is a very important tool of management and decision making for any business organization.

I.M. Pandey gives very appropriate and suitable definition of PPC. In his words, “a profit planning or budget is the formal expression of the enterprise's plan and objectives, stated in financial terms for a specified future period of time.” Profit planning and control represents an overall plan of operations. It covers a definite period of time and formulates the planning decision of management.

“Profit planning in fact is a managerial techniques and a profit plan is such a written plan, in which all aspects of business operation with respect to 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. Profit planning is a predetermined

detailed plan of action developed and distributed as a guide to current operation and as a basis for a subsequent evaluation of performance.”

(Gupta, 1992:521)

“Profit planning is a comprehensive plan expressed in financial terms by which an operating program is effective for a given period of time. Business managers are continually involved in planning, organizing and controlling the operation of both large and small business organizations”.

(Bajracharya, 2004:344)

The profit planning and control is used for the development and acceptance of objective and goals and moving an organization efficiently, systematically and timely to achieve the predetermined objectives and targeted goal. It is not a separate technique that can be thought of as operated independently of the total management process. Rather the broad concept of profit planning entails integration of numerous management approaches and techniques. Profit planning and control can be reviewed as one of the major valuable approaches that have been developed to facilitate effective performance of the overall management process.

“Success is not matter of chance. It happens through a systematic planning. In business profit does not just happen. It is to be managed .profit planning is the numerical planning for profits covering the areas of future revenues and costs.”

(Bajracharya, 2004:344)

There are three most relevant aspects of the PPC, they are:

- a. PPC required major planning decisions by management
- b. PPC entails pervasive management control activities and
- c. PPC recognizes many of the critical behavior implications throughout the organization.

“The main purpose and principle of profit planning are as follows”:

-) To provide a realistic estimation of income and expenses for a period and of the financial position at the close of period, detailed by areas of management responsibility.
-) To provide a coordinated plan of action, this is designed to achieve the estimates, reflected in the budget.
-) To provide a comparison of actual results with those budgeted and an analysis and interpretation of deviation 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 condition change.
-) To provide a ready basis for making forecasts during the budget period to guide management in making day to day decisions.

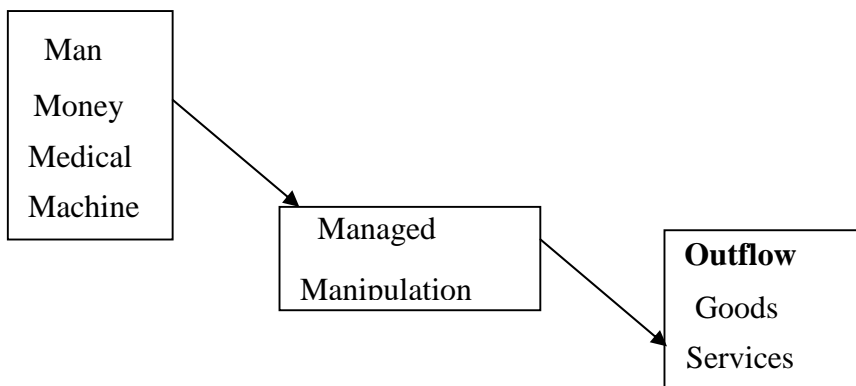
(Keller and L ferrara,1996:389)

2.1.4 Decision Making on Profit Planning & Control:

- a. Manipulation of inflows
- b. Manipulation of outflows
- c. Generation of Profit

Figure No - 1

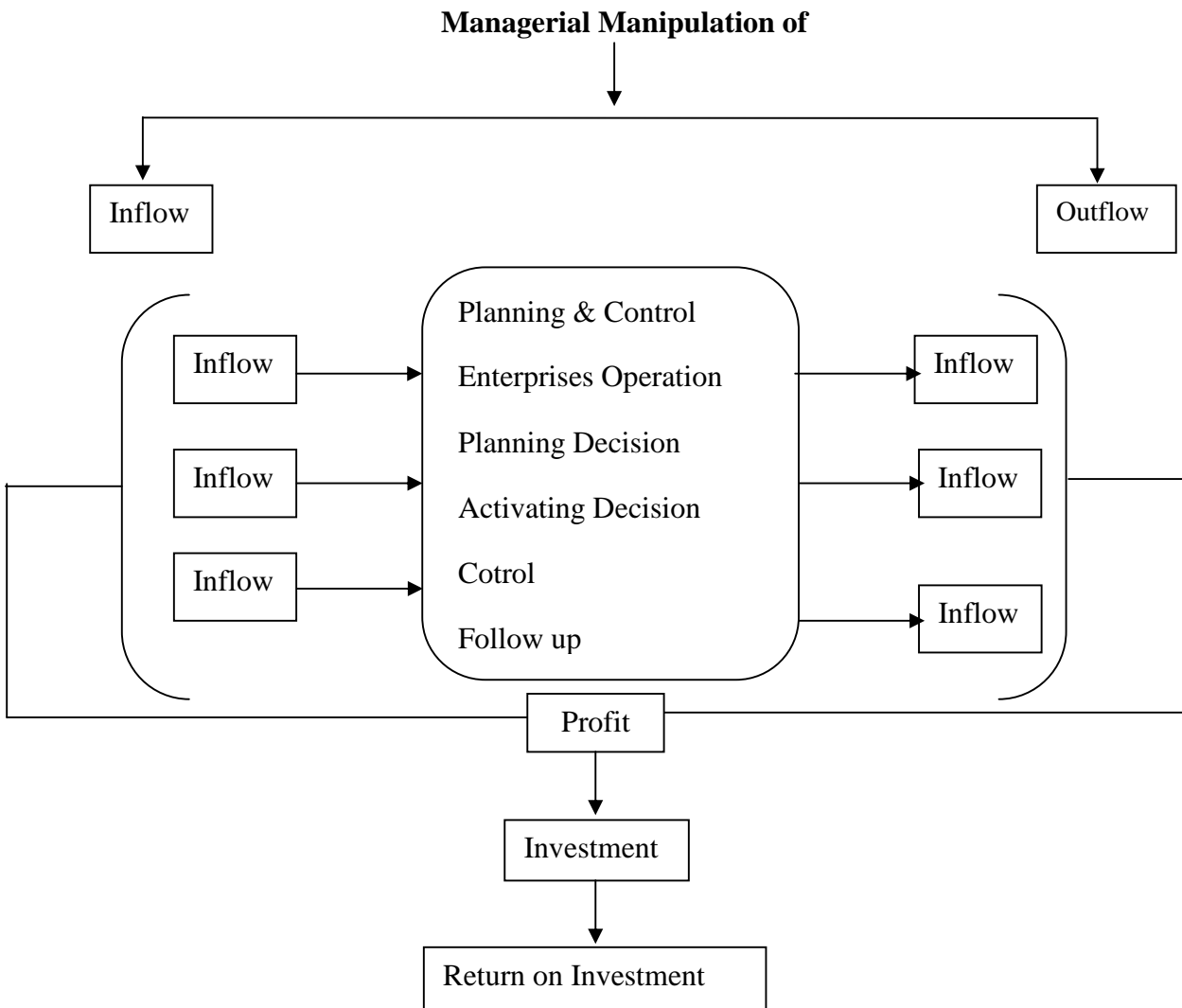
Inflows



To attain long range objective of an organization (to maximum profit or return on investment), management has to take proper decision on manipulation of inflow and outflow through management process (planning, coordinates, activating and control).

Planning Inflow and Outflows of and Enterprise

Figure No -2



To attain long range objective of an organization (to maximum profit or return on investment), management has to take proper decision on manipulation of inflow and outflow through management process.

Decision must show self confidence

Decision making requires

- a. Courage
- b. Imagination
- c. Creation
- d. Seize of positive opportunity
- e. Escape of the onset of decline

Decision Making Involves

- a. Manipulation of the relevant controllable variables
- b. Taking advantages from the situation of relevant non controllable variables

Controllable variables: These variables that can be actively planned and manipulated by management decision.

Uncontrollable Variables: Those variables that cannot be manipulated or influenced by managerial decisions. They are external to business environment.

The Essence of Managerial Control

As with planning and controlling, control is performed continuously. Therefore, there is control process that should always be in operating environment of enterprise. Controlling can be defined as a process of measuring and calculating actual performance of each. Organizational component of an enterprise and imitating corrective action when necessary to ensure efficient accomplishment of enterprises objectives, goals, policies and standard for planning achieves the objectives, goals, policies and themes of an enterprise.

Control is exercised by using personal evaluation, periodic performance reports and special reports. Another view that identifies the types of control as follows:

1. Preliminary Control (Feed forward): Used prior to action to ensure that resources and personnel are prepared and ready to start activities.
2. Concurrent Control Usually provide performance reports): Monitoring (by using personnel Observation and reports) of current activities to ensure that goals are being met, and policies and procedures are being followed during action.
3. Feedback Control : Expert action (pre planning for using on part result to control future activities)

(Weslch, 1999:15)

Management control is carried on within the environment established by strategic planning. Its primary emphasis is on carrying out the policies resulting from strategic planning, rather than on setting them, its time span tends to be short to intermediate term. The activity is some what rhyme in its pattern of activity and scheduling. Because of the pervasive nature of tax function, the participation of management at all levels of the organization is usually required. Its goals are tangible within the broad framework of overall organization objectives and its focus is on line management which participates in the formulation of terminal plan and the criteria by which the line manager performances is to be measured.

(Lynch, 1983:140)

The Fundamental of Profit Planning The concept of budgeting was originally established with the function of an accountant. At its origin the function was assigned to the accountant. But in modern day budgeting is given much more importance and is regarded as a way to management and in more important sense is regarded as a base technique of decision making and is given the home of profit planning & control program. The Mechanism of Profit Planning and Control Mechanism of profit planning includes the matter related with design of budget schedules, clerical computation of such schedules and routine computation and checks of such schedules. In Modern day budgeting is given much more importance rather as a way of management and in more important sense is regarded as basic techniques of decision making and is given of profit planning & control program.

A well established and well understood profit planning and control concept leads an organization to ultimate success. The review of planning and control is more understand by as follow:

1. The Techniques of Profit Planning & Control

Those approaches like forecasting sales volume, a frequent application in operation research (approach in resolving the sales, production, inventory problems, break-even-analysis, resources determination) which can be developed and used for managerial decision making process is known as techniques.

2. The Fundamentals of Profit Planning and Control

The fundamentals are concerned with effective application of the theory at management process it is applied for desirable management orientations.

Following are the some of the important fundamentals of profit planning and control:

- a. Managerial Involvement and Commitment
- b. Organizational Adoption
- c. Responsibility Accounting
- d. Full Communication
- e. Realistic Expectation
- f. Timeless
- g. Flexible application
- h. Behavior management
- i. Follow up

2.1.5 The Profit Planning & Control Process

Introduction

Regardless of the type of endeavor, the management task is essentially the same that is to create and maintain an internal environment in which individual working together as groups attain efficient performance in conformity with the broad objective of the

enterprises. The environment should motivate individuals to make their maximum contribution to the efforts of the groups. Because economic, political, social and technological factors operating in the external environment have a significant impact. The management must understand and try to harmonize the internal environment with them.

The management generally adopts one of the basic view points.

1. Management by Objectives (MBO):

This is a management view point that emphasizes the planning function. The specification of enterprises objectives, goals, and plans is viewed as the aspiring race that integrates financial resources, production activities and performance by people. It leads to the control function.

2. Management Control System (MCS):

This is a management view point that emphasizes the control function. These view points first specify the necessity for purpose of control.

(Welsch, 1999:72)

2.1.6 Process of Profit Planning

A profit-planning program includes more a traditional idea of a periodic or master budget. The term comprehensive means (a) The application of the broad concept of profit planning and control to all phases of operation in an enterprises and (b) The application of total system approach.

The profit planning process should involve periodic consistent and in- depth re-planning so that all the aspect of operations is carefully reexamined and re-evaluated. There are eleven steps in profit planning processes which are discussed below:

a. Identification and Evaluation of External Variables

The variable- identification phase of the PPC process focuses on (a) identifying and (b) evaluating the effects of the external variables. Identification also involves separate

consideration of variables that are non-controllable and those that are controllable. This means that management planning must focus on how to manipulate the controllable variables. Moreover there must be managerial planning of how to work with the non-controllable variables. By relevant variables we mean those that will have a direct and significant impact on the enterprise. For long business with a national market, the relevant variables would be broad in scope, whereas a small business would be concerned primarily with regional and local variables operating within the narrow environment of the enterprise. Analysis and evaluation of the environmental variables must be a continuing concern of management. This activity should involve all executive managers, who in turn should export various staff groups to provide data and recommendations. A particularly significant phase of this analysis includes an evaluation of the present strength and weakness of the enterprise.

b. Development of the Broad Objectives for the Enterprises

On the basis of evaluation of the enterprises and practical assessment of strength and weakness of the enterprises management is in a position to develop the realistic objective of the enterprises. Development of the broad objectives of enterprises is a relevant variable and an assessment of the strength and weakness of the organization executive management can specify this phase of profit planning. "The statement of broad objective should express the mission, vision and norms of the enterprise.

c. Development of Specific goals for the Enterprise

It should express the mission, vision and rational attitude of the enterprises. It is a responsibility of executive management and also can specify or restate the profit planning process on the basis of evaluated variables and an assessment of the strong and weakness of the organization. The purpose of phase is to provide enterprise. Identify continuing of purpose and definition.

d. Development and Evaluation of Company Strategies

The strategies are the basic thrust, ways and tactic that will be used to attain planned objective and goals. A particular strategy may be short or long term. The purpose of

development of strategies is to find the best alternatives for attaining the planned broad objectives and specific goals. It focuses on how to Plan. Here is some example of basic strategies.

-) Increase long-term market penetration by using technological to develop new products and improve current products.
-) Emphasize produce quality and price for 'top' of the market.
-) Market with low price to expand volume.
-) Use both industrial and local advertising programs to build market.
-) Improve employee moral and productivity by initiating a behavior management Program.

e. Executive Management Planning Instructions

The process involves communication of the substantive plan to middle and lower management levels. It explains the broad objectives, enterprise goals, enterprise strategies, and any other executive management instruction needed to develop the strategic and tactical profit plans. It is also called the statement of planning premises or the statement of planning guidelines. The executive planning instructions, issued by top management, communicate the planning foundation that is necessary for the participation of all levels of management in development of the strategic and tactical profit plans for the upcoming budget year. Executive leadership is fundamental in developing and articulating this planning foundation, including the formulation of relevant strategies. Consequently, at this point in the planning process, the foundation has been established to articulate the broad specific objectives of the enterprise and the strategies that facilitate their attainment.

f. Preparation and Evaluation of Project Plans

Periodic and Project plans are different in nature and function, project plan encompass variable time horizons, because each project has a unique time dimension. Project plans encompass such items for improvement of present production, new and expanded physical facilities etc. The natures of project are such that they must be planned as

separate units. In planning for such a project the time span considered most normally is the anticipated life span of the project. The preparation and evaluation of current and future project plans are essentially depends on a formal plan basis.

g. Development and Approval of Strategic and Tactical Profit Plans

When the managers of the various responsibility centers in the enterprise receive the executive management planning instructions and the project plans they can begin intensive activities to develop their respective strategic and tactical profit plans. The strategic long- range plan and the tactical short-range profit plan are usually developed concurrently. It is possible that executive management or the chief financial executive will develop the strategic and tactical profit plans. This approach is seldom advisable because it denies full participation in the planning process by middle managers. Lack of participation can cause unfavorable behavioral effects.

h. Implementation of Profit Plans

Implementation of management plan that have been developed and approved in the planning process, the management function of leading subordinates in attaining enterprise objective and goals. Thus effective management at all levels require that enterprise objectives, goals, strategies, policies be communicated and understood by subordinates. There are many facts involved in management leadership. However, a comprehensive profit-planning program may subordinate on performing this function, plan strategies, and policies developed through significant participation, establish the foundation for effective communication. The plan should have been developed with the managerial convention that they are going to be met or exceeded in all major respects. If these principles are effective in the development process various executive and supervisor will have a clear understanding of their responsibilities and the expected level of performance.

i. Use of Periodic Performance Reports

As profit plans are being implemented during the period of time specified in the tactical plan, periodic performance reports are needed. This performance reports are prepared by the accounting department on a monthly basis, also some special performance reports are

prepared more often on an "as needed basis." A clear distinction must be made between external and internal financial reports. Internal reports can be further classified as (a) statistical reports that give the basic quantitative internal statistics about the operation of the enterprise. (b) Special managerial reports about nonrecurring and special problems; and (c) Periodic performance reports. This later reports focus on dynamic and continuous control tailored to the assigned managerial responsibilities.

j. Use of Flexible Expenses Budgets

The flexible expenses budget is also referred to as the variable budget, sliding scale budget, expense control budget, and formula budget. Flexible budget give realistic information about expenses that make it possible to compute budget amounts for various output volumes or rates of activity in each responsibility center.

k. Implementation of Follow-Up

Performance reports are the bases for effective follow-up action. This is a Part of effective control. It is important to distinguish between cause and effect. The performance variations are effects (the results); the management must determine the underlying cause, the identification of causes is primarily a responsibility of line management. Analysis to determine the underlying causes of both favorable and unfavorable performance variances should be given immediate priority. In the case of unfavorable performance variances, after identifying the basic causes, as opposed to the results, an alternative for corrective action must be selected. Then the corrective action must be implemented. In the case of favorable performance variances, the underlying causes should also be identified.

(Welsch, 1999:75)

Table No. 2

Overview of Profit Planning and Control

Management Function	Sequential Phase of the PPC Process	Primary Responsibility
<p style="text-align: center;">↑</p> <p style="text-align: center;">Planning</p> <p style="text-align: center;">↑</p>	External Relevant Variables: Identity and Evaluate	<p style="text-align: center;">↑</p> <p style="text-align: center;">Executive</p> <p style="text-align: center;">Middle mgmt.</p> <p style="text-align: center;">↑</p>
	Broad Objectives of the Business: Develop or Revise	
	Specific Enterprise Goals: Develop Consistent with item 2 above	
	Enterprise Strategies: Specify major trusts to attain the objectives and goals	
	Executive Management Planning Instruction: Specify Planning Premises (or guidelines) for managers (based on item 1-4 above)	
	Project Plan: Develop or overate for each project	
	Strategic Profit Plan (Long Range): Develop for 3.5 or 10 years	
<p style="text-align: center;">Leading</p>	Tactical Profit Plan (Short Range): Develop for upcoming year	<p style="text-align: center;">All mgmt. levels</p>
	Implementation of Profit Plans: Implement throughout the budget year	
<p style="text-align: center;">↑</p> <p style="text-align: center;">Controlling</p>	Performance Reports: Prepare monthly responsibility	<p style="text-align: center;">↑</p> <p style="text-align: center;">All mgmt. levels</p>
	Follow up: Provide feedback, takes corrective Action and re-plan.	

Outline of the Components of a Typical PPC Program

A. The Substantive Plan

1. Broad objectives of the enterprises
2. Specific enterprises goals
3. Enterprises strategies
4. Executive management planning instruction (planning premise)

B. The Financial Plan

1. Strategic long-range profit plan:

- a. Sales, cost, and profit projections
- b. Major projects and capital additions
- c. Cash flow and financing
- d. Personnel requirements

2. Tactical short-range (annual) profit plan:

- a. Operating plan:

Planned Income Statement:

- I. Sales plan
- ii. Production (or merchandise purchases) plan
- iii. Administrative expense budget
- iv. Distribution expense budget
- v. Appropriation-type budgets (e.g., research and development, promotion, advertising)
- b. Financial-position plan

Planned Balance Sheet

- i. Assets
 - ii. Liabilities
 - iii. Owners' equity
- c. Cash Flow Plan

C. Variable Expense Budgets:

Output-Expense Formulas

D. Supplementary Data:

(e.g., Cost-volume profit analyses, Ratio analyses)

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

F. Follow-up, Corrective Action, and Preplanning Reports

As well as the outline of PPC component is defined as follow:

Substantive Plan: It represents the broad objectives, strategies, specific plan and programs of the organization and by the concurrent commitment of management to long range accomplishment of there objectives and plans. It can be categorized as the “Prose part” of the plan rather than the number part of the plan.

Financial Plan: Quantifies the planned financial results of implementing managerial objectives, planned strategies, plans and policies. The financial plan then represents a translation into financial terms of objectives, goal and strategies of management for specific periods of goals.

Variable Expenses Plan: Under the guideline of sub plan & financial plan, there would be preparation of expenses plan i.e. called variable expenses plan.

Supplementary Data: It reveals the necessary information require for preparation of plan like by understanding breakeven point of company and company is financial ratio.

Performance Reports: It includes comparison of developed plans and actual achievement. And it provides the information either the goals is achieved or not. As well as it helps to control the expenses therefore, it is a necessary component of PPC.

Follow up, Corrective Action and Re-planning Reports: A developed plan helps to follow the goal strategies to achieve the target. As well as necessary action to achieve the set targets and re-planning necessary achievements therefore a significant combination is require to achieve the objectives of management.

To prepare comprehensive profit plan, there would necessary to prepare following plans like: Sales Plan, Production Plan, Material Purchase Plan, Labor Plan, Overhead Expenses Plan, Capital Expenses Plan, CVP Analysis, Cash Receipt & Distribution Budget, Activity Base Budgeting, Zero Base Budgeting and Flexible Expense Budget. These are describing one by one continuously

2.2 Sales Budget

Introduction

Business Endeavors have various specific objectives. Out of them, profit is an important objective. Sales Budget is prepared after a brief preparation of sales plan. Under sales lan there should be a continuous survey of demand and supply of products. Sales plan ensures either to penetrate the new market, or launch new products. It is one of the important tools among the profit planning control (budgeting). It reveals the idea to prepare the other budgets like production budget labor budgets, overhead budgets, capital expenditure budgets, cash receipt & deposit budgets etc. This is a serious task to control over market. It can be made possible by survey, looking the activities of competitors, perception of consumer about products. Sales strategies are building up after a brief survey of these things. Hence sales budget is a backbone of profit planning & control tools. It can be prepared after a brief survey of market, such that sales forecasting or

planning techniques with coordination to responsible management who has full responsibility.

2.2.1 Meanings

Comprehensive Sales Planning

The sales planning process is necessary component of PPC because (a) It provides for the basic management decisions about marketing and (b) Based on those decisions, it is an organized approach for developing comprehensive sales plan. If the sales plan is not realistic, most if not at all of the other parts of the overall profit plan also are not realistic. Therefore if the management believes that a realistic sales plan cannot be developed, there is a little justification for PPC. Despite the views of a particular management, such a conclusion may be an implicit admission of incompetence. Simply, if it is really impossible to assess the future revenue potential of a business, there would be little incentive for investment in the business initially or for continuation of it except for purely speculative ventures that most managers and inventors prefer to avoid.

A comprehensive sales plan includes two separate built related plans- the strategic and tactical sales plan. A comprehensive sales plan incorporates such a management decision as objectives, goals, strategies and premises. These translate into planning decision about planned volume (units or jobs) of goods and services, prices, promotion and selling efforts. The primary purpose of sales plan is (a) to reduce uncertainty about future revenues (b) to incorporate management judgments and decisions into the planning process (c) to provide necessary information for developing other elements of a comprehensive profit plan (d) to relate management control of sales activities.

(Welsch, 1999:172)

Therefore a comprehensive sales plan encompasses both revenue (that is sales volume) and selling cost components for profit planning & control purpose, it is useful to view sales planning as encompassing a sellers of components parts that can be as follow.

Establish the foundation by developing.

1. Enterprise Objectives
2. Enterprise strategies
3. Sales forecast Build the sales plan by developing goals specified
4. A promotion and advertising plan
5. A selling expense plan
6. A marketing plan

The primary objective of a sales plan is to express the best judgment of the management on potential future sales revenue based up on

1. Present knowledge of the company
2. The environment
3. The impact on the firm of enterprise objectives
4. Management strategies, both in the long run & short run

) **Enterprises Objectives:** It provides the broad goals around which the sales plan is developed.

) **Managerial Strategies:** It provides a basis for judgments of the impact of aggressive company actions.

) **Sales Forecast:** It provides technical projections of customer demand under certain assumptions.

) **Promotion, advertising, selling plans** express planned commitments of resources necessary to attain the volume of business included in the final marketing plan.

) **Marketing Plan:** It represents sales volume and sales revenue expectation to be generated by the planned commitment of company resources in the sales effort.

(Welsch, 1972:75)

Sales planning may be strategic sales plan and tactical sales plan

Strategic sales plan consist with five, ten years of planning and tactical sales planning consists with quarter, monthly and yearly planning.

Components of Comprehensive Sales Planning

A comprehensive sales plan should satisfy the requirements of, and be consistent with, the overall comprehensive PPC program. The components of comprehensive sales planning areas,

Table No. 3

Components of Comprehensive Sales Planning

S.N.	Components	Strategic Plan	Tactical Plan
1	Management policies and assumptions	Broad and general	Detailed and specific for year
2	Marketing Plan (Sales and services revenues)	Annual amounts; major groups	Detailed; by products and responsibility
3	Advertising and promotion plan	General; by year	Detailed and specific for year
4	Distribution (Selling exp. Total fixed and total Plan)	variable expenses; by year	Fixed and variable exp. by month and by responsibility

Developing a Comprehensive Sales Plan

Starting with the foundation of a comprehensive sales plan, a basic question is: How should a company proceed to prepare a comprehensive plan? The components of the plan listed provide guidance that can be generalized for discussion purposes as follows:

Step 1: Develop management guidelines specific to sales planning including the sales planning process and planning responsibility.

Step 2: Prepare one (or more) sales (market) forecast consistent with specified forecasting guidelines including assumptions.

Step 3: Assemble all the other data that will be relevant in developing a comprehensive sales plan.

Step 4: Based on steps 1, 2, and 3 above, apply management evaluation and judgment to develop a comprehensive sales plan.

Step 5: Secure managerial commitment to attain the goals specified in the comprehensive sales plan.

(Welsch, 1999:176)

2.2.2 Sales Forecasting:

It is the preliminary stage of the sales planning. A sales forecast, as distinguished from a sales plan, is a technical projection of the potential customers demand for a specified time horizon and with specified underlying assumption. A sales forecast is converted to a sales plan for which management has to bear on it with judgment, planned strategies, commitments of resources, and the managerial commitment to aggressive actions to attain the sales goals. Though, the technically trained staffs involved in analyzing the various models such as trend fitting, correlation analysis, mathematical models, exponential smoothing, and operations research techniques. Today, computer programs are also involved in analyzing the complex data. Therefore, the importance of sales forecast is towards the attainment of managerial activity for developing a sales plan. It is the preliminary step feeds into the planning process, that management judgment and strategy are brought to bear. The forecast is revised in the planning process to take into account management objectives. Strategies and resources commitment (advertising, promotion and other sales efforts) so that a realistic sales plan results. Sales forecast is essential for the direct commitment in such areas like plant expansion, prices change, promotional program, production scheduling expansion or contraction of monetary activities and other resource commitments. Hence, sales forecast is the initial stage for the developments of sales plans.

2.2.3 Methods of Projecting Sales:

Although projecting sales is a difficult task. So there are various approaches involved in classification of projecting sales. **Under the first classification** there would be two approaches. One is the causal approaches; under this approach the underlying variables that have a causal influence on future sales are identified. In casual variables there are 1) **Causal Variables** over which the company has no control, such as population, gross national product, and general economic conditions; 2) **causal variables** over which the company has control, such as product lines, prices, advertising and promotion expenditures, size of the sales force and sales areas. The second category may be designated as the non causal approach; under this approach historical sales of the company are analyzed in depth and an expression of the historical events are plotted in order to project future sales. Another useful classification of method involves two approaches, they are direct and indirect. Under the indirect method of projecting future sales, industry sales are projected, followed by a projection of the company's share of the industry total. In contract, the direct method involves straight forward approaches to develop company sales estimates without a proper projection for the industry as a whole. Both the direct and indirect method may utilize the causal or non causal approaches. The third classification of method of projecting sales may be generally outlined as follows

1. Judgmental Methods (Non Statistical)

- a. Sale force Composite
- b. Sales division supervisors Composite.
- c. Executive opinion method

(Welsch, 1972:185)

2. Statistical Methods

- a. Economic rhythm method (trend analysis)
- b. Cyclical Sequence method (correlation analysis)
- c. Special historical method
- d. Cross cut method

3. Special Purpose Method

- a. Industry analysis
- b. Product line analysis
- c. End use analysis
- d. Combination of Methods

(Welsch, 1972:185)

2.2.4 Control of Sales and Related Expenses

The development of and top management commitment to a realistic sales plan provides the foundation for effective control of sales efforts and distribution expenses. The sales goals (volume and revenue in rupees), promotion plans (Planned expenditures) and distribution activities (exp.) are basic goals. These are relatively broad goals, which suggest the need for numerous short term and specific standards as part of the total control effort of the management. Examples of specific standards that may be used for sales control purpose are:

1. Number of calls per period per sales person
2. Number of new qualified prospects
3. Number of new customers
4. Rupees of direct selling expenses per sales person
5. Selling exp as a percentage of sales Rupees
6. Average size of orders
7. Number of orders not honored.
8. Number of orders per call made
9. Rupees sales quotas per sales person per period.

(Welsch, 1999:186)

2.2.5 Preparing Distribution Selling Expenses Budgets

Distribution expenses are not product costs and are not allocated to specific products. A separate distribution expenses plan should be developed for each responsibility centre in the distribution function. Typically, this would compare “home-office” centre and “field centre”. The top marketing executive has the overall responsibility for developing the distribution expenses plans or budgets. Following the principle of participation, the manager of each responsibility centre should be assigned direct responsibility for that department distributions expense plan.

2.2.6 Consideration of Alternatives in Developing a Realistic Sales Plan

Developing a realistic sales plan involves consideration of numerous policies and related alternatives and a final choice by executive among many possible course of action. Important decision must be made about such issues as new products, discontinuous of present products, pricing, expansion or contraction of sales areas, size of sales force, new direct channels, distribution cost limitation and advertising and other promotional policies. A realistic sales plan includes a complex set of interrelated management decision. For illustrative purposes, it will be desirable to consider two pervasive sales planning problems:

- a. Price Cost Volume Alternatives
- b. Product Line Alternatives

a. Price Cost Volume Alternatives

It is a vital part of sales planning, in a competitive market price and sales volume are mutually interdependent. Because sales volume and prices are so closely tied together, a complicated problem is posed for the management of almost every company. Hence, two basic relationships are necessarily required to develop 1) estimation of the demand curve, that is, the extent to which sales volume varies at different offering prices, 2) the unit cost curve which varies with the level of productive output.

(Welsch, 1999:186)

b. Product Line Consideration in Sales Planning

Determination of the number and variety of products that a company will plan to sell is crucial in the development of sales plan. Both the strategic and tactical sales plans must include tentative decision about new product lines to be introduced, old product lines to be dropped, innovations and product mix. There are being various problem areas, which needs to be planning and control of the distribution expenses. Hence, such includes increase in sales increase in traveling expenses as well as reduction in sales and reduction in traveling expense. This is primary approach developed by same companies. But rather the account of like this is varying in practical. Because reduction in sales should require more travel expenses to advertise. Therefore special area must be analyzed, planned and controlled separately other special problems in planning distribution costs relate to freight entertainment, warehousing, returned goods, and special allowances. Development of a promotion and advertising plan is a complex endeavor that should involve most of the marketing managers. Company requires meeting with requirement of the promotion & advertising expenses. Hence, there would require a manager who will responsible for such expenses and planned them so that it would have a better result. The approaches useful in course of the promotion and advertising are a) arbitrary appropriation b) all available funds c) competitive parity d) percentage of sales e) fixed sum per unit f) previous year's profits g) return on investment h) task method

Planning Administrative Expenses

Administrative expenses include those expenses other than manufacturing and selling 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 any one function. Because a large portion of administrative expenses are fixed rather than variable, the notion persists that they cannot be controlled. Aside from certain top management salaries, most administrative expenses are determined by management decisions. It is common to find administrative expenses "top heavy" when measured by the volume of business done.

(Welsch, 1999:185)

2.3 Planning and Controlling Production: Work in Process and finished Goods Inventories

2.3.1 Introduction

To develop a full-sketched spectrum of PPC, it needs to develop first a sales budget. It opens the door to develop the production plan and budget. It reveals the real spectrum of a company like for service company, develop a service capability requirements ,for a retail or whole sale enterprises the sales plan must be translated into merchandise purchase requirements, and for a manufacturing enterprise, the sales plan must be converted to production (Manu) requirements. The plan includes sub budgets for the production, finished goods and work in process inventories, and manufacturing overhead. Many of the concepts of inventory planning are applicable to non manufacturing settings.

2.3.2 Overview of Production Planning:

The marketing plan specifies the planned volume of each product (or groups of similar products) for each time period throughout the planning period. The further step is to plan for production. This entails the development of policies about efficient production levels, use of productive facilities, and inventory levels (Finished Goods and W-I-P Inventory). The quantities specified in the marketing plan, adjusted to conform to production and inventory policies, give the volume of goods that must be manufactured by product and by interim time period. Thus, the production budget can be represented in this way, **sales volume ± finished goods inventory change = production requirements**. The flow of planning activities from sales through the manufacturing plan, in addition to the manufacturing plan, there is a need for budgets that plan costs in the non manufacturing functions of products promotion, selling and administration.

(Welsch, 1999:210)

2.3.3 Responsibility for Production Planning

The completed marketing plan should be given to the manufacturing executive who is responsible for translating it into a production program consistent with managerial policies and subject to certain constraints. Planning, scheduling and dispatching of the actual production throughout the year are function of the production department; therefore, it is essential that responsibility for the planning and control of these functions be performed by the production managers. These managers have firsthand knowledge of the plant and personal capacities, availability of materials and production process. Although responsibility rests directly upon the production manager, top management policies must be considered in such matters as inventory levels, stability of production, and capital additional (plant capacity). An efficient and coordinated production plan requires the careful attention of executive management, particularly where there is multi - plant production requiring the determination of both time and place of production.

With respect to production planning, the managers must plan an optimum coordination between sales, inventory and production levels. An efficient and coordinated production plan is necessary for economical manufacturing. Lower Production costs usually result from standardization of products and stable production levels. Sales managers are usually aggressive in requesting new products and changes in the old products. There may be pressure from both sales and manufacturing for high inventory levels. Therefore, there must be coordination between sales plans, production plans and inventory policies. The production budget and inventory policies provide the basis for obtaining this coordination. Today, some new inventory systems are developed in production and inventory scheduling systems known as MRP system and Just in Time (JIT) manufacturing system.

(Welsch, 1999:211)

Production Budget:

The budget related with planned quantity of goods to be manufactured during the budget period. In course of preparing budget,

The 1st plan is in about inventory levels

The 2nd Plan is in about goods to be manufactured during the budget period.

The 3rd Plan is to scheduling this production by interim periods.

A complete budget express about

Products to be manufactured

Interim time periods

- a. Activities of each responsibility centre in the manufacturing process.

The initial step is to prepare the production budget in manufacturing operations.

In addition to the production budget, three other principal budgets are relevant to manufacturing

- a. The direct material and purchased components
- b. The labor budget, which shows the planned quantity and cost of direct labor.
- c. The manufacturing expenses or factory overhead budget which includes the plans for all factory costs other than direct materials and direct labor.

(Welsch, 1999:213)

2.3.4 General Considerations in Planning Production and Inventory Levels

The production plan does not aim to set precise amounts and timing of actual production during the budget period. Most prominently, the production plan is depending upon the sales volume developed by marketing plan. But, most frequently, manufacturing concerns looks about plant capacity requirements, direct materials, components requirements, timing of purchase, direct labor requirements and costs, and factory overhead.

The production budget should be developed in terms of quantities of physical units of finished goods, therefore, when it is possible to plan sales volume by units as well as by rupees amounts, production budgeting is simplified.

2.3.4.1 Developing the Production Plan

Sales budget must be translated into unit production requirements for the budget period for each product while considering inventory policies because the production plan is developed prior to the end of the current year, the beginning inventory for the budget period must be estimated. The estimate is based on the status of the inventory at the date of the budget is being prepared, and it is adjusted for planned operation for the balance of the current year. Normally, there will be little difficulty in estimating this inventory within reasonable units.

When the budgeted production for the budget period has been determined, the second problem is prorating this production by interim periods during the budget year. Interim production must be planned to:

1. Provide sufficient goods to meet interim sales requirements.
2. Keep interim inventory levels within policy constraints.
3. Manufacture the goods as economically.

These three objectives may not always be in complete harmony for example, assuming seasonal sales. It is possible to maintain a stable production level only if inventories are allowed to fluctuate inversely 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 economic operation. Hence, the major decisions concerning the preparation of production budget are as follows.

1. Total production required (by product) for the budget period.
2. Inventory policies about levels of finished goods, work in process, and the cost of carrying inventory.
3. Plant capacity policies, such as the limits of permissible departures from a stable production level throughout the year.
4. Adequacy of manufacturing facilities (expansion or contraction of plant capacity)
5. Availability of direct materials, purchased components and labor
6. Length of processing time.

7. Economic lots or runs.
8. Timing of production throughout the budget period, by product and by responsibility centers.

(Welsch, 1999:215)

2.3.4.2 Time Dimensions of Production Planning:-

Production planning is either tactical or strategic. It depends upon the capacity of industry to plan itself. Broad range of planning (strategic plan) requires broad line of broad estimates to plan for plant capacity requirements (involving capital additions), factory cost structures, personnel requirements and cash flows. For strategic plan, the increase or decrease in inventory is to be taken in account. Short-range-plan is an operational plan. Thus, major operational concern requires meeting with the market. The short-range production plan should be in harmony with the time dimensions used in the short range profit plan. It is generally desirable to keep inventories and production stable, a situation that is impossible given seasonal sales. Thus, an efficient production plan should represent the optimum coordination between sales requirements, essential inventory levels and stable production levels.

(Welsch, 1999:216)

2.3.4.3 Developing Inventory Policies

Inventories require a higher-degree of 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, such as the following:

1. **Sales:-** Large inventories of finished goods are needed to meet market needs readily.
2. **Production:-** Large inventories of raw materials and purchased components are needed to ensure availability for manufacturing activities. Also, a flexible inventory policy for finished goods is needed to facilitate the attainment of stable production levels.

3. **Purchasing:-** Large purchases minimize unit cost and overall purchasing expenses, therefore, a flexible inventory policy for materials and purchased components is desirable.
4. Finance:- Low inventory levels minimize investment requirement (cash) and reduce carrying costs (storage, obsolescence, risks etc)

The objectives of inventory policies should be:

1. To plan optimal level of inventory management.
2. Through control, to reasonable maintain these optimal levels.

(Welsch, 1999:220)

2.3.4.4 Inventory levels should be maintained between two extremes:

An Excessive Inventory level causing excessive carrying costs, risks and investment and an inadequate level to meet sales and production demands promptly (high stock out cost). An important consideration while planning and controlling inventories is that they must absorb the difference in stock between sales volume and production (or purchase) levels.

Setting Production Policies

Seasonal sales are typical in most companies. Yet production efficiency is usually enhanced by relatively stable production levels. In many companies where sales of the primary product are seasonal, production levels are stabilized by developing new products that can be stored or that have inverse seasonal patterns. Inventory fluctuation provides a tempting method of leveling production, yet as previously discussed, certain pitfalls should be considered. Stabilization of production is desirable for a number of compelling reasons and generally results in significant reductions of cost and improvements in operations.

1. Stability of employment, resulting in:

- a. Improved morale and hence greater worker efficiency.
- b. Less labor turnover

- c. Attraction of better employees
- d. Reduction of expenses for training new employees

2. Economics in purchasing raw materials and components as a result of

- a. Availability
- b. Volume discounts
- c. Simplified Storage Problems
- d. Smaller Capital requirements
- e. Reduced inventory risk

3. Better utilization of plant facilities, which tends to

- a. Reduce the capacity required to meet peak seasons
- b. Avoid idle capacity

2.3.4.5 Adequacy of Manufacturing Facilities

An efficient production depends largely in the adequacy of manufacturing facilities. Sufficient capacity must be maintained to produce the planned volume of goods and to meet peak loads during the planning period. The production capacity of individual departments, process and machines should be assessed and coordinated in the production budget to avoid production bottlenecks and idle capacity. Plant and department capacities for each responsibility centre should be analyzed by production managers in terms of potential or maximum plant capacity and normal or practical capacity. Maximum Capacity: May be thought as the “theoretical” engineering capacity.

Practical Capacity: In somewhat less, representing the level at which the plant or department can operate most efficiency.

Breakeven Capacity: is the rate of activity at which the sales value of the goods produced is equal to the cost of producing and selling those goods.

In other circumstances, capacity must be measured in terms of some common denominator of output, such as direct labor hrs, direct machine hrs, rupees sales of goods,

produced, rupees cost of goods produced and total weight production planning is directly related to the capital expenditure budget with respect to:

1. Plant addition required
2. Extraordinary repairs and rearrangements
3. retirement or disposal of excess plant capacity

2.3.4.6 Availability of Raw Materials and Labor

In some cases, the production plan can be significantly influenced by the availability of the required raw materials, components, and labor. Raw materials availability may be affected by such factors as process perishes ability economics in purchasing and quality considerations. The availability of skilled labor and the time and cost to train employees, are important variables that should be considered in planning production.

2.3.4.7 Length of Production Period

A direct conversion from the sales budget to the production budget, in appropriate if the manufacturing time is relatively short in situation where production requires several weeks or months. It is necessary to prepare additional plans indicating the timing of the units to be started and the timing of the units to complete. If the product consists of many components parts that are manufactured by the company, it is necessary to prepare a separate components parts production budget that shows the timing of (1) parts to be started (2) parts to be completed. The schedules indicating starting and completion dates provide essential data for the purchasing department in planning raw materials purchase. MRP systems constitute one types of approach used to resolve the production planning problem. Another factor influencing production planning is the W-I-P inventory. If no significant fluctuation is planned in this inventory during the year, there will be no significant effect on production. Therefore, in this case, inventory fluctuation can be planned in the Work-In-Process Inventory; the changes must be taken into account in production planning. Two approaches are used to resolve this problem, depending on the circumstances. In cases where the processing times in short, a change in Work-In-Process Inventory can be incorporated into the usual production budget.

2.3.4.8 Materials Requirements Planning (MRP)

In Modern production operation, production is usually coordinated throughout the various production stages. Material requirements planning or MRP is a technique for coordinating production in multistage production environments with many parts, materials, subassemblies, components and finished products. An MRP system begins with a master schedule for the end products needed. It then backup through the production process to determine when and how much of each material, part or sub assembly will be required because the requirements for parts and material are determined from the production schedule of the finished product, these inputs have interdependent demands.

2.4. Planning and controlling purchased and materials usage:

2.4.1 Introduction and Purpose

A comprehensive profit planning and control program includes planning and controlling raw materials and components used in the manufacturing of finishes products. And, similar, the co-ordination to be planned and controlled in among (1) production requirement for materials and component parts (2) raw materials and parts inventory levels (3) purchases of raw materials. When the required quantities of such product to be manufactured are specified in the production plan, the next step planning the manufacturing program involves consideration of the various production requirements and cost of direct materials and component parts, direct labors and factory overhead.

2.4.2 The Raw Materials and component parts budget

To ensure that the appropriate amounts of raw materials and component parts will be on hand at the time required and to plan for the cost of such materials and parts, the tactical short term profit plan should include

1. A detailed budget that specifies the quantity and cost of such materials and parts.
2. A related budget of materials and parts purchased.

Planning raw materials and parts usually requires the following four sub budget.

1. Materials and parts budget:

This Budget specifies the planned quantities of each raw material and part required for planned production. It should specify quantities of each raw material and part by time, product and responsibility center.

2. Materials and Parts Purchase Budget:

The materials and parts budget specifies the quantities and timing of each raw material and component parts needed; therefore a plan for purchases must be developed. The purchases and parts budget specifies the planned quantities of materials and parts to be purchased, the estimated cost, and the required delivery dates.

Materials and parts inventory budget:

This budget specifies the planned levels of raw materials and parts inventory in terms of quantities and cost. The difference in units between the requirements as specified in the materials Budget and the purchases budget is shown as planned increase or decrease in the materials and parts inventory budget.

(Welsch, 1999:240)

3. Cost of Materials and parts used budget:

The budget specifies the planned cost of the materials and parts that will be used in the productive process. Notice that this budget cannot be completed until the planned cost of purchases is developed. The Four separated sub budgets listed above are directly related. Collectively, they can be viewed as the materials and purchase budget. In simple situations, all four may be combined; are frequently combined. In more complex situation, separate budgets, are essential especially when the related budget data must be developed sequential form. In designing each of these materials and parts budgets, two basic objectives, in addition to planning are over riding.

1. **Control:** Raw material and part costs are subject to direct control at the point of usage; therefore, the related activities and costs should be budgeted in terms of responsibility centre and by interim time periods.
2. **Product Costing:** Direct materials and part cost are included in manufacturing costs (Products costs); therefore, they must be identified by product.

Because of these two basic objectives, direct materials, and component parts should be budgeted by type of raw material and parts, by responsibility centre, by interim periods, and by type of finished product. These multiple classifications tend to complicate the budgeting format used.

(Welsch, 1999:241)

2.5 Direct Labor Budget

2.5.1 Introduction and Purpose

In some companies labor costs are greater than all other costs combined. Even when this is not the case, effective planning and systematic control of labor costs are essential. Planning and controlling, labor costs involve major and complex problem areas:

- 1) Personnel Needs
- 2) Recruitment
- 3) Training
- 4) Job Description and Evaluation
- 5) Performance Measurement
- 6) Union Negotiation
- 7) Wage and Salary Administration.

Each of these problems may dominate in various situations. A comprehensive profit planning and control program should incorporate appropriate approaches applicable to each problem area. A profit planning and control program cannot resolve special personnel problems, but it directs careful consideration to them and aids in placing them

in perspective. Effective planning and control of long- term and short-term labor costs will benefit both the company and its employees. Labor costs include all expenditures for employees: Top executives, middle-management personnel, staff officers, supervisors, and skilled and unskilled employees. To plan and control labor costs effectively, the different types of labor costs must be separately considered.

Labor 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 material costs. Labor costs that can be directly traced to specific production are defined as direct. Indirect labor involves all other costs, Such as supervisory salaries and wages paid to tool makers. Repair personnel, storekeepers, and custodians. Direct material and direct labor costs are frequently referred to collectively as the prime cost of product.

The direct labor budget includes the planned direct labor requirements necessary to produce the types and quantities of output planned in the production budget. Although some companies prepare a labor budget that includes both direct and indirect labor, it is usually preferable to prepare a separate direct labor budget and to include indirect labor in the factory overhead budgets. This procedure is consistent with the usual cost accountancy treatment of indirect labor costs as a component of manufacturing overhead. Also, over time and premium pay related to direct labor should be budgeted as separate costs. The primary reasons for using a separate direct labor budget are to provide planning data about the amount of direct labor required, number of direct labor employees needed, labor costs of each product unit and cash flow requirements. Another purpose of the direct labor budget is to establish a basis for control of direct labor. The responsibility for preparing the direct labor budget should be assigned to the executive responsible for the manufacturing functions. The cost accountancy and personnel departments provide support and supplementary information, when the direct labor budget is completed by the manufacturing managers. It should be given to the budget manager for review and next submitted to executive committee. When the direct labor budget is tentatively approved it becomes part of the profit plan.

(Welsch, 1999:280)

2.5.2 Approaches used in Planning Direct Labor Costs

For the annual profit plan, the direct labor budget should be developed by responsibility centers, interim periods and products classification by organizational responsibility and interim period is essential for control purpose classification by product in necessary for planning the cost of producing each product. The approach used to develop the direct labor budget depends primarily on the (1) method of wage payment (2) type of reduction process involved (3) availability of standard labor times (4) adequacy of the cost accounting records relating to direct labor costs.

Basically, three approaches are used to develop the direct labor Budget

1. Estimate the standard direct labor an hour required for each unit of each product, and then estimates 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 output for the department, cost center or operation centers. Multiply the units of output planned for the department, cost center or operation by the unit direct labor cost rate to obtain the total direct labor cost by product.
2. Estimate ratios of direct labor cost to some measure of output that can be planned realistically.
3. Develop personnel table by enumerating personnel requirements (including costs) for direct labor in each responsibility center.

2.5.3 Planning Direct Labor Hours

Internal conditions will determine it is feasible to relate planned production in producing department to direct labor hours (productivities) similarly, internal factors may indicate the most practical approach to use for planning direct labor hours.

An important function of industrial engineers is to develop standard labor times for various operation and products. In some producing departments, labor time standards can be developed. In some cases, it is impractical to estimate direct labor time except in terms

of averages based on experience. Four approaches commonly used in planning standard labor times are the following:

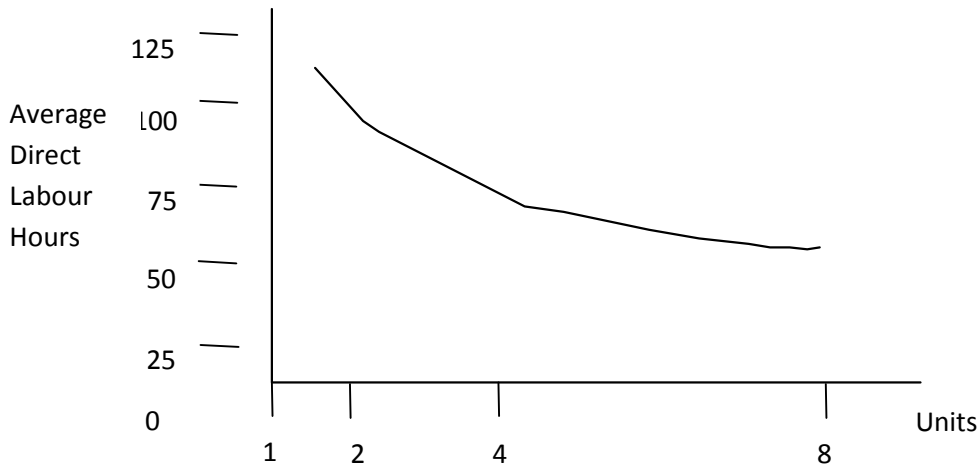
-) Time and Motion studies
-) Standard Costs
-) Direct Estimate by supervisors
-) Statistical Estimates by a staff Group

(Welsch, 1999:281)

2.5.4 Use of Learning Curves

One concept that is sometimes used in planning labor cost is the learning curve. Considerable experience indicates that in some manufacturing settings, there is a constant percentage reduction in the average direct labor input time per unit of product as the cumulative output doubles. Learning curves are foremost used extensively in industries such as aircraft, ship building, and home appliances. The learning curve concept is especially applicable in industries when labor cost is large component of total production costs and production operation is complex. The learning curve concept has also been applied by some companies to all production costs, rather than just labor costs. When applied to all production costs, the learning curve is called the "experience curve".

Figure - 3



2.5.5 Planning Wage Rates

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.

Determination of average direct labor wage rates in a productive department or cost center frequently may not be a serious problem. The preferred approach is to plan such rates by enumerating the direct labor employees in the departments or operation and their expected individual wage rates and then compute an average out of various approach, Following are foremost

A less reliable approach involves computing the historical ration between wages paid and direct labor hours worked in the department.

-) In some cases, the size of the department, the diversity of its work, and the variations in its hourly wages may be of such significance that the department or responsibility center should be sub-divided into cost centers. Separate estimated direct labor hours and average wage rates would then be planned for each cost center.
-) If a standard cost system is used in the cost accounting department, the standard wage rates developed for that purpose can be used for budgeting purpose. It may be desirable, however to budget contain wage rate variances between standard allowances and planned budget allowances.
-) Two planning inputs hours and wage rates necessary to develop the direct labor budget. This approach has definite advantages. This method involves making an estimate of total direct cost and then allocating it to (1) units of production (2) some other measure of output, such as machine hours, direct material cost or processing time.
-) If a straight piece-rate system of compensating labors is used, the labor cost per unit of production is known. The piece-rate system bases the compensation on the quantity produced. Various bonus system of wage payments complete the planning of direct labor costs. In such cases, ratios are generally used. Control of Direct labor costs: - The two primary elements of control of direct labor costs are (1) day to day attention to such costs (2) Performance reporting and evaluation of results.

(Welsch, 1999:287)

2.6 Flexible Expense Budgets: Concept, Development and Application:

2.6.1 Introduction & Purpose

The objective of flexible expense budgets is to plan for tactical profit plan. The focus will be on both planned expenses and the control of expenses. The flexible budgets for expenses have two functions: (1) to provide expense plans for the tactical profit plan. (2) To provide expense plans adjusted to actual output; for comparison with actual expenses in periodic performance reports. The flexible expense budgets directing relate only to expense and (costs). Flexible budgets are also called variable, dynamic, activity and output adjusted expense budgets. Earlier we explained the concept of budgeting and incorporating standard cost and cost-volume-profit concepts for the purpose of developing a better technique for cost control.

(Welsch, 1999:343)

The following emphases are:

-) Controlling costs as volume changes
-) Reporting performance against the flexible budgets
-) The concept of capacity
-) The distinction between standard overhead rate and flexible budgeting
-) The analyses of three overhead variance- spending, efficiency and capacity- and the accounting treatment.

(Lynch, 1983:220)

2.6.2 Concept of Flexible Expense Budgets:

The fundamental concept of flexible budgets for expenses is that expenses are incurred because

1. The passage of time
2. Output or productive activity
3. A combination for time and output or activity

Hence, the concepts helps to develop the mathematical formulation from which expense plans can be computed for planning and control.

So, the concept helps to

1. Expenses must be identified as to their fixed and variable components when related to output or productive activity.
2. Expense must be reasonable related to output or productive activity.

3. Output or productive activity must be reliable by measurable.
4. Flexible budgets formulate for each expense must be for a specified time period and for a specified relevant range of output or productive activity.
5. For planning and control purposes, flexible budget formulas must be developed for each expense in each responsibility center in an enterprise.

(Welsch, 1983:344)

2.6.3 Relationship of Expenses to Output or Productive activity:

The foundation underlying flexible budgets for expenses (and costs) is the concept of expense variability. The concepts focus on the effect on expense of the passage of time and output or productive activity.

The terms activities and activity base to include output and productive activities. Costs are expenditures that are capitalized as assets and later become expenses. When the related goods and services are used or the manufactured goods are sold. According to the behavior of expenses, the expenses are classified into three categories.

1. Fixed expenses
2. Variable expenses
3. Semi-variable expenses.

(Welsch, 1999:344)

2.6.3.1 Fixed Expenses Defined:

Fixed expenses are those that do not vary with output or productive activity. They accrue primarily with the passage of time, that is, they are time expenses. They remain constant in amount for a given short-term period with in a relevant range of activity. Fixed expenses are caused by the holding of assets and the other factors of the production in asset of “readiness to produce”; therefore, they are frequently called capacity costs fixed expenses are of two principal types.

First, executive management decisions establish commitments to certain fixed expenses. Such as salaries, advertising expenditure, and research expenditure fall into this category. It may be change due to basic structure of the business, operating methods, and discretionary change in management policy.

1. **Relationship to output Activity:** Fixed expenses result from the capacity to produce or to perform some activity. They may be influenced by factors other than the passage of time, but not by output or the performance of activity.

2. **Relevant range:** Fixed expenses must be related to a relevant range of activity. Few, many, expenses would remain constant over the wide range of output or activity from zero to full capacity.
3. **Time costs:** Because fixed expense primarily accrues with the passage of time, the amount of fixed expense must also be related to a specified period of time. For budget purposes, fixed expense should be related to the annual accounting period and expensed as a constant amount per month.
4. **Management Regulated:** The costs incurred due to the decisional input of the management. Such costs are implied due to decision taken by the management bodies. They are relying on change of decisions.
5. **Fixed in total but variable percent:** The cost which remain constant in total amount each period, and variable effect on unit cost whenever different level of units are produced, however per unit fixed cost varies but in total the sum remain fixed. As well as, per unit fixed cost change as per output produced changes.
6. **Practical Application:** Practical considerations do not require an expense to be absolutely fixed

(Welsch, 1999:346)

All fixed expenses are controllable over the life span of the company. Some, but not all, fixed expense is subject to short run-management control. Numerous fixed expenses are determined annually by the discretionary management policies. Depreciation Exp in a short time Period is subject to very little control. Control was exercised when the asset was acquired and when the depreciation rate was set.

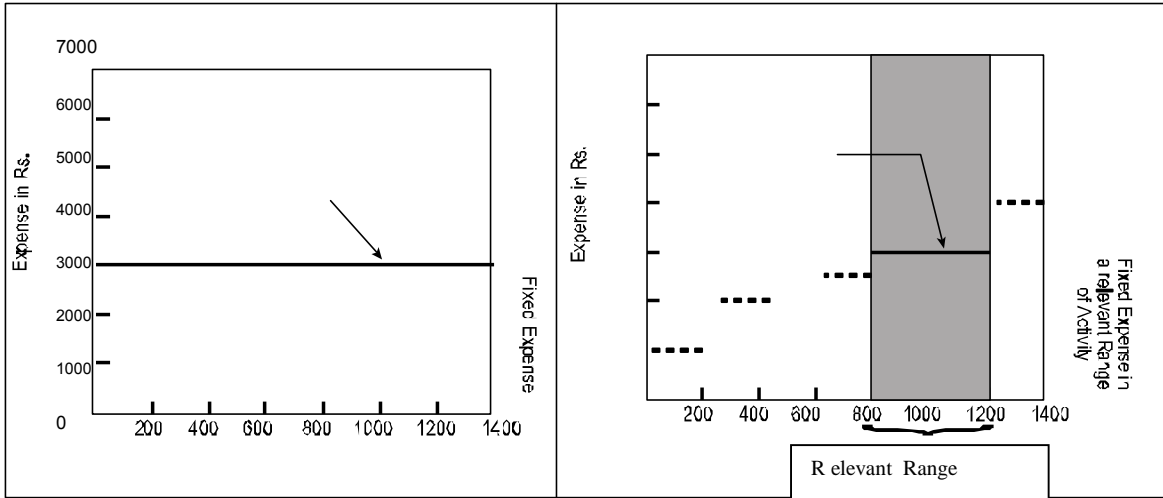


Figure No -4 fixed Expenses relevant range

Chapter: III

Research Methodology

3.1 Research Design:

Due to nature of the study, Survey research design technique was followed with descriptive and analytical approach

3.2 Success of Data:

Data are gathered from the Primary Sources, Primary data were collected through questionnaire, interview and discussion.

3.3 A Populations and sample size:

The survey was concerned with middle level, large level & public enterprises manufacturing concern. The research population and samples were selected from manufacturing concerns. The central Bureau of statistics has categorized manufacturing industries into 21 categories. Out of them total 3,446 in which middle & large 303 companies (2067/068). Questionnaire was provided to 65 companies out them 50 companies responded the answer.

Table No - 4

Types of Manufacturing Concern	Responded number out of them
Chemical and Chemical Products	5/5
Tobacco Products	2/2
Foot Wear	5/7
Rubber and Plastic Products	4/4
Printing & Services	5/8
Paper Pen Industries	4/8
Textiles	8/10
Food & Beverages	12/13
Dairy Development Companies	1/1
Insulated Wire & Cable	4/7
Total Responded	50/65

3.4 Data Gathering Procedure

The data gathered procedure depends upon the primary sources. So the questionnaire procedure was followed. The questions contain several sections as well as in total fifty-four questions. Questionnaire contains a four-open-end question which tries to represent the additional information for the topics. The questions were pre-tested. "Tick marks" were used in answering the questions. Some of the questions were depended on their personal responded deeds.

3.5 Data Processing Procedure

The data gathered from questionnaires methods were in raw form. They were classified and tabulated in the required form. Simple arithmetical percentage tools were used for analysis. Statistical tools like chi-square (χ^2) were used to test the hypothesis. Major findings were based on the analysis and interpretation of data.

3.6 Research Variable

Major profit planning tools like; sales budget, production budget, material purchase budget, labor budget, overhead budget, capital expenditure budget, cash receipts and disbursement budget, zero based- budgeting, activity- based- budgeting, flexible expense budget and cost volume-profit analysis tools were the major research variables. And their sub-headings are created to know about the best use of such tools.

3.7 Statistical procedure:-

To present, interpret and analyze the statistical tools like data, tool used were simple percentage and hypothesis test were used. The hypothesis test covering attribute test such as z-test and Chi-squared test (χ^2) were performed to know the practices of data gathered in equality basis to test null hypothesis. The total number of companies was considered for testing period the hypothesis.

3.8 Hypothesis:-

Testing of hypothesis is one of the most important aspects of research work. It consists of decision rules required for drawing probabilistic inference about the population parameters. It often includes deciding at any given point of time whether a given population parameter is the same as before, as claimed or has changed.

A quantitative statement about the population parameter is called a hypothesis. In other words, it is an assumption that is made about the population parameter and then its validity is tested. It may or may not be found valid on verification. The act of verification involves testing the validity of such assumption which, when undertaken on the basis of sample evidence, is called statistical hypothesis or testing of hypothesis or test significance. In other words, a procedure to assess the significance of a statistics is known as test of significance. By testing the hypothesis it can be found out whether it deserves the acceptance or rejection of the hypothesis. The truth or falsity of a statistical hypothesis is based on the information contained in the sample which may be consistent or inconsistent with the hypothesis and accordingly, the hypothesis may be accepted or rejected. The acceptance of hypothesis means there is no sufficient evidence provided by the sample to neglect it and does not necessarily imply that it is true. The main goal of testing of hypothesis is to test the characteristics of hypothesized population parameter based on sample information whether the difference between the population parameter and sample statistic is significant or not.

Generally, two complementary hypotheses are set up at one time. One of the hypothesis is accepted, then the other hypothesis is neglected and vice-versa. The two complementary hypotheses that are set up in the testing of hypothesis are the null hypothesis and the alternative hypothesis.

3.9 Null Hypothesis

A Statistical hypothesis or assumption made about the population parameter to testing its validity for the purpose of possible acceptance is called null hypothesis. Null hypothesis is also called hypothesis of no difference.

3.10 Alternative Hypothesis

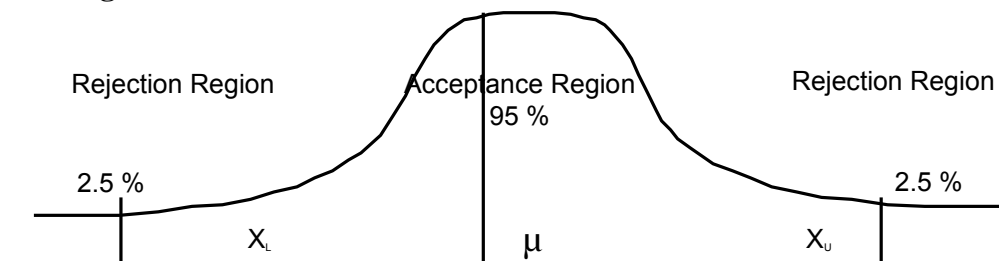
A complementary hypothesis to the null hypothesis is called an alternative hypothesis. In other words, a hypothesis which is set up against the null hypothesis is called an alternative hypothesis. In alternative hypothesis is also called hypothesis of difference.

3.11 Level of Significance

The maximum size of the type I error that we are prepared to take risk is called the level of significance. In other words, the probability of rejecting a true null hypothesis is called level of significance and is defined by α . Symbolically, it is defined as,

$$\begin{aligned} &= P(\text{type I error}) \\ &= P(\text{rejecting a true null hypothesis}) \end{aligned}$$

Figure No - 5



Hypothesis generally is tested at 1 % or 5 % level of significance. But the most commonly used level of significance in practice is 5 %. If we adopt $\alpha = 5\%$ level of significance, it shows that in 5 true sample out of 100, we are likely to reject a correct No.

*(Chaudhary,
2058:231)*

3.12 Procedure of Testing of Hypothesis

The following steps should be considered while testing a hypothesis

Step 1

Set up the Hypothesis

First of all we have to set up both the hypothesis i.e. the null hypothesis and the alternative hypothesis. For alternative hypothesis, a great care should be taken for deciding whether we use a one tailed (left or right) test or two tailed test.

Step 2

Compute Appropriate Test Statistic or Test Criteria:

Apply the test statistic i.e. by making use of appropriate formula for obtaining calculated value of test statistic.

Step 3

Choose Level of Significance

Determine the level of significance at which hypothesis is to be tested.

Step 4

Find Critical Value of Test Statistic

Obtain critical value or significant value of test statistic according as whether alternative hypothesis is one tailed test or two tailed test.

Step 5

Make Conclusion

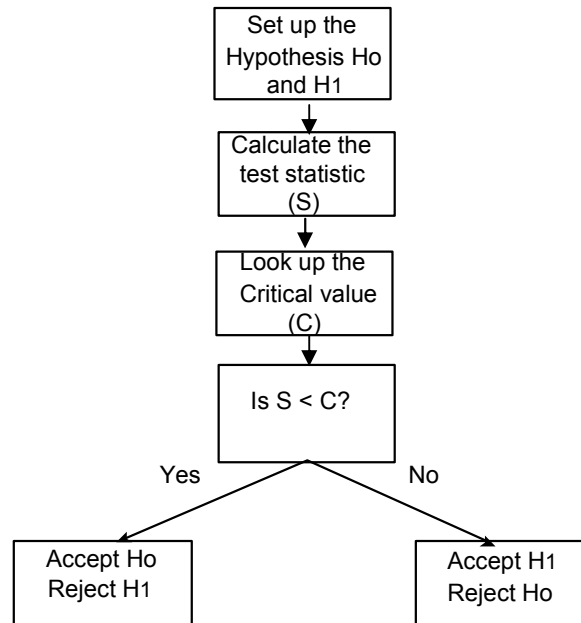
Give decision or draw conclusion by comparing the calculated value of test statistic and the tabulated value of test statistic as follow.

If the calculate value of test statistic is less than or equal to the tabulated value at particular level of significant, then the null hypothesis is accepted which means that there is no significant difference between the sample statistic and population parameter and the difference observed is due to sampling fluctuations.

If the calculated value is greater than the tabulated value, at a particular level of significance, then the null hypothesis is rejected and the alternative hypothesis is accepted which means that there

is significant difference between the sample statistic and population parameter and the difference observed is not due to sampling fluctuations. In general, the procedure for carrying out a test of significance can usually be summarized into four clear stages. These are set out in following flow chart:

figure No- 6



Flow Chart showing the four main stages of test significance

3.13 Z – Test

The sampling of attributes test were organized in data gathered. The test has a specialty to divide the given into two mutually disjoint classes with respect to an attribute (qualitative characteristics) in such a way that are possesses a particular attribute under study and other doesn't possesses that attributes. In sampling of attributes, it would relate with sample proportions on percentages to population proportions or percentages. This relationship is especially applicable in the analysis of a qualitative data, as against quantitative data of averages.

Step 1

Set up the hypothesis

$H_0: P = P_0$ that is population proportion has some specified value P_0 . In another words, there is no significant difference between the sample proportion (P) and population proportion (P)

$H_1: P \neq P_0$ (two tailed test) that is, population proportion is not equal to P_0 . In other words, that is significant difference between sample proportion and population proportion P .

Step 2

Test of significance of a sample preparation

In order to test whether there is significant difference between the sample proportion and the population proportion, the test statistic is defined as

$$Z = \frac{P - E(P)}{S.E.(p)}$$

Where,

p = observed sample proportion of success = X/n

X = number of success possessing the given attribute

N = sample size of number of trials

$E(p)$ = Expected value of the sample proportion and $E(P)$

$S.E.(p)$ = Standard Error of the sample proportion and $S.E.(P) = \sqrt{\frac{PQ}{n}}$

Where P = population proportion of success possessing the given attributes and

$Q = 1 - P$

Where Q = population proportion of failure

Hence, for large samples, the test statistic is,

$$Z = \frac{P - E(P)}{S.E.(p)} = \frac{p - P}{\sqrt{\frac{PQ}{n}}} \sim N(0,1)$$

Step 3

Write down the tabulated value of Z at a level of significance according as whether the alternative hypothesis is one tailed test or two tailed test.

Step 4

Conclusion: If calculated value Z > tabulated value of Z at level of significance, it is not significant and Ho is accepted, otherwise Ho is rejected.

3.14 Chi Square (χ^2) TEST

χ^2 Test (pronounced as K,) is a non parameter test because it depends only on the set of observed and expected frequencies and degree of freedom. Since χ^2 test doesn't make any assumption about population parameters, it is called a distribution free test. χ^2 Test is a test which describes the magnitude or difference between observed frequencies and expected (theoretical) frequencies under certain assumptions in other words. It describes the magnitude of the discrepancy between theory and observation.

It is defined as,

$$\chi^2 = \frac{(O - E)^2}{E}$$

Where,

O = Observed Frequencies

E = Expected Frequencies

This test is good for nominal or ordinal scale of measurement. Nominal scale of measurement deals with the data which can only be classified into categories such as male and female, boy and girl, head and tail, junior and seniors and so on where as the ordinal level of measurement assigns different ranks to above categorized data. Similar to the binomial distributions χ^2 tests is also used for analysis qualitative variables such as opinions of person's religious affiliation smoking habits and so on.

Application of χ^2 distribution

The χ^2 distribution has a number of applications, important among them are as follows:

1. χ^2 Test for goodness of fit.
2. χ^2 Test for independence of attributes
- 2 Test for goodness of fit

If a set of observed frequencies obtained under some experiment and some are interested in knowing through the experimental results.

Supports a particular theory or hypothesis, then test is said to be χ^2 test for goodness of fit which describes the magnitude of the discrepancy between experimental values (observed values) and theoretical values (expected values) under same theory or hypothesis.

If the observed values are close to the expected values under a hypothesis, the fit is said to be good. If, however, the difference between the two set of figures are found to be significant, the fit is not good.

Hence, χ^2 test for goodness of fit is used to test whether there is a significant difference between on observed frequency distribution and a theoretical (expected) frequency distribution. The steps for testing χ^2 test for goodness of fit are as follows:

Step 1

Formulate the null hypothesis and alternative hypothesis as follows:

Null Hypothesis H_0 : There is no significant difference between observed (experimental) and the expected (theoretical) frequencies.

Alternative hypothesis H_1 : There is significant difference between observed and expected frequencies.

Step 2

Compute the test statistic under H_0 the test statistics is

$$\chi^2 = \frac{(O - E)^2}{E}$$

It follows χ^2 distribution with $(n - 1)$ degree of freedom.

Where

O = observed frequency

E = Expected frequency for (theoretical frequency) which can be obtained under some theory or hypothesis.

Step 3

Find the tabulated values (critical values) of χ^2 for $(n - 1)$ difference at a level of significance (usually 5 % or 1 %)

Step 4

Decisions: Make a decision by comparing the calculated value of χ^2 with tabulated values of χ^2 .

If calculated $\chi^2 \leq$ the tabulated χ^2 , it is not significant and H_0 is accepted, otherwise it is rejected.

3.15 Degree of Freedom

The number of values that can be chosen freely is called degree of freedom. It is denoted by (D.F.) = $n - 1$ (In general)

Conditions (assumptions) for the validity of χ^2 test

The χ^2 test can be used only when

- I. H_1 the total observed frequently should be reasonably large, say greater than 50.
- II. The sample observation should be independent, i.e. no individual items should be included twice or more in the sample.
- III. The total observed frequencies and the total expected frequencies should be equal. i.e. $O = E = N$

Where N is the total observed frequency

- IV. Preferably, each theoretical (expected) frequency should be large than 10 but in practice, no theoretical (expected) frequency is less than 5.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction:

The study emphasized the objective of awareness of the profit planning and control tools. This is made to review the use of management accounting in manufacturing firms. The research is conducted on the manufacturing firms because industrialization is backbone of developing nation. It is hence necessary to know the application of management accounting tools in such sectors. The research conducted primary survey on 65 companies. Altogether 50 companies responded the questionnaire. The question was provided to C/A (Chartered Accountant) and management of those organizations. The companies responded for research work are, renowned in their field and covered like Chaudhary groups, Unilever Nepal Ltd, Surya Nepal Ltd etc. The data presented were analyzed by using statistical tools like percentage (%), z – Test, chi square Test analysis. The tools are helpful in analyzing the attributes. Open end questions were arranged in a description language. It included listed of hypothesis for testing the variables with chi square statistical test.

4.2 Percentage Analyses of PPC Techniques and its Tools

Table 5

Practice of Operating Budgets as Profit Planning & Control Techniques

Total Observation	Sales Budget			Production Budget			Material Purchase Budget			Labor Cost Budget			Overhead cost budget		
	User	Non User	User %	User	Non User	User %	User	Non User	User %	User	Non User	User %	User	Non User	User %
50	43	7	86%	43	7	86%	43	7	86%	43	7	86%	43	7	86%

The table demonstrated that sales budget, production budget and material purchase budget were practiced by 86 % of the companies. Although labor cost budget was practiced by 84 % companies. And overhead cost budget was practiced by 78 % Companies.

Table - 6

Practice of Financial Budget as a Profit Planning & Control Technique

Total Observation	Capital Expenditure Budget			CVP Analysis			Cash Receipts & Disbursements Budgets		
	User	Non User	User %	User	Non User	User %	user	Non user	User %
50	47	3	94%	47	3	94 %	47	3	94%

Tools of Financial budget such as Capital Expenditure Budget, CVP Analysis and Cash Receipt & Disbursement Budget were practiced by 94 %, Out of the total companies responded.

Table - 7

**Practice of Activity based Budget, Flexible Budget and Zero Based Budget
As the Tools of Profit Planning & Control**

Total Observation	Activity Based Budget			Flexible Expenses			Zero Based Budgets		
	User	Non User	User %	User	Non User	User %	user	Non user	User %
50	36	16	68 %	28	22	56 %	3	47	6%

The table demonstrated that Activity Based Budgeting was practiced in 68 % companies, Flexible Expenses Budget was practiced in 56 % companies and Zero Based Budgeting was practiced by 6 % companies.

4.3 Hypothesis Analysis of PPC Techniques and Tools

Table -8

Practice of Budget

Total Observation	Budget Period	
	Tactical	(Tactical +strategic) Both
50	30	20

H_0 : $P = 0.5$ proportion of companies using tactical budget only or both strategic and tactical are equal.

H_1 : $P_1 \neq 0.5$ Proportion of companies using tactical budget periods or both strategic and tactical are not equal

Formula,

$$Z(\text{cal}) = \frac{p - P}{\sqrt{\frac{PQ}{n}}} = \frac{0.6 - 0.5}{\sqrt{\frac{0.5 \times 0.5}{50}}} = 1.41$$

Critical value: $Z_{0.05} = 1.96$

∴ Decision: Since Cal $Z <$ table value of Z ; Hence H_0 is accepted, therefore proportion of companies using tactical budget or both strategic and tactical are almost equal.

Table-9

Total Observation	Communication of Information		
	Top only	Top to Middle	Top to Lower
50	19	7	24

H_0 : Proportion of companies using at top only or top to middle or top to lower for communication of information are equal by used.

H1: Proportion of companies using at top only or top to middle or top to lower for communication of information are not equal by used.

Test Statistic: under H_0 , the test statistics is

$$\chi^2_{(cal)} = \frac{(O - E)^2}{E}$$

Where, O = observed frequency

E = Expected frequency

$$\therefore \chi^2_{(cal)} = 9.1580$$

And degree of freedom = $n - 1 = 3 - 1 = 2$

And, $\chi^2_{(tab)}_{0.05,2} = 5.991$

Decision: Since $\chi^2_{(cal)} > \chi^2_{(tab)}$ Hence H_1 is accepted therefore proportion of companies using at top only or top to middle only or top to lower only for communication of information are not equally used.

Table -10

Total Observation	Measure of Control		
	Performance Reporting (P.R.+Rest.Acc) Both		(Perform+Rest+Except. Principle)All of them
50	21	17	12

H₀: Proportion of companies using performance reporting only or performance reporting and responsibility accounting only or all of them including performance reporting & responsibility accounting and principle of exception for measure of control are equal.

H₁: Proportion of companies using performance reporting only or performance reporting and responsibility accounting also or all of them including performance reporting and responsibility

Accounting and principle of exception for measure of control are not equal.

Test Statistic: under H_0 , the test statistics is,

$$\chi^2(cal) = 2.4395$$

$$d.f. = n-1 = 3-1 = 2$$

$$\text{And } \chi^2(tab)_{0.05, 2} = 5.991$$

Decision: since $\chi^2(cal) < \chi^2(tab)_{0.05, 2}$; Hence H_0 is accepted therefore

Proportion of companies using performance reporting only or performance reporting and responsibility accounting also or all of them including performance reporting and responsibility accounting and principle of exception for measure of control are equal.

Table - 11

Total Observation	Evaluation Of Relevant Variables		
	Planning Depart	Top Management	Top. Mgmt +consultant+ Budget Committee
50	10	26	14

H₀: Proportion of the companies using at planning department only or top management only or budget committee and consultant and top management for evaluation of relevant variables are equal.

H₁: Proportion of the companies using planning department only or top management only or budget committee and Consultant and top management for evaluation of relevant variables are not equal.

Test Statistic: under H_0 , the test statistic is,

$$\chi^2(cal) = 9.1784$$

$$d.f. = n-1 = 3-1 = 2$$

And $z_{(tab)}_{0.05, 2} = 5.991$

Decision: since $z_{(cal)} > z_{(tab)}_{0.05, 2}$; Hence H_1 is accepted therefore

proportion of the companies using planning department only or top management only or budget committee and consultant and top management for evaluation of relevant variables are not equal.

Table - 12

Sales Budget

Total observation	Practice of Sales Budget	
	Yes	No
50	43	7

H_0 : $P = 0.5$ Proportion of companies using the sales budget is equal.

H_1 : $P_1 \neq 0.5$ Proportion of companies using the sales budget is not equal.

Test Statistics: under H_0 the test statistics is;

$$Z_{(cal)} = 5.09$$

$$\text{Critical value: } Z_{0.05} = 1.96$$

Decision: Since $Z_{(cal)} > Z_{(tab)}$ Hence H_1 is accepted, therefore proportion of companies using the sales budget is not equal

Table - 13

Types of Sales Budget

Total Observation	Both		All of them
	Short Term	Middle term +	Short term + middle term
		Long term	+ Long term
50	27	10	13

H₀: Proportion of companies using short term budget only or both including middle term and long term also or all of them including short term and middle term and long term for sales planning are equal.

H₁: Proportion of companies using short term budget also or both including middle term and long term also or all of them including short term and middle term and long term for sales planning are not equal.

Test Statistic: under H₀, the test statistic is,

$$\chi^2(cal) = 9.87792$$

$$d.f. = n-1 = 3-1 = 2$$

$$\text{And } \chi^2(tab)_{0.05, 2} = 5.991$$

Decision: since $\chi^2(cal) > \chi^2(tab)_{0.05, 2}$; Hence H₁ is accepted therefore

Proportion of companies using short term budget only or both including middle term and long term also or all of them including short term and middle term and long term for sales planning are not equal.

Table - 14
Sales Forecasting Methods

Total observation	Past Trend	both Past trend + Managerial Survey	both Past trend + Managerial judgment	Both .T+M. Survey+M.J . Method	All of them P.T.M+L.S.M+M.sur.+M.J. method
50	6	5	14	15	10

H₀: Proportion of the companies using past trend only or both including past trend and managerial survey also or both including past trend and managerial judgment also or both including past trend and managerial survey and managerial judgment method also or all of them including past trend and least square method and managerial judgment method and managerial survey method are equal.

H₁: Proportion of the companies using past trend only or both including past trend and managerial survey also or both including past trend and managerial judgment also or both including past trend and managerial survey and managerial judgment method also or all of them including past trend and least square method and managerial judgment method and managerial survey method are not equal.

Test Statistic: under H₀, the test statistic is,

$$\chi^2(cal) = 8.2$$

$$d.f. = n-1 = 5-1 = 4$$

$$\text{And } \chi^2(tab)_{0.05, 2} = 9.488$$

Decision: since $\chi^2(cal) < \chi^2(tab)_{0.05, 2}$; Hence H₀ is accepted therefore

Proportion of the companies using past trend only or both including past trend and managerial survey also or both including past trend and managerial judgment also or both including past trend and managerial survey and managerial judgment method also or all of them including past trend and least square method and managerial judgment method and managerial survey method are equal.

Table - 15

Total Observation	Pricing Method		
	Overall Pricing	Discrimination Pricing	All of them
			O. Pricing + Dis. Pricing
50	17	21	12

H₀: Proportion of the companies using overall Pricing only or Discriminating Pricing only or all of them including overall Pricing and Discrimination Pricing are equal.

H₁: Proportion of the companies using overall Pricing or Discrimination Pricing or all of them including Overall Pricing and Discriminating Pricing are not equal.

Test Statistic: under H₀, the test statistic is,

$$\chi^2(cal) = 2.43943$$

$$d.f. = n-1 = 3-1 = 2$$

$$\text{And } \chi^2(tab)_{0.05, 2} = 5.991$$

Decision: Since

Proportion of the companies using Overall Pricing only or Discriminating Pricing or all of them including Overall Pricing and Discriminating Pricing are equal.

2

$$\chi^2(cal) < \chi^2(tab)_{0.05, 2}; \text{ Hence } H_0 \text{ is accepted therefore}$$

Proportion of the companies using Overall Pricing only or Discriminating Pricing or all of them including Overall Pricing and Discriminating Pricing are equal

Table – 16

Total Observation	Production and Purchase Budget	Practice of Production Budget
50	43	7

H_0 : $P = 0.5$ Proportion of the companies using Production Budget are equal.

H_1 : $P \neq 0.5$ Proportion of companies using Production Budget is not equal.

Test Statistics: under H_0 the test statistics is;

$$Z (cal) = 5.09$$

$$\text{Critical value: } Z_{0.05} = 1.96$$

Decision: Since $Z (cal) > Z (tab)$ Hence H_1 is accepted, therefore proportion of companies using Production Budget are not equal.

Table - 17
Production Policy

Total Observation	Just in time	Flexible Seasonal	both (Flexible +Seasonal)
50	23	18	9

H_0 :

H_1 : Proportion of the companies using Just in Time only or Flexible only or Seasonal only or both including Flexible and Seasonal for production policy are not equal.

Test Statistic: under H_0 , the test statistic is,

$$\chi^2(cal) = 21.52$$

$$d.f. = n-1 = 4-1 = 3$$

$$\text{And } \chi^2(tab)_{0.05, 2} = 9.488$$

Decision: Since $\chi^2(cal) > \chi^2(tab)_{0.05, 2}$; Hence H_1 is accepted therefore

Proportion of the companies using Just in Time only or Flexible only or Seasonal only or both including Flexible and Seasonal for production policy are not equal.

Table - 18
Inventory Policy

Total Observation	Optimal Future Passed Both			
	Level of Inventory	Sale based	Sale based	Past sale based + Future sales based
50	20	12	5	13

H₀: Proportion of the companies using Optimal Level of Inventory only or Future Sales Base or Past Sales Base only or both including Future and Past Sales Based are equal.

H₁: Proportion of the companies using Optimal Level of Inventory or Future Sales Base or Past Sales Base or both including Future and Past Sales Base are not equal.

Test Statistic: under H₀, the test statistic is,

$$\chi^2(cal) = 9.04$$

$$d.f. = n-1 = 4-1 = 3$$

$$\text{And } \chi^2(tab)_{0.05, 2} = 7.815$$

Decision: Since $\chi^2(cal) > \chi^2(tab)_{0.05, 2}$; Hence H₀ is rejected therefore H₁ is accepted therefore

proportion of the companies using Optimal Level of Inventory only, or Future Sales Base only, or Past Sales Base only, or both including Future and Past Sales Base are not equal.

Labor Cost Budget

Table - 19

Total Observation	Practice of Labor Budget	
	Yes	No
50	42	8

H_0 $P = 0.5$ Proportion of the companies using Labor Budget is equal.

H_1 $P \neq 0.5$ Proportion of the companies using Labor Budget is not equal.

Test Statistic: under H_0 , the test statistic is,

$$Z(cal) = 4.8$$

$$Z(tab)_{0.05} = 1.96$$

Decision: Since $Z(cal) > Z(tab)_{0.05}$; Hence H_1 is accepted therefore

Proportion of the companies using Labor Budget is not equal.

Table - 20

Total Observation	Kinds of labor	
	Permanent	All of them
		Seasonal + Permanent
50	30	20

H_0 $P = 0.5$ Proportion of the companies using Permanent Labor only or both including Seasonal and Permanent are equal.

H_1 $P \neq 0.5$ Proportion of the companies using Permanent Labor only or both including Seasonal and permanent are not equal

Test Statistic: under H_0 , the test statistic is,

$$Z(cal) = 9.04$$

$$Z(tab)_{0.05} = 1.96$$

Decision: since $Z(cal) < Z(tab)_{0.05}$; Hence H_0 is accepted therefore proportion of the companies using Permanent Labor only or both including Seasonal and permanent are equal.

Table - 21

Total Observation	Control of Labor		
	Day to Day Attention	Performance Reporting	All of them
			Day to Day + Performance Reporting
50	20	17	13

H_0 : Proportion of the companies using Day to Day attention only or Performance reporting only or all of them including Day to Day attention and Performance Reporting are equal.

H_1 : Proportion of the companies using Day to Day attention only or Performance reporting only or all of them including Day to Day attention and Performance Reporting are not equal.

Test Statistic: under H_0 , the test statistic is,

$$\chi^2(cal) = 1.47970$$

$$d.f. = n-1 = 3-1 = 2$$

$$\text{And } \chi^2(tab)_{0.02, 2} = 5.991$$

Decision: Since $\chi^2(cal) < \chi^2(tab)_{0.05, 2}$; Hence H_0 is accepted therefore

proportion of the companies using day to day attention only or Performance reporting only or all of them including day to day attention and Performance Reporting are equal.

Table - 22

Total Observation	Payment System			
	Monthly Basis	Both (Daily + Monthly Basis)	Both (Time Rate System+ Monthly Basis)	All of Them (Daily Basis +Piece Rate System+ Time Rate System + Monthly Basis)
50	25	11	12	2

H₀: Proportion of the companies using Monthly Basis only or both including Daily Basis and Monthly Basis only or both including Time Rate System and Monthly Basis only or all of them including Daily Basis and Piece Rate System and Time Rate System and Monthly Basis is equal.

H₁: Proportion of the companies using Monthly Basis only or both including Daily Basis and Monthly Basis only or both including Time Rate System and Monthly Basis only or all of them including Daily Basis and Piece Rate System and Time Rate System and Monthly Basis are not equal.

Test Statistic: under H₀, the test statistic is,

$$\chi^2(cal) = 23.04$$

$$d.f. = n-1 = 4-1 = 3$$

$$\text{And } \chi^2(tab)_{0.05, 3} = 7.815$$

Decision: Since $\chi^2(cal) < \chi^2(tab)_{0.05, 3}$; Hence H₀ is accepted therefore

proportion of the companies using Monthly Basis only or both including Daily Basis and Monthly Basis also or Both including Time Rate System and Monthly Basis also or all of them including Daily Basis and Piece Rate System and Time Rate System and Monthly Basis are not equal.

Overhead Budgets

Table - 23

Total Observation	Practices of Overhead Budget	
	Yes	No
50	39	11

$H_0: P = 0.5$ Proportion of the companies using Overhead Budget is equal.

$H_1: P \neq 0.5$ Proportions of the companies using Overhead Budget is not equal.

Test Statistic: under H_0 , the test statistic is,

$$Z(cal) = 3.96$$

$$Z(tab)_{0.05} = 1.96$$

Decision: Since $Z(cal) > Z(tab)_{0.05}$; Hence H_1 is accepted therefore proportion of the companies using Overhead Budget is equal.

Table - 24

Total observation	Cost Classification	
	Yes	No
50	35	15

$H_0: P = 0.5$ Proportion of the companies using Classification of Cost is equal.

$H_1: P \neq 0.5$ Proportion of the companies using Classification of Cost is not equal.

Test Statistic: under H_0 , the test statistic is,

$$Z(cal) = 3.0860$$

$$Z(tab)_{0.05} = 1.96$$

Decision: Since $Z(cal) > Z(tab)_{0.05}$; Hence H_1 is accepted therefore proportion of the companies using classification of cost is not equal.

Table - 25

Total observation	Classification of Controllable/Non Controllable Expenses	
	Yes	No
50	45	5

H_0 P = 0.5 Proportion of the companies using classification of controllable cost only or non -controllable cost are equal.

H_1 P \neq 0.5 Proportions of the companies using classification of controllable cost only or non -controllable cost are not equal.

Test Statistic: under H_0 , the test statistic is,

$$Z(cal) = 5.6568$$

$$Z(tab)_{0.05} = 1.96$$

Decision: Since $Z(cal) > Z(tab)_{0.05}$; Hence H_1 is accepted therefore proportion of the companies using classification of controllable cost or non controllable cost are not equal.

Table - 26

Total Observation	Allocation of Overhead to Different Products		
	Direct Allocation	Predetermined Allocation	(Direct Allocation + Predetermined Allocation)
50	20	19	11

H₀: Proportion of the companies using Direct Allocation Only or Predetermined Allocation Only or both Including Direct Allocation and Predetermined Allocation are equal.

H₁: Proportion of the companies using Direct Allocation Only or Predetermined Allocation only or both Including Direct Allocation and Predetermined Allocation are not equal.

Test Statistic: under H₀, the test statistic is,

$$\chi^2(cal) = 2.919$$

$$d.f. = n-1 = 3-1 = 2$$

$$\text{And } \chi^2(tab)_{0.05, 2} = 5.991$$

Decision: Since $\chi^2(cal) < \chi^2(tab)_{0.05, 2}$; Hence H₀ is accepted therefore

proportion of the companies using direct allocation only or predetermined allocation only or both including direct allocation and predetermined allocation are equal.

Cash Budget

Table - 27

Total Observation	Preparation of Financial Plan	
	Yes	No
50	47	3

$H_0P = 0.5$ Proportion of the companies using Financial Plan is equal.

$H_1P \neq 0.5$ Proportion of the companies using Financial Plan is not equal.

Test Statistic: under H_0 , the test statistic is,

$$Z(cal) = 13.1$$

$$Z(tab)_{0.05} = 1.96$$

Decision: Since $Z(cal) > Z(tab)_{0.05}$; Hence H_1 is accepted therefore proportion of the companies using Financial Plan is not equal.

Table – 28

Total Observation	Preparation of Cash Budget	
	Yes	No
50	47	3

$H_0 P = 0.5$ proportion of the companies using Cash Budget is equal.

$H_1 P \neq 0.5$ proportion of the companies using Cash Budgets is not equal.

Test Statistic: under H_0 , the test statistic is,

$$Z(cal) = 6.222$$

$$Z(tab)_{0.05} = 1.96$$

Decision: since $Z(cal) > Z(tab)_{0.05}$; Hence H_1 is accepted therefore proportion of the companies using Cash Budgets is not equal.

Table - 29

Total Observation	Periods covered by Cash Budget		
	S.T.T.H Basis	Immediate T.T.H Basis+ S.T.T.H.	All of them S.T. + M.T.+L.T
50	11	25	14

H₀: Proportion of the companies using Short Term Horizon Basis only or Immediate and Short Term Horizon Basis also or all of them including Short Term Time Horizon Basis and Middle Term Time Horizon Basis and Long Term Time Horizon Basis are equal.

H₁: Proportion of the companies using Short Term Horizon Basis only or Immediate and Short Term Horizon Basis also or all of them including Short Term Time Horizon Basis and Middle Term Time Horizon Basis and Long Term Time Horizon Basis are not equal.

Test Statistic: under H₀, the test statistic is,

$$\chi^2(cal) = 6.51614$$

$$d.f. = n-1 = 3-1 = 2$$

$$\text{And } \chi^2(tab)_{0.05, 2} = 5.991$$

Decision: Since $\chi^2(cal) > \chi^2(tab)_{0.05, 2}$; Hence H₀ is accepted therefore

proportion of the companies using Short Term Horizon Basis only or Immediate and Short Term Horizon Basis also or all of them including Short Term Time Horizon Basis and Middle Term Time Horizon Basis and Long Term Time Horizon Basis are equal

Table - 30
Capital Expenditure Budget

Total Observation	Use of Capital Expenditure Budget	
	Yes	No
50	47	3

H_0 P = 0.5 Proportion of the companies using Capital Expenditure Budget is equal.

H_1 P# 0.5 Proportion of the companies using Capital Expenditure Budget is not equal.

Test Statistic: under H_0 , the test statistic is,

$$Z(cal) = 6.222$$

$$Z(tab)_{0.05} = 1.96$$

Decision: Since $Z(cal) > Z(tab)_{0.05}$; Hence H_1 is accepted therefore proportion of the companies using Capital Expenditure Budget is equal.

Table - 31

Total Observation	Projection of cost of Capital	
	Yes	No
50	47	3

H_0 P = 0.5 Proportion of the companies using Planned Cost of Capital is equal.

H_1 P# 0.5 Proportion of the companies using Planned Cost of Capital is not equal.

Test Statistic: under H_0 , the test statistic is,

$$Z(cal) = 6.222$$

$$Z(tab)_{0.05} = 1.96$$

Decision: Since $Z(cal) > Z(tab)_{0.05}$; Hence H_1 is accepted therefore proportion of the companies using Planned Cost of Capital is not equal.

Table – 32

Total Observation	Techniques in Decision Making			
	PBP	NPV	IRR	PBP+ARR+NPV+IRR
50	5	14	5	22

H_0 : Proportion of the companies using Payback Period only or Net Present Value only or Internal Rate of return only or including Payback Period and Average Rate of Return and Net Present Value and Internal Rate of return for decision techniques are equal.

H_1 : Proportion of the companies using Payback Period only or Net Present Value only or Internal Rate of return only or including Payback Period and Average Rate of Return and Net Present Value and Internal Rate of return for decision techniques are not equal.

Test Statistic: under H_0 , the test statistic is,

$$\chi^2(cal) = 19.14$$

$$d.f. = n-1 = 4-1 = 3$$

$$\text{And } \chi^2(tab)_{0.05, 3} = 7.815$$

Decision: Since $\chi^2(cal) > \chi^2(tab)_{0.05, 3}$; Hence H_1 is accepted therefore

proportion of the companies using Payback Period only or Net Present Value only or Internal Rate of return only or including Payback Period and Average Rate of Return and Net Present Value and Internal Rate of return for decision techniques are not equal.

CVP Analysis

Table – 33

Total Observation	Practice of CVP Analysis	
	yes	No
50	47	3

H₀ P = 0.5 Proportion of the companies using CVP analysis is equal.

H₁ P ≠ 0.5 Proportion of the companies using CVP analysis is not equal.

Test Statistic: under H₀, the test statistic is,

$$Z(cal) = 13.1$$

$$Z(tab)_{0.05} = 1.96$$

Decision: Since $Z(cal) > Z(tab)_{0.05}$; Hence H₁ is accepted therefore

proportion of the companies using CVP analysis is not equal.

Table – 34

Table Observation	Methods of CVP Analysis			
	B.E.P. Analysis	Both (sales Mix+C/M +B.E.P. Analysis)	Both C.M +B.E.P. Analysis	All of them (Sales Mix + C/M+B.E.P. Analysis
46	2	25	9	10

H₀: Proportion of the companies using BEP Analysis only or both includes Sales Mix and Contribution Margin and Break Even analysis also or both including Contribution Margin and Break Even analysis also or all of them including Sales Mix and Contribution Margin and Break Even analysis and Sensitivity Analysis is equal.

H₁: Proportion of the companies using BEP Analysis only or both includes Sales Mix and Contribution Margin and Break Even analysis also or both including Contribution Margin and Break Even analysis also or all of them including Sales Mix and Contribution Margin and Break Even analysis and Sensitivity Analyses are not equal.

Test Statistic: under H₀, the test statistic is,

$$\chi^2(cal) = 23.9360$$

$$d.f. = n-1 = 4-1 = 3$$

$$\text{And } \chi^2(tab)_{0.05,3} = 7.815$$

Decision: Since $\chi^2(cal) > \chi^2(tab)_{0.05,3}$; Hence H₁ is accepted therefore

proportion of the companies using BEP Analysis only or both includes Sales Mix and Contribution Margin and Break Even analysis also or both including Contribution Margin and Break Even analysis also or all of them including Sales Mix and Contribution Margin and Break Even analysis and Sensitivity Analysis are not equal.

Table - 35
Basis of Sales Mix

Total Observation	Basis of Sales Mix		
	Sales Revenue	Sales Units	All of them
			Sales Revenue + Sales Units
47	14	16	17

H₀: Proportion of the companies using Sales Revenue only or Sales Units only or both including Sales Revenue and Sales Units are equal.

H₁: Proportion of the companies using Sales Revenue only or Sales Units only or both including Sales Revenue and Sales Units are not equal.

Test Statistic: under H₀, the test statistic is,

$$\chi^2(cal) = 2.36754$$

$$d.f. = n-1 = 3-1 = 2$$

$$\text{And } \chi^2(tab)_{0.05, 2} = 5.991$$

Decision: Since $\chi^2(cal) > \chi^2(tab)_{0.05, 2}$; Hence H₀ is accepted therefore

proportion of the companies using Sales Revenue only or Sales Units only or both including Sales Revenue and Sales Units are equal.

Table - 36

Activities Based Budgeting

Total Observation	Practice of Activity Based Budgeting	
	Yes	No
50	34	16

H₀ P = 0.5 Proportion of the companies using Activity Based Budgeting is equal.

H₁ P ≠ 0.5 Proportion of the companies using Activity Based Budgeting is not equal.

Test Statistic: under H₀, the test statistic is,

$$Z(cal) = 2.7285$$

$$Z(tab)_{0.05} = 1.96$$

Decision: Since $Z(cal) > Z(tab)_{0.05}$; Hence H_1 is accepted therefore proportion of the companies using Activity Based Budgeting is not equal.

Table - 37

Zero Based Budgeting

Total Observation	Use of Zero Based Budget	
	Yes	No
50	47	3

$H_0P = 0.5$ Proportion of the companies using Zero Based Budget is equal.

$H_1P \neq 0.5$ Proportion of the companies using Zero Based Budget is not equal.

Test Statistic: under H_0 , the test statistic is,

$$Z(cal) = 6.22$$

$$Z(tab)_{0.05} = 1.96$$

Decision: since $Z(cal) > Z(tab)_{0.05}$; Hence H_1 is accepted therefore

Proportion of the companies using Zero Based Budget is not equal

Table - 38

Flexible Budget

Total Observation	Use of Flexible Budget	
	Yes	No
50	28	2

H_0 : $P = 0.5$ Proportion of the companies using Flexible Budget is equal.

H_1 : $P \neq 0.5$ Proportion of the companies using Flexible Budget is not equal.

Test Statistic: under H_0 , the test statistic is,

$$Z(cal) = 0.8485$$

$$Z(tab)_{0.05} = 1.96$$

Decision: since $Z(cal) < Z(tab)_{0.05}$; Hence H_0 is accepted therefore

Proportion of the companies using Flexible Budget is equal.

4.4 Major Findings:

- 1) While examining results, it was found that almost all the manufacturing concerns practiced operating budgets, and financial budget technique. There were **94 % companies** who practiced the **capital expenditure budget technique, CVP analysis and cash receipts and disbursement budget**. Activity Based Budgeting, Flexible Budget and Zero Based Budgeting were used by in **68 %**, **56 %** and **6 %** respectively of **total respondent companies**. Similarly, **sales budget, production budget, material purchase budget** were used by **86 % of companies survey**. **Labor budget** and overhead budget were used by **84 %** and **78 % of companies' survey**.
- 2) Most of the companies prepared tactical plan. The strategic plan was found practiced in few companies. There were **30 companies** preparing only **tactical budget** and **20 companies** were practiced strategic and **tactical plan**. And **60 % of the companies** prepared tactical budget only.

- 3) It was understood that communication of budget were made in **24 companies** from top to bottom level, **19 companies** made communication only at top level, and **companies** made communication at middle management in practicing of budgets. So, Business enterprises needed to have awareness of communicating budgets to all the staff of the organization.
- 4) Almost every Company applied overall PPC by analyzing historical data.
- 5) The implementations of budgets (plans) were found on the basis of performance reporting by **21 companies**. And practices of both Performance Reporting and Responsibility Accounting were found in **17 companies**. As well as **Performance Reporting plus Responsibility accounting plus principles of exception** were found in **12 companies**. Therefore, companies used the past data more frequently. And delegation of authority was found in some companies. Similarly, practice of principles of exception with others found in the rest companies. Hence, performance reporting was adopted to implement the profit plans.
- 6) To evaluate the controllable variable and non controllable variable (relevant variables) number of companies practiced planning department as **Top management only or consultant only or Budget committee** were **9, 26 and 14 respectively**. The analysis showed that in most of the companies only top management was involved in budget preparation activities.
- 7) The number of companies that practiced the sales plan for short term plan only or middle term and long term plan only or short term plan and middle term plan and long term plan were **27, 10 and 13 respectively**. Therefore, it was found that short term budget was

practiced in all the almost companies. And long term sales planning were absolutely less in practice.

- 8) During the study period, the number of companies that practiced methods of sales forecasting such as past trend only or past trend plus managerial survey also or past trend plus managerial Judgment or past trend plus managerial Judgment plus managerial survey or past trend plus managerial survey Plus Managerial Judgment plus least square methods were **6, 5, 14, 15 and 10 respectively**. But the result showed that co-relation method and regression analysis were not in practice.
- 9) The implementation of pricing policy depends upon the nature of Industry. The overall pricing only or discriminating pricing only or both of them together were practiced in **17, 21 and 12 respectively**. Every company was found using pricing policy.
- 10) In the area of production policy, number of companies involved in just in time or flexible or seasonal or both flexible and seasonal were **5 or 23 or 18 and 4 respectively**. Majority of companies practiced the flexible and seasonal policy. But **just in time** was used by few companies only. So, most companies need to introduce such policy to reduce the overall cost.
- 11) The optimum level of inventory policy were used by **20 companies only** but future sales based were used by **12 companies only** or past sales based were used by **5 companies** and both including future and past sales based were used by **13 companies**. Modern inventory policy such as ABC inventory policy and MRP inventory policy were not in use.
- 12) The number of companies used permanent labor only but both including seasonal and permanent labor were **used by 30 and 20 respectively**. And the payment system such as monthly basis only or

both including daily basis and monthly basis also and both including monthly basis and Time rate system also and all of them including daily basis and piece rate system and time rate system and Monthly Basis were used by 25, 11, 12 and 2 companies respectively.

- 13) The number of companies practiced the techniques of evaluating the performance of employees on day to day basis and performance reporting. Out of total observed companies only, **20 companies** were practiced the day to day attention only and **17 companies** were practiced the performance reporting only and rest **13 companies** practiced both of them including day to day attention and performance reporting.
- 14) The tactical labor plan (one year budget) and the strategic plan were practiced at the time of establishment or considering new market or restructuring of the company policy.
- 15) Out of the total observed companies, **38 companies** practiced **overhead budget only** and **35 companies** practiced the cost classification method only and **45 companies** were classified the expenses into controllable or non-controllable expenses.
- 16) The allocation of overhead rates such as direct allocation method were being used by the 20 companies only and predetermined overhead rates were being used by 19 companies only and both of them including direct allocation and predetermined overhead rates were being used by **11 companies**. So allocation of overhead rates was used by the companies more frequently.
- 17) Out of the total observed companies, **47 companies** practiced the financial plan and cash budget also. As per the cash planning such as short term horizon basis only and both including immediate horizon basis and short term time horizon basis also and all of them including immediate horizon basis and short term time

horizon and Long term time horizon basis used in 11 or 25 and 14 companies respectively. Most companies used short term cash planning to fulfill the requirements of cash. Hence operational activity was mostly focused. Long term cash planning were used by few companies only.

- 18) Out of the total observed companies, 47 companies practiced the capital expenditure budget only. During the period, the users of Pay Back Period only or Net Present Value only or Internal Rate of Return only or including payback period only and average Rate of return and Net Present Value and Internal Rate of Return were used by 4, 17, 5 and 22 companies. Almost all companies use Pay Back Period, Average Rate of Return, Net Present Value and Internal Rate of Return techniques for evaluating the capital expenditure proposals. But discounted payback period and modified internal rate of return were not found in practice

- 19) Out of the total observed companies, 47 companies practiced the c-v-p analysis. Break Even Point Analysis only or sales mix and Contribution Margin and Break Even Point also or including Break Even Point and Contribution margin also or including Sales Mix and Contribution Margin also or including Sales Mix and Contribution Margin and Break Even Point and Sensitivity Analysis were used by **2, 25, 9 and 10 companies respectively.**

CHAPTER V

SUMMARY, CONCLUSION & RECOMMENDATIONS

5.1 Summary

An efficient management helps to achieve organizational objectives through the efficient use of scarce resources. To optimize the value of scarce resources, a systematic approach of planning the activities and their efficient implementation to bring out the desired objectives are needed. Therefore, the importance of profit plan (budgeting) emerges tremendously around the world. The practice of profit plan is inevitable in each organization. Nepal is a developing country where business entrepreneurs are growing. And lack of practices of profit plan in business organization made them unable to grow the business. Planning is an inevitable for growth and development of the industry, enterprises and company. Preplan the activities of business in a comprehensive manner are essential so that desired outcomes can be obtained. Therefore, to fulfill such requirement, the use of comprehensive profit plan and control (Budgeting) in manufacturing or non manufacturing sectors are required. The research questionnaires were served for 65 companies. Out of them, 50 companies responded the answers. Discussions were made, open-end questions were provided. It was really challenging to obtain the primary survey because the personnel in companies are not open in responding the questions. The research is descriptive in nature and analytical approach is used to elaborate the data.

It was found out of the analysis that companies practiced the tactical planning such as sales, production, labor, material purchase and overhead planning. Capital Budgeting techniques, Cash Planning and CVP Analysis were practiced. Flexible Budgeting and Activity Based Budgeting were also practiced by few companies. But the Zero based budgeting was not used. Hypothesis test was organized to test the data gathered

5.2 Conclusion

Peace and prosperity are essential norms for maintaining the productivity of every business enterprises. The insurgency has just ended after 10 years. The development of manufacturing concerns has much decreased and economic reformation was totally absent. But, the majority of the enterprises which are still continuing also not practicing overall comprehensive plan. They used tactical plan.

Hence use of overall, comprehensive profit plan is lacking. The abstract reason behind that is

harming for the continuation of the organization since it inversely affect because of the government signed regional and international treaties such as SAFTA, WTO, BIMEST-EC etc. Some of the industries like noodles were benefited by marketing in India and other countries like Hong Kong, Thailand etc. DDC Industry also tries to supply the milk in India. But, for that the development and political stability are required.

Some of the industries were found very well practicing PPC Budgeting. They were conscious about operational plan, financial plan and other management tools. But the modern method of tools such as ABB, ZBB were not in practice. The discounted payback period, IRR and NPV were not in use.

5.3 Recommendations

Nepal is a developing country and has high level of challenge. Private sector play a dominate role for the economic reformation of the country. It can be well achieved after a high level of commitment and strategic plan through the commitment and strategic plan can be prepared after political stability. Nation is now at difficult period. The step is toward constitutional assembly. Therefore, political reformation may bring prosperity and peace. The peace and prosperity support for development. China and India are two neighbors' giant countries. Political commitment and stability in politics make economic reformation and development. It has become a lesson to Nepal for creating the environment for Nepalese entrepreneur's development. Therefore, the first important issue is to ensure political stability.

Now Nepal has signed and made commitments of various international and regional treaties such as SAFTA, SAPTA, W.T.O., and BIMEST-EC. To attain a level of benefits, it can be possible only through commitment and planned activities and real execution of the planned activities. So the commitment is needed for effective plan, their real execution Therefore, the following recommendations can be made basing on the analysis.

1. The development of system and approach are essential for real execution of comprehensive profit plan. Therefore every business enterprises should adopt system and approach
To overcome the problems of competitiveness of Nepalese manufacturing
2. concerns, **the strategic plan** is very important. Because the data revealed that **tactical plan** were practiced in **30 companies** only but **strategic and tactical plan** were practiced in **20 companies**.

So, long term planning is inevitable in each company which assists value maximization by handling risks efficiently.

It can be concluded that **top management** used to evaluate relevant variables only in **26 companies** but **planning department** were used in **9 companies** only. **Top management and consultant and budget committee** were involved in **14 companies**. But today **a separate planning department for preparation of budget** is essential in each organization as well as **delegation of authority and responsibility** is essential to **consult the relevant variables**

- 3 To attain the practice of PPC, **trainings and seminars** should be **organized at national** level concerned unit or units. To acquaint with profit planning tools, it may be **suitable procedure** and also it may update **their knowledge and skill**.

Profit planning needs use of past expenses and evaluation of external environment variables and **commitments through the past expenses** must not always be considered **for future planning**.

Short term sales plan were prepared in **27 companies** but **middle term and long term sales plan** were prepared in **10 companies**.

Short term and middle term and long term sales plan were practiced in **13 companies**. So the result confirms that **long term sales planning** were practiced in few companies. **Hence**

4. **companies** need to prepare **their long term sales budget** to achieve **the market oriented goals**.

To practice the comprehensive profit plan, sales' planning is essential to industry. But **6 companies** made sales forecasting by

using past trend method,**5 companies** used past trend and managerial survey method,**14 companies** used past trend and managerial judgment method, Past trend and managerial Judgment and managerial survey were used by **15 companies**, Past trend and least square method and managerial survey and managerial judgment method were used by **10 companies**. Effective sales planning is possible **through effective sales forecasting techniques**, and practicing of modern sales forecasting techniques such as Co-Relation Method, Regression Analysis method, and Linear Programming Model etc are essential. Sales Planning is based upon sales forecasting technique. And sales forecasting requires higher level of expertise or professional therefore companies needs to understand the issue.

5. During the research period, it was found that **43 companies** practiced **production budget. Just in time production policy** were practiced by **5 companies**, **seasonal production policy** practiced in **18 companies**, **Flexible production policy** were practiced by **23 companies** or Both including **seasonal and flexible production policy** were adapted by **4 companies**. Hence **modern techniques of production policy** were practiced by few companies only. So companies can reduce costs by adapting modern techniques such as just in time production policy, material requirement planning system, ABC analysis, and kaizen inventory system.
6. Out of the total companies surveyed, **the labor plan was practiced by 42 companies**. And the companies practicing the payment system such as monthly payment system were in **25 companies**, **Daily basis and monthly basis** were practiced by **11 companies**, **Daily basis and piece rate system and time rate system and monthly basis** were practiced by **2 companies**. Hence **it can be**

recommended that the use modern technique of payment system such as Halsey premium plan or Rowan plan or Taylor's differential piece rate system which will inspire employee to take extra benefits as well as equal proportion of benefits shared by owners also.

7. **Out of the total companies surveyed, the overhead cost budget was practiced by 39 companies'. But the companies practiced overhead cost budget on ad-hoc basis. They did not use cost classification method. Few companies practiced some of the common methods. But the special recommendation can be made that companies should use modern technique of cost classification. Out of the companies surveyed, 47 companies practiced the capital budgeting technique. The method of capital budgeting such as payback period were practiced by 4 companies, Net present value method were practiced by 14 companies, Internal rate of return were practiced by 5 companies, Payback period and average rate of return and net present value and internal rate of return were practiced by 22 companies. The modern technique of budgeting are required to be used by companies such as discounted payback period and modified internal rate of return and internal rate of return. It will reduce the dependency over traditional method.**

Out of the total companies surveyed, **47 companies** practiced the financial plan and cash plan. And cash budget on the basis of period covered such as **short term time horizon basis** were practiced by **11 companies**, **Immediate time horizon basis and short term time horizon basis** were practiced in **25 companies**, **Immediate time horizon basis and short term time horizon basis and long term time horizon basis** were practiced by **14**

companies. Most of the companies used **immediate and short term cash planning.** The use of **long term cash planning approach** will reduce the dependency on **short term operational cash requirements.** Some companies used informal cash planning. So it is **essential to reduce** such **informal plans** and needs to **use long term cash budget.**

8. Out of the companies surveyed, **activity based budgeting** were used by **34 companies,** **flexible budget** were practiced by **24 companies,** **zero based budget** were used in **6 companies.** So companies' need to use activity based budgeting, zero based budgeting, and flexible budgeting.

To promote sale in the market, companies need to practice the promotional activities. It can increase the sales volume ultimately. Therefore Companies need to reduce the inventory costs by using just in time production policy.

Seminars and training should be conducted to increase productivity of the labors.

9. the manufacturing company control the internal environment and secured by External environment.

Annex-1

A study on Profit Planning practices in manufacturing concerns of Nepal.

- a. Name of the Company
- b. Location
- c. Date of Establishment
- d. Name of Manager
- e. Sex (i) Male (ii) Female
- f. Age
- g. Academic Qualification
- h. Legal Status (i) Private Ltd.
(ii) Public Ltd.
- i. No of new Job created in the current year.

Q.N.1 What is the basis used in the company for projection of profit?

Q.N.2 Will you mention the period for which projection of profit is made?

Q.N.3 Would you kindly tell which of the following mentioned tools of planning, controlling and decision making are used in your company?

- a. Sales Budget
- b. Production Budget
- c. Material Purchase Budget
- d. Labour Cost Budget
- e. Overhead Cost Budget
- f. Capital Expenditure Budget
- g. Cash Receipts and Disbursements Budget
- h. Cost Volume Profit Analysis
- i. Flexible Expenses Budget
- j. Activity Based Budgeting
- k. Zero Based Budgeting

Q.N.4 Which tool would be most suitable for the company?

Q.N.5 If the company is not using suitable tools, what might be the reasons?

- a. Lack of Expertise
- b. High Cost/Quite Expensive
- c. No information about the tools.
- d. Other, please specify.....

Q.N.6 To what level planning premises are communicated?

- a. From top to lower
- b. From top to middle
- c. Top level only

Q.N.7 Which department has the overall responsibility of profit planning?

Q.N.8 Would you please state the periods covered by profit planning in this company?

- a. Strategic plan (long-range-plan)
- b. Tactical plan (Short-range-plan)

Q.N.9 What is the basis for measurement activity?

- a. Products units
- b. Sales units
- c. Sales Rupees
- d. All of them
- e. Other

Q.N.10 Will you explain about the measure of control useful in your company?

- a. Performance reporting
- b. Responsibility Accounting

- c. Application of the exception principle
- d. If any other, please specify.....

Q.N.11 Has the company established responsibility centre and authority centers?

Yes No

If say yes will you specify

Authority Centers

Responsibility centers

Q.N.12 which of the following level of management makes participation in the preparation of annual budget?

- a. Lower-Management
- b. Middle-Management
- c. Upper-Management

Q.N.13 which of the following wing evaluates relevant variables?

- a. Budget committee
- b. Planning department
- c. Top management
- d. Consultants
- e. Others, if any please specify.....

Q.N.14 Will you specify the controllable mechanism useful in the context of your industry?

- a. Preliminary Control
- b. Concurrent Control
- c. Feedback Control
- d. Please, if any other specify.....

Q.N.15 what would be the importance of applying PPC (Budgeting) in your institution (industry)

- a. Useful to attain the goal congruence
- b. Inter personnel relationships of people in the work situation as they exchange views, technical expertise, gossip and attitudes.
- c. Co-ordination among-sales department and production department
- d. All of them
- e. Others, if any specify.....

Q.N.16 Does increase in Business of the company increase labor turnover?

Yes

No

Q.N.17 If yes, kindly provide additional information about labor turnover.

	Officers	Non-Officers Total
a. No of technical staff Leaving the organization	<input type="checkbox"/>	<input type="checkbox"/>
b. No of administrative staff Leaving the organization	<input type="checkbox"/>	<input type="checkbox"/>

Sales Area

Q.N.1 Does your company make credit purchase and credit sales?

Yes

No

Q.N.2 would you kindly mention the average collection periods and average payment periods?

- a. Average Collection Periods _____
- b. Average Payment Periods _____

Annex-5

Q.N.3 What distribution channel is followed in your company in course of sales?

- a. Producer..... Customer
- b. Producer..... Retailers customers
- c. Producer..... WholesalersRetailers..... customer
- d. Producer..... Agent..... Retailers..... Customer

Q.N.4 Which method does the company practices for sales forecast?

- a. Past trend analysis method
- b. Least square analysis method
- c. Market Survey Analysis method
- d. Managerial Judgment method
- e. Specify if any others.....

Q.N.5 What kind of sales budget does the company forecast?

- a. Short term Budget
- b. Medium term Budget
- c. Long term Budget

Q.N.6 What method is used by the company for fixing sales price of products?

- a. Overall pricing (same price in all territory)
- b. Discrimination Pricing (different pricing is used in territory wise)

Labour Area

Q.N.1 What kinds of labour has the company used?

- a. Seasonal Labour
- b. Permanent Labour
- c. All of them

Q.N.2 Which method does the company practices in control of labour

- a. Day to day attention of labour
- b. Performance reporting and evaluation of results

c. Specify, if others.....

Q.N.3 Which wage payment system is used in your company?

- a. Daily basis
- b. Monthly Basis
- c. Piece Rate System
- d. Time Rate System
- e. Specify, if others.....

Production Budget and Material Purchase Budget

Q.N.1 What production policy is adopted in your company?

- a. Just in time
- b. Flexible
- c. Seasonal
- d. If Specify, others.....

Q.N.2 What inventory policy is adopted?

- a. Optimal level of inventory policy.
- b. An excessive level of inventory policy
- c. Future sales based inventory policy.
- d. Past sales based inventory policy.

Capital Expenditure Budget

Q.N.1 Does your company use capital expenditure budget technique?

- Yes No

Q.N.2 How would you planned for cost of capital?

- a.
- b.

Q.N.3 Which evaluation technique is used in your company, please mention the tool of decision making used in your company?

- a. Pay back period
- b. Accounting rate of return
- c. Net present value
- d. Internal rate of return
- e. Discounted pay back period
- f. If any others, please specify.....

Overhead

Q.N.1 Would you please mention the name of the items of fixed and variable expenses?

Fixed Expenses

Variable Expenses

Q.N.2 Which method of cost classification is used in your company?

- a.
- b.
- c.
- d.
- e.

Q.N.3 What are the activity base used in your company?

Q.N.4 How does the company plan for overhead expenses?

Q.N.5 Does the company classify controllable or non-controllable expenses?

Yes No

Q.N.6 Which method is used in the application of overhead to different products?

- a. Direct Allocation
- b. Pre-determined overhead rate
- c. All of them
- d. Specify if others.

C-V-P Analysis

Q.N.1 Does the company practice C-V-P Analysis

Yes No

If Yes then

Q.N.2 What method of C-V-P Analysis is practiced in your company?

- a. Sales mix
- b. Contribution Margin
- c. Break-Even Analysis
- d. Sensitivity Analysis
- e. All of them
- f. Specify, if other.....

Q.N.3 Which basis of sales mix is used?

- a. Sales Revenue
- b. Sales Units
- c. Specify, if others.....

Q.N.4 If the company calculates product wise Break-Even sales, how fixed cost is allocated to various products?

- a. Output unit basis
- b. Sales Revenue Basis
- c. Utilization of capacity basis
- d. Specify, if other.....

Cash Budget

Q.N.1 Does the company prepare financial plan?

Yes No

Q.N.2 Does the company prepare cash budget?

Yes No

Q.N.3 What is the period covered does the cash budget?

- a. Immediate time horizon basis
- b. Short-term time horizon basis
- c. Long-term time horizon basis
- d. All of them

Zero Based Budget

Q.N.1 Does the company use zero-based-budgeting technique?

Yes No

Q.N.2 How does the company practices ZBB under decision making packages?

- a) Mutually exclusive decision package
- b) Incremental decision package

Activity Based Budgeting

Q.N.1 Does the company practice activity-based-budgeting technique?

Yes No

Q.N.2 Which method of costing is suitable for the company?

- a. Traditional costing system (Single activity based system)
- b. Activity Based Costing system (Activity based system)

Q.N.3 Does the company prepare performance reports?

Yes No

If Yes then

Department Wise

Expenses Wise

Flexible Expenses Budget

Q.N.1 Does the company practice flexible expenses budget technique?

Yes No

Q.N.2 What is the purpose of flexible expenses budget used in your company?

- a. For C-V-P Analysis
- b. For Short term-overhead Plan
- c. Specify, if other

Other Area

Q.N.1 Do you have idea about the various treaties signed by government like SAFTA, SAPTA, BIMESTEC and W.T.O.?

Yes No

Q.N.2 What Competitive strategy does the company plan to implement such regional treaties?

Q.N.3 What marketing plan does the company prepare for such free trade concept?

Q.N.4 Do you feel that Nepalese accounting standards support to meet the requirement of such regional treaties?

yes No

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