

# **CHAPTER-I**

## **INTRODUCTION**

### **1.1 Background of the study**

After the restoration of democracy, the department has been recognized with its new name “Cottage and Small Industry Department”. It was felt that the private sector could not set up all basic and feasible industries capable of making special contribution to the industrial development of the country. Within the period of this plan the new industrial policy 1974 was also announced by government Nepal. The changing political situation has changed its industrial policy. In 1992 industrial policy was declared and this policy is very liberal in respects of registration and other official procedures. Private investment was encouraged and foreign investment was welcomed. In this reference, the government has conducted the procedures of privatizing some public enterprises like Bansbari leather and Shoes factory, Bhrikuti Paper mill and Harisiddhi Brick factory is the major in first phase. The process will continue. Likewise, the ministry of industry, UNDP has jointly conducted a foreign investment forum on the first week of the December 1992, the investors more than hundred countries attended the conference and showed their keen interest in the industrialization process of Nepal. It is believed that the conference leads the industrial situation of Nepal towards the golden future.

During Rana Regime, they were not interested to develop the country. Though, Biratnagar Jute Mill, Nepal Bank Ltd., Juddha Match Factory, Morang Cotton Mill, Mahendra Sugar Mill and Butwal Plywood and Bobiu Factory had been established during this regime. These above industries are the parents industry in Nepal. After the introduction of democracy, the Government felt the need of the industrialization and started some public enterprises; likewise the government established a separate unit as “Udhyog Parisad” and “Industry Department”. In

1981 a new industrial policy was declared and the main features of this policy were that all industries were kept open to private sector except the defiance industry. In Nepal, the history of development of industry begins after the democracy of 2007 B.S.A PE has been defined as a productive entity or organization owned or controlled by public authorities, which sells its output in the market. In some cases, these tended to be capital and/or technology intensive operation that were regarded as essential to economic progress or to national security, such as mining, hydropower and petroleum products.

PE became quite popular in 20<sup>th</sup> century in the developing countries. It has been considered as one of the best effective economic tools for economic development and social justice in the countries. In any part of the world, PEs are supposed to have been established to private quality goods and services to the general public at fair prices and Nepal is no exception. PE have assumed significant role in almost every countries of the world, yet there has so far been no standard designation of its own. Different Government and agencies to suit their own respective situation, have defined the term PE differently.

Encyclopedia Britannica has defined PE as, “PE may be defined as an under taking that is owned by the national state, local government, suppliers services or at a price and is operated on more or less self supporting basis such enterprises may also be international initiated or inter municipal i.e. owned and operated jointly by two or more national state or local government”. UN has defined PE as “Those organization namely governmental enterprises and public corporations, which are entirely or mainly owned and/or controlled by the public authorities consisting of establishment which by virtue of their kind of activities, technology and mode of operation are classified as industries” (Shrestha, 1990: 3).

The history of PE begins with the partial nationalization of Nepal Bank Limited (Established in 1936 in the private sector) in 1953. In 1950s, utilities such as

Telecommunications, drinking water and sewerage, electricity and transport were being initially managed by the government departments. PEs expansion accelerated during the 1960s to the late 1970s. From this year onwards, report includes financial and physical performance of 11 development committees involved in commercial activities 31 enterprises, where government of Nepal is in minority. Report also includes financial indicators of Employees' Provident Fund (Annual Performance Review of Public Enterprises).

Many of them were established with the assistance of donor countries. As per the analysis and evaluation of the roles and performance of public enterprises in the national economy the elected government in 1990 noted that the government corporations were not satisfactory. The growth of PEs in Nepal has a long history some of which can be attributed to the foreign aids and donors driver. The history of establishment of PEs in Nepal can be explained in terms of its evolution. In Nepal, government initiative was essential at a time where private sector investment could not be attracted in the provision of basic social and economic services. In this case, the institution of public enterprises was justified. As a result, a number of public enterprises, covering different sectors of the economy, were setup during different periodic plans.

### **1.1.1 The first year plan (2013 to 2018 B.S.)**

This is the very initiative plan taken by the government with the purpose of basic industries in public sectors within the country. It was thought that to provided greater public welfare but failed to attract private capital investment.

) The main objective of this plan is as follows:

) To increase in production. To provide the opportunities of employment. To provide to all people equal opportunities for raising their live style. To established institution for implementing success development programme. To make economic survey to prepare infrastructure for future plan.

### **1.1.2 The Interim Period (2018-2019)**

It is three year plan not a five year plan. In this plan, the government has made plan to expense sixty cores but only fifty nine cores has expense or almost ninety nine percent.

The main objectives of this plan are as follows:

- ) To create employment opportunity
- ) To increase national productivity
- ) To maintain economic stability
- ) Transportation for social activities
- ) Priority for communication and electricity

During this period following PE, are established:-

- ) National Trading Ltd.
- ) National Construction Company of Nepal
- ) Ratna Recording Corporation

### **1.1.3 The second three year plan (2019/2020 to 2021/2022 B.S.)**

It is three year plan not a five year plan. In this plan, the government has made plan to expense sixty cores but only fifty nine cores has expense or almost ninety nine percent.

The main objectives of this plan are as follows:

- ) To create employment opportunity
- ) To increase national productivity
- ) To maintain economic stability
- ) Transportation for social activities
- ) Priority for communication and electricity

During this plan, the government had a policy of establishing under taker in the area of public utilities building, infrastructure and financial sector. During this plan following PEs were established:

- ) Fuel Corporation
- ) Transportation Corporation
- ) Gorkhapatra Corporation
- ) Birgunj Sugar Factory
- ) Janakpur Cigarette Factory
- ) Patan Industrial District
- ) National Commercial Bank
- ) Nepalese Carpet Pvt. Ltd.

#### **1.1.4 The third five year plan (2022/23 to 2026/27 B.S.)**

In this plan, the priority was given for importing substitute goods or manufacturing goods of basic necessity and export oriented industries having great prospects of earning foreign exchange. These are based on local materials and producing needs to involve both private as well as public sectors in the industrialization process of the country.

The main objective this plan is as follows;

- ) To increase in agriculture production
- ) To develop industrial sector
- ) To increase foreign trade
- ) To end social discrimination

During this plan, following PEs was incorporated:

- ) Himal Cement Factory
- ) Agricultural Tools Factory Limited
- ) Agricultural Input Corporation
- ) Agricultural Development Bank Ltd.
- ) Dairy Development Corporation
- ) National Insurance Corporation
- ) Nepal Tea Development Corporation

- ) Nepal Tele-communication Board
- ) Chandeswori Textile Industry
- ) Cottage Industry and Handicraft Emporium
- ) Brick and Tile Factory
- ) Bansbari Leather and Shoe Factory

### **1.1.5 The Fourth Five Year Plan (2027/28 to 2031/32 B.S.)**

In the beginning of this plan it was felt that the private sector could not setup all basic and feasible industries capable of making special contribution to the industrial development of the country. During this plan the new industrial policy 1974 was also announced by government.

The main objective of this plan is:

- ) To increase in production more
- ) To prepare require infrastructure for continue development
- ) To get five percent economic growth rate

The following PEs was established during this plan.

- ) Agro Lime Industry
- ) Vegetable Ghee Industry
- ) Royal Drugs Limited
- ) Nepal Oil Corporation
- ) Credit Guarantee Corporation
- ) Royal Nepal Films Corporation
- ) Eastern Electricity Corporation
- ) Jute Development & Trading Corporation
- ) Culture Corporation
- ) Nepal Transit & Wave Housing Pvt. Ltd.
- ) Drinking water and sewerage Board
- ) Hetauda Textile Industry

- ) Nepal Chauri Ghee Industry
- ) Rastriya Chamal Factory
- ) Tobacco Development Company
- ) Nepal Livestock Company
- ) Nepal Data Processing Center
- ) Eight Paddy Rice Export Companies

### **1.1.6 The Fifth Five Year Plan (2032/33 to 2036/37)**

During this plan period, Nepal carpet Pvt. Ltd. And Vegetable Ghee Industry was privatized.

The main objective this plan is as follows:

- ) To increase in productivity
- ) To utilize labour more

During this plan the following PEs were established:

- ) Bhaktapur Brick and Tile Factory
- ) Hetauda Cement Factory
- ) Janak Educational Material Center
- ) Security Marketing Center
- ) Agriculture Project Service Center
- ) Hetauda Leather Company
- ) Nepal Metal Company

### **1.1.7 The Sixth Five Year Plan (2036/37 to 2041/42 B.S.)**

This plan emphasis on increasing opportunity and fulfilling the minimum basic needs. In this plan in 2037 a new industrial policy declared and main feature of this policy was that all industries were kept to open to private sector except for the defense industry.

The main objective of this plan is as follows;

- ) To give priority to agriculture sector, irrigation sector and forest sector
- ) To emphasis in developing cottage and small industries
- ) To increase in import and tourist promotion
- ) To increase in supply of construction materials
- ) To control the population

During this plan following PEs were established:

- ) Herb Production and Processing Company
- ) Bhrikuti Sugar Industry
- ) Lumbini Sugar Factory
- ) Nepalgunj Paper Factory
- ) Butwal Spinning Factory
- ) Nepal Orient Magnetile

### **1.1.8 The Seventh Five Year (2042/43 to 2046/47 B.S.)**

In this plan Rs 50 arba and 41cores was proposed. Out of this, most of the budget was distributed in agriculture, irrigation and forest sector.

The main objective of this plan is as follows;

- ) To increase in production by more rate
- ) To increase in productive employment

During this plan following PEs were established:

- ) Udayapur Cement Company
- ) Nepal Television
- ) Nepal Coal Limited

In this plan period no PEs was established. This plan has laid down the more emphasis on privatization of PEs. Highlighting the necessary of privatization especially to accelerate the pace of national development it has become necessary to increase efficiency in all areas through proper and efficient management.

Together with this it has become necessary to bring about changes in the structural framework of the corporation in order to enhance the standard of services rendered by them. The following reasons make the privatization of PEs necessity of the enterprises are running losses. PEs is over Staffed Unnecessary Government Interference's PEs lack commercial Ethics Lack of skilled professional and responsible management in corporation

The above reasons were taken as basic points by government for privatizing PEs. The main objectives of privatization are concerned with the development of industry and business sectors. Increment in productivity and efficiency in the mobilization of saving and increase in public participation in commercial field are more guideline taken by the government for privatization. (The eight plan, National Planning Commission, July 1992: 691)

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

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

The effort of late Bajhangi king Jaya Prithivi Bahadur Singh is also unforgettable in history of Gorkhapatra. He was the first editor of Gorkhapatra. Gorkhapatra, firstly published in 24<sup>th</sup> Baishak, 1958 B.S. is the pioneer of journalism in Nepal. GC has the highest contribution to the development and promotion of Nepali language, literature and culture under the circumstances of virtual ban on information and education, Dev Shamsher, the Rana Prime Minister of relatively liberal outlook, started Gorkhapatra Weekly. Although GC faced the different unfavorable circumstances, it took 42 years to become twice week newspaper (29<sup>th</sup>

Ashwin, 2000 B.S.). On 8<sup>th</sup> Poush, 2003 it became thrice weekly publication. Lastly it became a daily publication on 7<sup>th</sup> Falgun, 2017. The publication of evening issue of Gorkhapatra was started from 2<sup>nd</sup> Kartik, 2019 B.S. It was continued till 22<sup>nd</sup> Ashoj 2022 B.S. But due to different reasons the publication of evening issue was close down.

The Gorkhapatra Corporation even is not free for publishing current news if it is not favour of government. The corporation is badly over staff due to different pressures. The main causes of poor performance of corporation are excessive Government and Political interference and dominance. Gorkhapatra has started publishing multi-language since Aswin, 2064. It has just celebrated its 111<sup>th</sup> birthday. The publication of Gorkhapatra Corporation so far is listed below:

**Table: 1.1**

**Publication of Gorkhapatra Corporation**

<b>SN</b>	<b>Name of Publication</b>	<b>Kinds of Paper/News</b>	<b>Started Date</b>	<b>Discontinued/Continued</b>
1	Gorkhapatra	Nepali Daily News	1958 Baishakh 24	Continued
2	The Nepalese Perspective	English Weekly	2021 Ashoj	Discontinued
3	The Rising Nepal	English Daily	2022 Poush	Continued
4	Madhupark	Nepali Monthly	2025 Jestha	Continued
5	Yuva Manch	Nepali Monthly	2045 Ashad	Continued
6	Sunday Dispatch	English Weekly	2047 Baishakh	Discontinued
7	Muna	Nepali Monthly	2047 Poush	Continued
8	Monoram Apsara	Nepali Monthly	2055 Baishakh	Discontinued

*Source: Gorkhapatra Sansthan*

## **Control**

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

### **1.3 Statement of the Problem**

Although Gorkhapatra is running in loss for a long year however it is not well prospered as it ought to be this study is mainly designed to solve the under mentioned problems by talking into account the budget role in planning the profit. The major problems of application of budgeting programmer in GC are the conflict in its broad objectives. The present study will try to examine and analysis the practice of profit planning in GC. Therefore GC has faced following problems and given study will try to find out solution for these problems.

Most of the public enterprises, especially those who are involved in service sector are not preferring well. There may be different causes for, which can be attributed to ineffective performing planning of revenue sector, which is basis for all other planning.

The present study has tried to analyze and examine the PPC side of public enterprises taking a case of G C. Furthermore, the study has tried to answer the following research questions:

- ) Does GC have appropriate profit planning system?
- ) Which methods of profit planning could be effective for better competitiveness in the market and for better results?
- ) What is the impact of profit planning program on performing of GC?
- ) What are the major difficulties GC have face while using planning program
- ) Has GC failed to make effective budgeting program?
- ) Has GC not followed major problem for developing and implementation?
- ) Has GC not showed goods performance between top and lower level employees?
- ) Has GC failed to make effective strategy on competitive with other media?

#### **1.4 Objectives of the study**

The main objectives of the study are as follows:

- ) To analyze the various functional budget.
- ) To analyze the variance between target and actual.
- ) To analyse the various financial position.
- ) To provide appropriate suggestions and recommendations.

#### **1.5 Limitation of the study**

The present study analyzes the problem and prospects in budget application and implementation. This study also analyzes the effectiveness of profit planning and control in representative enterprises. The present study will also examine and review the present and historical literature. Besides these, the present study will serve the general interest of various people as well as to the researcher of this area. This study confines on the profit planning and control of GC. In the context of Nepal, very few studies and researchers have been made in respect of profit

planning and control of Nepalese public enterprises. This study holds some importance since that a periodic change required to collect the information about the approach of profit planning in Nepalese public utility and social enterprises. Lastly the present study attempts to provide valuable suggestion and recommendations which will serve the manager making profit plans in the GC, and as well as this study will help to overcome, the certain PEs problems regarding budgeting activities.

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

- ) Analysis has been focused upon financial and accounting aspect.
- ) Only selected financial and statistical tools have been employed for analysis purpose.
- ) Limited time is available, therefore every detail are not possible to be investigated.
- ) This study covers only five year data from 2062/2063-2066/2067.
- ) Secondary data have extensively been used. The reliability of results depends on these data
- ) The entire study will be based on secondary data and a few primary data.
- ) Though the study is made in 2067/068, the data up to 2064/65 have been used.

## **1.6 Scheme of the study**

The study has been divided into five chapters which are as follows;

**Chapter I:** Introduction

**Chapter II:** Conceptual Framework

**Chapter III:** Research Methodology

**Chapter IV:** Data Presentation and Analysis

**Chapter V:** Summary, Conclusions and Recommendations

## **CHAPTER- II**

# **CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE**

### **2.1 Conceptual Framework**

#### **2.1.1 Concept of Profit**

Profit is the primary measure of business success in any economy. It does not happen; it is managed (Lynch and Williamson, 1984:146).

No company can survive long time without profit. Profit is the ultimate measure of its effectiveness, and in a capitalist society there is no future for private enterprises which always incur losses. Profit is a signal for the allocation of resources and a yardstick for judging managerial efficiencies (Kulkarn, 1992: 99).

Profits are the ultimate yardstick of management's ability to coordinate plan and act in the interest of the consumer (Reekie and Jonelhan, 1983: 380).

Profit just does not happen, profits are managed. Profit is the primarily measure of business in any economy. It is important to understand the concept of profit. There is several definition of profit. An economist will define that the profit is the reward for the entrepreneurship for taking the risk. An accountant will say the excess of firm's profit over the expenditure of in laymen term profit may be defined as deference between revenue generation and cost incurred or the excess of income over expenditure during a particular period of time.

In financial term profit may be defined as viable return from any investments. Profit may be short run or long run, before or after tax, total profit or profit per share, gross profit or net profit. Greek philosopher Aristotle says, "Watch the costs and the profits will take care of themselves ". Profits are what are left after all outgo has been deducted from income. Profit, in business, the monetary difference

between the cost of producing and marketing goods or services and the price subsequently received for those goods or services. In economics, profit may be defined as the net incomes of a business after all other costs-rent, wages, interest etc. have been deducted from the total income.

Dictionary meaning of profit is the money that you make in business or by selling things, especially after paying costs involved, the advantage that you get from doing something (Hornby, 2000:1011).

Producing revenues in given fiscal year (Lynch and Williamson, 1984; 99). In the definitions, the researcher can conclude that there is no definite definition of profit. It depends on the definer's views; and their interest. The researcher would use the profits as revenue after cost of production. Under the cost of production, all factors of production should be considered for example hour rent, labour wage, material cost, cost of capital as well as opportunity cost of capital.

## **2.2 Concept of planning**

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

It determines from cost and revenue. It is the reward of bearing risk, innovation. Every business enterprises invest huge amount to take a higher degree of risk and they are expected higher rate of return. Each business firm is primarily established with a view to earn profit. So, profit is necessary for any type of business. Planning consist of setting goals for the firm, both immediate and long range;

considering the various means by which such goals may be achieved and deciding which of any available means would be best suited to the attainment of the goals sought under the condition expected to prevail (Lynch & Williamson,1996:5).

Dictionary meaning of planning is the act or process of making plans for something (for example, curriculum, financial and family planning also) and plan means something that you inter to do or achieve, a set of things to do in order to achieve something, especially one that has been considered in detail in advance and way of investing money for the future: a saving plan (Hornby, 2000: 962) Hence, profit is the amount left after deduction of cost from revenue.

The Planning processes both short and long is the most crucial component of the whole system. It is both the foundation and the bond for the other elements because it is through the planning process that we determine what we are going to do, how we are going to do it and who is going to do it. It operates as the brain center of an organization and like the brain, it both reasons and communicates. Planning entails regular measurement of progress towards objectives and goals and the execution of strategies and action program. Planning should be continuous process and not a once-a year exercise. It should involve all these, whose jobs have a significant effect on the fortunes of the company. Planning is the determination of anything in advance of action. It is essentially a decision-making process that provides a basis for economical and effective action in the future. Effective planning sets the stage for integrated action to take places, reduces the number of unforeseeable crises, promotes the use of more efficient methods and provides the basis for the managerial function of control thereby assuring focus on the organization objectives.

Planning is a basic managerial function. It is concerned with determination of objectives to be achieved and the course of action to be followed to achieve them. It is a decision in advance what to do, when to do, how to do and who will do a

particular task. Hence, planning is thinking before doing. It involves selecting of objectives and strategies, policies, programme and produce for achieving them (Shrestha, 1996, 315).

Managers at every levels of management perform planning. It is a prerequisite of doing anything. Good planning is essential to ensure proper utilization of human resources to achieve the predetermined objectives. It is based on the manager's ability to forecast future situation correctly and accurately. Thus, forecasting is an inseparable part of planning.

Planning is defining goals, establishing strategy for achieving these goals, and developing a comprehensive hierarchy of plans to integrate and coordinate activities. It is concerned with both ends (what is to be done) and means (how is to be done). Planning is the first essence of management and all other function are performed within the framework of planning. Planning means deciding in advance what is to be done in future. Planning starts from forecasting and predetermination of future events .The primary purpose of planning in business is to increase in the chance of making profit. The budget is the primary operation-planning document. Committed performance budgets are called profit plan. Each manager and subordinated has the authority in varying degrees to make the decisions, the results of which will nearly accomplish or better his budgetary targets.

### **2.2.1 Planning and Forecasting**

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

The management of a company may accept, modify or reject the forecast. Planning incorporates management decisions that are based on the forecasting,

other inputs, and management judgment about such related item as sales volume, prices, sales efforts, production, and financing. It is important to make a distinction between the forecast and plan. Plan primarily because the internal technical staff should not be expected or permitted to make the fundamental management decision and judgments implicit in every plan. Forecasting as only step in planning is that forecasting conditional (Welsch, et al., 2001:172).

Forecasting is not a plan; rather it is a statement and or a quantified assessment of future condition about a particular subject based on one or more explicit assumptions. A forecasting should always state the assumption upon which it is based. A forecasting should be viewed as only one input into the development of a plan.

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

### **2.2.2 Management Planning**

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

## **2.3 Profit Planning**

Profit planning is defined as a comprehensive and coordinated plan, expressed in financial terms, for the operations and resources of enterprises for some specific period in the future. When the management plans for profit for a certain period of time, it is called profit plan. As an estimation and predetermination of revenue and expressed that estimates how much income still be generated and how it would be spent in order to meet investment and profit requirement. In the case of institutional operations it presents a plan for spending income in a manner that doesn't result in loss (Ninemeier and Schmidgall, 2000: 133).

After having some concept of profit and planning, the researcher thinks that it is necessary to know some concept about profit planning. Generally speaking planning for profit is known as profit planning. Profit planning directs the organization towards achieving profit because the task should implement according to plan. In other word if a management plans for profit for a certain period of time it is called profit plans.

It represents an overall plan of operations, covers of definite period of time and formulates the planning decisions of management. Planning is a detailed plan of action during a period of one year or less. Profit planning helps a firm's financial manager to regulate flow of funds, which is a primary concern (Pandey, 1997: 233).

Profit plan is a short term financial plan. It is an action plan to guide managers in achieving the objectives of a firm. A profit plan is a comprehensive and coordinated. Plan recourses of enterprises for some specific period in future.

The broad concept of profit planning in a few words as, the profit planning and control means the development and acceptance of objective and goals and moving an organizational efficiency to achieve the goals. The term comprehensive profit

planning and control is defined as a systematic and formalized approach for performing significant phases of the management planning and control function. The development and application of broad and long range objectives for the enterprises. The specification of enterprises goals a long range profit plan developed in broad terms. A system of periodic performance report detailed by assigned responsibilities. A short rang profit plan detailed assigned responsibilities.

It extends throughout the entire organization from the chief executive to the frontline supervisory levels. Profit planning and control has the ultimate objectives of attaining the optimum profit. Profit planning in fact is a managerial technique. It is such a written plan in which all aspects of business operations with respect to a definite future period are included. It is a formal statement of policy, plan, objectives and goal established by the top management in respect of some future period. It is a pre-determine detailed plan of action developed and distributed as an audit to current operations and as a partial basis for the subsequent evolution of performance. Profit planning means the development and acceptance of objectives and goals and moving an organization efficiently the achieve objectives and goals. Profit planning is the heart of management. Without proper planning of profit it will not just happen. So, any types of enterprises should systematically plan for profit in proper way. The success of each enterprise in realizing its optimums profit in each year will be determined by the extent to which it establishes its objectives, develops coordinated plans to meet those objectives and exercise control results reach or exceed those planned. So, we can say that “profit planning is a tool which may be used by the management in planning the future course of action and in controlling the actual performance (Gupta, 1997: 521).

Profit is an outcome of effective and efficient management, which is effected by various factors. Profit planning is that tools which manage all the factors efficiently and effectively. A profit planning is an advance decision of expected

achievement based on most efficient operation standards of in prospect of time. It is established against which actual accomplishment is regularly compared (Manandhar, 1987:337).

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

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

Profit planning is a comprehensive plan expressed in financial term by which an operating program is effective for a given period of time. It includes the estimate of (a) the service activities and project comprising the program (b) the resources usable for their support (Gray,1997:18).

Profit planning thus, becomes a well throughout operational plan with its financial implication impressed as both long and short range profit in the form of financial statements, including balance sheet, income statement and

cash and working capital projections.

### **2.3.1 Advantage of Profit Planning**

An effective budgeting system is vital to the success and survival of a business firm. Without a fully coordinated budgeting system, management cannot know the direction the business is taking out. The advantages of Profit Planning are as follows:

- ) It provides definite goals and objectives that serve as benchmarks for evaluating subsequent performances. It compels all members of management from top down to participate in the establishment of goals and plans. Managers at different levels have to participate in the development of the profit plan. This provides an excellent ground for the managers to know the process of planning in debt. It uncovers subsequent bottlenecks before they occur. It pinpoints efficiency and inefficiency. It reduces cost by increasing the span of control because fewer supervisors are needed. It rewards high performance and seeks to current unfavorable performance. It provides a valuable means of controlling income and expenditure of a business, as it is a plan for spending. It provides a tool through which managerial policies and goals are periodically evaluated, tested and established as guidelines for the entire organization. It forces early consideration of basic policies. It tends to remove the cloud of uncertainty that exists in much organization, especially among lower levels of management relative to basic policy and enterprises objectives. It helps one to distinguish between actual needs and wants. It enables the management to lay down an order of priorities and reflects some planning of long and short term requirements in a business. It also promotes understanding among members of management on their co-workers problems. It frees exclusive from many day to day internal problems through predator mind polices and clear cut authority relationship. It

thereby provides more excessive time for planning and creating thinking. It requires adequate and sound organization structure that is; there must be a definite assignment of responsibilities. It requires that management put down in figures what is necessary satisfactory performance. It installs at all level of management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decision. It compels departmental managers to make plans of other departments and of the entire enterprises. It requires adequate and appropriate historical counting data. It forces a management to give adequate attention to the effect of general business condition. It forces a periodic self analysis of the company (Welsch, et al., 2001: 60-61).

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

Profit Planning and control is a systemic approach to the solution of problems. It helps to serve the management. Still the usefulness of Profit Planning to very small business could have been circumvented by an early attempt to qualify the dreams of head strong but sloppy thinking entrepreneurs who never directly faced the uncertainties of their venture. But there are so many assumption of using profit planning program. Firstly, the basic plans of a business must be measured in terms of money will be available for the need of the business.

Secondly, it is possible in comprehensive why coordination every other aspect to establish optimum profit goals. Thirdly, Profit planning is preplanning not merely who to do it things work out as forecasted, but also what to do things work out differently from the forecast. Profit Planning and control encompasses a systematic and integrated approach to project planning, to tactical planning and to strategic planning (Welsch, et al., 2001: 39).

But is not fully proof; it suffers from certain problems and limitations. The major problems in development of PPC system are (Welsch, et al., 2001:60).

## **2.4 Fundamental of Profit Planning**

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

### **2.4.1 Managerial Involvement and Commitment**

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

Understand the nature and characteristics of Profit planning and control. Be convinced that this particular approach to managing is preferable for their situation. Support the program in all its ramifications. Be willing to ote the effort required to make it operative and View the result of planning process as performance commitments.

### **2.4.2 Organizational Adaptation**

A Profit planning and control program must rest upon a sound organizational structural for the enterprise and clear-cut lines of authority and responsibility. The purpose of organizational structure and the assignment of authority are established of framework within which enterprises objectives may be attained in a coordinated and effective way on a continuing basis. The scope and interrelationship of the responsibility of each individual manager are specified. To increase managerial and operational efficiency, particularly all enterprises, expect perhaps the very smallest ones, should be structurally disaggregated

into subunits. The manager of each subunit should be assigned specific authorities and responsibility for the operational activities of that subunit. These subunits are often referred to as decision centers or responsibilities centers.

Although the latter term is widely used, the former is more descriptive of the primary focus that is most fundamental. A responsibility center can be defined as an organizational unit headed by a manager with specified authority and responsibility.

### **2.4.3 Responsibility Accounting**

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

### **2.4.4 Full Communication**

Communication can be broadly defined as an interchange of thought or information to bring about a mutual understanding between two or more parties. The goals and objectives set by management should be well communicated in all levels of management; PPC program can be successful when the communication is done in full. Full communication means making every body of the organization familiar with goals and objectives and to motive all members for their effective accomplishment.

For Profit planning and control, effective communication means development of well-defined objective, specification of goal, development of profit plans and follow up activities related to performances evaluation for each responsibility center. Communication for effective planning and control requires same understanding of responsibilities and goods in the executive and subordinates.

#### **2.4.5 Realistic Expectations**

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

#### **2.4.6 Flexible Application**

Profit planning and control programme or any other management techniques should not dominate management. Any of such techniques of management must not be flexible or rigid. These are the techniques or means, which are not only the end of the management itself because the main end or aim of the management is to use the resources I the most effective way and earn high return on investment and for this purpose profit planning and control or other techniques are used as means only.

#### **2.4.7 Timeless**

Effective implementation of the profit planning and control concept requires that the management of the enterprise established a define time dimension for certain types of decisions. In viewing time dimensions prospects in

managerial planning, a clear-cut distinction should be made between historical considerations. Timing of planning activities suggests that there should be a definite management time schedule established for initiating and completing certain phases of planning process.

#### **2.4.8 Individual and Group Recognition**

Behavioral aspects of human being are of the field of study of the psychologist, educators and businessman, and finding was that there can be so many unknown misconception and speculations which has to be considered for an efficient management. A good and dynamic leadership can resolve this problem by instigating all the group efforts for betterment of the organization. This fact also has been well considered under profit planning and control approach and focuses have given to resolve the behavioral problems (Ojha and Gautam, 2008:6).

#### **2.4.9 Follow Up**

The important of follow up action on profit planning and control approach is more. Follow up action after a careful study is needed to:

- ) Correct the action of substandard performance in a constructive manner.
- ) To recognize and transfer the knowledge of outstanding performance to others and based on the study and evaluation to provide a sound basis for future profit planning and control programme (Ojha and Gautam, 2008:6).

### **2.5 Establishing the Foundation for Profit planning and control**

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

- ) An evaluation of the organizational structure and assignment of managerial responsibilities and implementation of changes deemed

necessary for effective planning and control.

- ) Commitments by the top management to the broad concept of PPC program.
- ) Identification and evaluation of controllable and non-controllable variables of the characteristics and environment of the enterprise.
- ) An evaluation of the organization of the accounting system to ensure that it is tailored to the organizational responsibilities.
- ) A policy determination about the time dimensions for profit planning and control purpose.
- ) Development of a program of budget education for the inform management.

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

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

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

- ) To provide a ready basic for making forecast's during the budget period to guide management in marking day to day decisions.

## **2.7 Process of PPC**

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

- ) External relevant variables identification and evaluation
- ) Development of board objectives for the business organization/ enterprise
- ) Development and evaluation of company strategies
- ) Executive management planning instructions
- ) Development of specific goals for the enterprise
- ) Preparation and evaluation of project plans
- ) Implementation of profit plans
- ) Development and approval of strategic and tactical profit plans
- ) Use of flexible expense budgets
- ) Use of periodic performance reports
- ) Implementation of follow-up

## **2.8 Limitations of PPC**

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

### **Based on Estimates:**

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

**Danger of Rigidity:**

Profit planning and control is an estimation and quantitative expression of all relevant data. So there can be the tendency to attach some sort of rigidity or finality to them. PPC must be flexible and dynamic.

**Application for long period:**

The installation of a complete PPC is not possible in a short period. It should be continuously used in the business and should be revised and modified with the changed situation of the business.

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

**Not a Substitute for management:**

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

Proper Evaluation:- for finding out the inefficiencies, proper evaluation should be made. In the absence of proper evaluation budgeting will hide inefficiencies. So there should be continuous evaluation of the actual performances, standards also should be reexamined regularly.

**Costly Affairs:**

The installation of a PPC is an elaborate process involving too much time and costs.

**Proper evaluation:**

For finding out the inefficiencies, proper evaluation should be made. In the absence of proper evaluation, budgeting will hide inefficiencies. So there should be continuous evaluation of the actual performances, standards also should be re-examined regularly.

**Lower Moral and Productivity:**

Unrealistic targets should not be set and used as a pressure tactic. By doing it PPC will lower moral and productivity. To some extent PPC may be used as pressure ice but its extent must be carefully determined.

**2.9 Components of PPC Program**

To fulfill the objectives of PPC, a PPC program should have all its components. Without the components of PP a PP program can't success itself Welsch Hilton and Gordon have presented the following components of a PPC program.

**2.10 Development of Profit Plan****2.10.1 Sales Plan**

The starting point in preparing profit plan is the sales plan, which displays the projected sales in units and rupees. All the other plans and budgets dependent upon the sales budget. The budget is usually presented both in units and dollars of the sales revenue or sales volume. The preparation of sales plan is based upon the sales forecast. A variety of methods are used to forecast the sales for the planning period. Unless there is a realistic sales plan, particularly all other elements of profit plan will be out of kilter with reality. The sales plan is the foundation for periodic planning in the firm because particularly al other enterprise planning is built it. The primary source of cash is sales, the capital additions needed, the amount of expenses to be planned, the manpower requirements, the production level, and other important operational aspects depend on the

volume of sales. In harmony with the comprehensive profit plan, both strategic long-term and tactical short-term sales plans must be eloped. Thus, one commonly observes a five-year strategic sales plan. Many management decisions commit a large amount of resources involving a life span of many years. Basic strategic and major moves often involve irreversible commitments of resources and long time span (Welsch, et al., 2001:139-140).

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

### **2.10.2 Sales Planning and Forecasting**

Although sales planning and sales forecasting are usually used synonymously, they have distinctly different purposes. A forecast is not a plan; rather it is a statement and/ or a quantified assessment of future conditions about a particulars subject based on one or more explicit assumptions. A forecast should always state the assumptions upon which it is based. It is important to make distinction between sales planning and forecasting because they are often confused. A forecast is not a plan; it is a statement and/or a quantified assessment of future conditions about a particular subject (e.g., sales revenue) based on one or more explicit assumptions. A forecast should always state the assumptions upon which it is based. A forecast should be viewed as only one input into the development of a sales plan. The management of a company may accept, modify, or reject the forecast. In sales volume, prices, sales efforts, production and financing.

The initial forecasts and there should usually be more than one to indicate probable sales under various alternative assumptions are an important source of information in the development of managerial strategies and resources commitments (Welsch, et al., 2001:173)

### **2.10.3 Strategic and Tactical Sales Plan**

#### **Strategic sales plan**

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

#### **Tactical Sales Plan**

Tactical Sales Plan is a short-range sales plan. It is developed for a short period of time usually a year, initially by quarters and by months for the first quarter. The tactical sales plan includes a detailed plan for each major product and for grouping of minor products. Tactical sales plans are usually developed in terms of physical units and in sales rupees.

### **2.10.4 Methods of projecting sales**

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

### **2.11 Production Plan**

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

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

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

$$\text{Production} = \text{Planned Sales} + \text{Ending Inventory} - \text{Beginning Inventory}$$

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

### **2.11.1 Long Range Vs Short Range Production Planning**

Planned levels of production are important long-range and short-range issues. To develop a long-range plan (say, five years in future), broad estimates of production levels are necessary to plan plant capacity requirements (involving capital additions), factory cost structures, personnel requirements, only major increases or decreases in inventories need to be taken into account. Developing a tactical short-range profit plans requires a different approach because of the need for greater precision and detail. The short-range production plan should be in harmony with the time dimensions used in the short-range profit plan. Thus, the common pattern should be an annual production plan detailed by products and by months or quarters. Also, the production activities should be planned by responsibility centers within the manufacturing division (Welsch, et al., 2001:214).

### **2.11.2 Developing the Production Plan**

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

### **2.11.3 Setting Production Policies**

Four kinds of production policies are generally popular among manufacturing companies. They are:

**Stable production policies:** Producing equal level of production in each period is stable is stable production policy.

**Fluctuating production policies:** Under fluctuating production policies, the company plans to produce its products based on sales or availability of its resources.

**Seasonal production policies:** Seasonal production policy is taken for production plan of seasonal goods like sweater, ice-cream, cold drinks, umbrella, etc. This policy demand semiannual or seasonal labour. Thus cost of production can be controlled.

**Just-in-time inventory policy:** Under this policy, production is made when the output is demanded, so inventory is not kept except a very small quantity for sample display.

#### **2.11.4 Setting Inventory Policies**

While determining inventory policies for finished goods, the management should consider the following factors:

- ) Quantities needed to meet sales requirements.
- ) Perishability of items.
- ) Length of the production period.
- ) Storage facilities.
- ) Cost of holding inventory.
- ) Protection against labour shortages.
- ) Protection against price increases.
- ) Protection against raw material shortages.

#### **4. Historical sales to turnover ratio (HSTR) or Average Withdrawal Period**

**Method:** Under this method inventory is computed on the basis of past sales ratio (relationship). This method assumes that current or future performance is the extension of past performance.

**Formula:**

Inventory for each month = sales of each month x HSTR or Multiplier

Where,

$$\text{HSTR} = \frac{\text{Total Historical Sales}}{\text{Historical Average Inventory}}$$

**5. Turnover Time method:** It computes the inventory level dividing total budgeted sales by turnover time.

**Formula:**

$$\text{Budgeted Inventory} = \frac{\text{Budgeted Sales}}{\text{Historical Turnover Time}}$$

Where,

$$\text{Historical Turn Over Time} = \frac{\text{Historical Total Sales}}{\text{Historical Average Inventory}}$$

**6. Proportionate Method:** Under this method inventory is computed on the basis of sales proportion. The inventory level under this method is comparatively low. This method is very appropriate for the company dealing with basic commodities or company with limited but assured market.

## **2.12 Materials and Purchase Plan**

### **2.12.1 Materials Plan**

This material budget deals with the requirement and procurement of direct materials, indirect materials are dealt with under the works overhead budget. The budget should be related to the production budget and the period of the budget should be of short duration because this budget has an important bearing on the

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

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

### **Materials Consumption Budget**

This specifies the planned quantities of each raw material required for production of finished goods, by time, by product, and by responsibility. The material consumption is computed as:

Planned material consumption = planned production units    standard raw material usage per unit of output.

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

Cost of material used = planned material consumption    price per unit of raw material

Or

= budgeted production unit x standard material usage per unit  
× Price per unit of raw materials

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

required delivery dates. It is computed as:

Planned purchase units = planned material consumption + Desired ending inventory of raw material – Begging inventory of raw materials.

However, before developing a purchase budget, firms must establish an appropriate material inventory policy.

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

### 2.12.2 Materials and Parts Inventory Policies

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

- ) Timing and quantities of manufacturing needs
- ) Economic in purchasing through quantity discounts
- ) Lead-time
- ) Availability of materials and parts
- ) Capital requirements to finance inventory
- ) Perishability of materials and parts
- ) Cost of storage
- ) Storage facilities needed
- ) Expected Changes in the cost of materials and parts
- ) Risk involved in inventories
- ) Protection against shortages
- ) Opportunity costs

### 2.12.3 Purchasing Policy

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

Formula of EQQ

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

Where,

EOQ = Economic order Quantity

A = Total requirement (Annual quantity used n units)

O = Average annual cost of placing an order

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

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

$$ROP = \text{average usage} \quad \text{average lead time} + \text{Safety Stock.}$$

### 2.12.4 Responsibility for preparing material budget

- ) **Chief Executive:** Prepares policy related with material usage, purchase and inventory.
- ) **Production Manager:** Provides production budget in time.
- ) **Financial Manager:** Prepares materials historical data on material usage, purchase etc. provide information on cash position.
- ) **Purchase Manager:** Prepares purchase plan and purchase raw materials required.
- ) **Material Manager:** prepares materials budget.

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

Direct labor costs, in a broad sense, are composed of all expenditure incurred for employees: top executives, middle management personnel, staff officers, supervisor, foremen, skilled workers, and unskilled workers. It is necessary to consider separately the different types of labour costs.

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

Planning labor cost involves major and complex problem areas: (i) Personal needs (ii) recruitment (iii) training (IV job description and evaluation (v) performance measurement (v) union negotiations and (vii) wage and salary administration. A comprehensive profit-planning program should incorporate appropriate approaches applicable to each problem, area. A profit planning program cannot solve special personal problem, but it direct careful special personal problem, but it direct careful consideration to them and aids in planning them in perspective. Effective planning in long term and short term labor cost will benefit both the company and it's complies (Welsch, et al., 2001: 280).

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 materials costs, labor costs that can be directly traced to specific production

are defined as direct. In direct labor involves all other labor costs, such as supervisory salaries and wages paid to toolmakers, repair personnel, storekeepers, and custodians. Direct material and direct labor costs are frequently referred to collectively as the prime costs of product (Welsch, et al., 2001:280).

### **2.13.1 Component of Direct Labour Budget**

Basically, there are three components of direct labour budget:

) Direct labour hour budget: It estimates the total direct labour hour required for each products by time responsibility. It is computed as follows:

Total direct labour required = planned production × standard time required per unit of output.

) Manpower Budget: It estimates the number of each kind of manpower by department and time. It is computed as :

$$\text{Number of labour} = \frac{\text{Total Labour Hours Required}}{\text{Working Hour Per Person PerMonth}}$$

) Direct Labour Cost Budget: It estimates the total direct labour costs by ss product, time and responsibility.

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

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

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

) Estimate the standard direct labor hours required for each units of each product; then estimate the average wage rates by department, cost center, or operation. Multiply the standard time per unit of product by the average hourly wage rate, giving the direct labor cost per unit of out-put

for the department cost center or operation by the units direct labor cost rate obtain the total direct labor cost by product.

- ) Estimate ratios of direct labor cost to some measures of out-put that can be planned realistically.
- ) Develop personnel tables by enumerating personnel requirements (including costs) for direct labor in each responsibility center.

### **2.13.3 Objectives of Direct Labor Plan**

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

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

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

- ) Time and motion studies.
- ) Standard costs.
- ) Direct estimate by supervisor.
- ) Statistical estimate by staff group.

Therefore;

The planned direct labor hours= planned production × standard rate

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

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

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

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

Managers should view expenses planning and control as necessary to maintain reasonable expenses levels to support the objectives and planned program of the enterprises, but rather on utilization of limited resources. Viewed in this light, expenses planning and control should focus on the relationship between expenditures and benefits derived from those expenditures. The desired benefits should be viewed as goals, and sufficient resources must be planned to support the operating activities essential for their accomplishment.

### **2.14.1 Cost Behavior**

#### **Variable expenses**

Variable cost are the cost that tend to vary in direct proportion and same direction to changes in production activity, sales activity or some other measures of volume or cost driver. The cost of these inputs increase/ decrease in proportion to

increase/decrease in volume or cost driver. Variable costs show the following characteristics:

- ) Total Variable costs are proportionately related to operating activity levels.
- ) Variable cost per unit remains constant.
- ) Variable costs can be regulated and controlled in the same responsibility center and in the short-run as well.
- ) Cost that changes proportionately in total but remains fixed per unit is variable.

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

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

### **2.14.2 Manufacturing Overhead Budget**

The manufacturing overhead budget lists all production costs other than direct material and direct labor. The manufacturing overhead cost should be broken down by cost behavior for budgeting purposes. Typically, the variable portion of manufacturing overhead is assumed to be proportional to budgeted activity and the fixed portion is assumed to be constant in total. Under the assumption that depreciation is the only significant non-cash manufacturing overhead expenses,

the manufacturing overhead expenses, the manufacturing overhead expenses can be converted to cash flow basis by backing out of the total any depreciation charges. Factory or manufacturing overhead includes the cost of indirect material, indirect labor and indirect expenses.

The manufacturing overhead may be classified into:

- ) **Fixed overhead** i.e., which tend to remain constant irrespective of change in **the volume of output**.
- ) **Variable overhead** i.e., which tend to vary with the output.
- ) **Semi-variable overhead** i.e., which are partly variable and partly fixed.

### **2.14.3 Selling and Distribution Expenses Budget**

This budget includes all the expenses relating to selling, advertising, delivery of goods to customers etc. it is better if such costs are analyzed according to products, types of customers territories and the sales departments. The responsibility of the preparation of the budget rests with the executives of the sales expected and an effort should be made to control the costs of distribution. The preparation of the budget would depend on analysis of the market situation by the management, advertising policies, research programs, and the fixed and variables elements.

### **2.14.4 Planning Administrative Expenses**

This budget covers the administrative expenses including the salaries of the managerial staff. A careful analysis of the needs of all administrative departments of the enterprises is necessary. This minimum requirement for the efficient operation of each administrative department of the budget period is the proper budget of all administrative departments.

## **2.15 Planning and Capital Expenditure**

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

### **2.15.1 Capital Budgeting**

Investment decision regarding long term assets for increasing the revenue of the organization is known as capital budgeting. It is the process of determining which capital investments will be undertaken. There are three stages of capital budgeting; proposed long term investments, it is the decision making process that determines the type of plant and equipment a firm will own, how much will be invested in such assets, and when the expenditure will be made. Capital investment decisions are among the most, if not the most, important decisions that financial managers must take.

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

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

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

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

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

### **2.15.2 The Capital Expenditure Budget Process**

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

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

- ) Identify and generate capital additions projects and other needs
- ) Develop and refine capital additions proposal-collection of relevant data about each proposal, including any related alternatives
- ) Analyze and evaluate all capital additions, proposals, and alternatives. Emphasis should be given to the validity of the underlying financial and operational data
- ) Make capital expenditure decisions to accept the best alternatives and the assignment of project designation to selected alternatives
- ) Develop the capital expenditures budget
- ) Strategic plan:- Re-plan and extend the long- term plan by dropping the past year and adding one year into the future
- ) Tactical plan: - Develop a detail annual Capital expenditures budget, by

responsibility center and by time that is consistent with a comprehensive profit plan

- ) Establish control of capital expenditures during the budget year by using periodic and special performance reports by responsibilities centers
- ) Conduct post completion audits and follow-up evaluations of the actual result from capital expenditures in periods after completion

### **2.15.3 Evaluation of Investment Decision**

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

#### **A. Non- Discounted Cash Flow Method**

**Pay Back Period (PBP):** The payback period is the number of required to recover the initial investment.

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

**Average Rate of Return (ARR):** This accounting measure represents the ratio of the average annual profit after taxes to the investment in project;

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

**Discounted Cash Flow Method:**

**1. Net present value (NPV):**

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

$$NPV = \frac{A^t}{(1\Gamma k)^t} Zc$$

Where,

K = Cost of Capital

T = No. of years

C = Initial Cash outlays

A = Expected Cash inflows

**2. Profitability Index (PI):**

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

$$PI = \frac{(1\Gamma k)^2}{A_Q}$$

Where,

K = Cost of Capital

T = No. of years

A = Expected Cash inflow

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

**3. Internal Rate of Return (IRR):**

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

$$A_Q \times \frac{A_1}{(1\Gamma R)} \Gamma \frac{A_1}{(1\Gamma R)^2} \Gamma \dots\dots\dots \Gamma \frac{A_n}{(1\Gamma r)^n}$$

Where,

R = Internal rate of return

$A_0$  = Initial Investment at time Zero

$A_1, A_2, A_n$  = Cash inflow at future

## **2.16 Analysis of Budget Variances**

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

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

- ) Conference with managers of responsibility centers, supervisors and other employees involved in the particular responsibility centers.
- ) Analysis of the work situation including the flow of work, coordination of activities, effectiveness of supervision and other prevailing circumstances.
- ) Direct observation.
- ) Direct investigation by line managers.
- ) Internal audits.
- ) Special studies.
- ) Investigation by staff groups.
- ) Variance analysis.

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

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

We can analyze the variance in the following areas:

- ) Sales variance
- ) Material variance
- ) Direct labor variance
- ) Manufacturing overhead variance

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

- ) Setting standard
- ) Measurement of performance
- ) Analyzing variances
- ) Taking correcting action

There two kinds of variance i.e. favorable and unfavorable variance. We should analyze the variances on each of the functional budget variance and so on. Management of any enterprise should set a control limit of variances and those variances beyond the limits should be investigated property. Variance analysis is an important tool which increases the usefulness of periodic performance reports. It helps management to take corrective action.

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

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

## **2.17 Relation with Profit Planning**

The ratio analysis can be of invaluable aid to management in the discharge of its basic function of forecasting, planning, coordination, communications and control. By an analytical study of the past performance of the business, it helps in predicating and projecting the future. In assists in communication by conveying information, .which is pertinent and purposeful to those for whom it is meant. In promotes coordination by a study of the effective control of business operation by undertaking and appraised for both the physical and monetary targets. Hence, ratio analysis becomes an integral part of target. Hence, ratio analysis becomes an integral part of profit planning system (Grace, 1964: 496).

## **2.18 CVP Analysis**

### **2.18.1 Concept of CVP Analysis**

CVP analysis can be used for the analysis of break- even volume- break even analysis contribution margin analysis- for profit planning. This assumption of constant underlying conditions and the short-run relationship have been criticized by the many authors of financial management and accounting. Cost- volume and profit analysis is a power full tool in the hands of manager for profit planning. The contribution margin analysis provides the best possible answer to the management's many questions. Most management requires a careful analysis of cost behavior in relationship to output volume and which is possible only through CVP analysis. Besides, CVP analysis deals with how profit and cost change with

change in volume. CVP summarizes the effect of changes in an organization's volume of activity on its costs revenue and profit. The managers of profit seeking organization usually study the relationship of revenue (sales), expenses (costs) and net income (net profit). This study is commonly called cost-volume-profit analysis. Cost- Volume-Profit analysis is the process of examining the relationships among revenues, costs and profit for a relevant range of activity and for a particular time frame. It is one of the most important powerful tools that managers have at their command in short-term planning. It is an analytical tool for studying the relationship between volume, cost, price and profit.

### **2.19 Planning and Controlling Cash Flows**

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

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

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

**Lower-level management** is principally concerned with coordination and control of day-to-day operation. Therefore, control reports should principally be concerned with production and cost control. Reports to supervisions should be detailed, simple, understandable, and limited to items that are directly related to the supervisor's operational responsibilities (Welsch, et al., 2001:548).

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

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

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

## **2.21 Review of Previous Research Work**

In the context of Nepal, some research have been made in the areas of profit planning whatever have been made are also not to depth. None of the previous study have attempted to analysis the profit planning of public enterprises. Most of them are concentrated to state owned public enterprises but this study has tried to present the practice and problem in the profit planning system of public company which will be useful to all enterprises. So far to the best of my knowledge previous work on profit planning system of Gorkhapatra Corporation has been made. Some desertions on profit planning in Nepalese PE's have been prepared and submitted to the faculty of management, T.U.

**Bhandari (2008)** has conducted a research on *“Cash Flow Statement in public enterprises of Nepal- A case study of Nepal Telecom Ltd.”*

**His main objectives:**

- ) To examine and critically analyze the existing cash flow statement of NTC.
- ) To assess the revenue generation practice of NTC.
- ) To examine the financial performance of the organization.
- ) To review the cash mobilization practice of the organization.
- ) To make suggestion for the effectiveness of cash management in NTC.

**His major findings:**

- ) NTC has satisfactory liquidity position and it has maintained proper cash and bank balance. The cash and bank balance with respect to current liabilities has been increasing trend.
- ) NTC has low consistency in cash and bank balance.
- ) Sales relationship with cash balance is positive.
- ) Relationship between sales and net profit of NTC is in good condition it has been increased earned profit in each fiscal year and sales has been increasing trend.
- ) NTC does not follow the periodic performance report.

**Shrestha (2009)** in his study Analytical and *"Comparative Study on Cash flow of Joint venture Banks in Nepal"*, has mentioned the strength and weakness of the all joint venture banks in Nepal through Cash Flow Analysis. He suggested and noted potable information occurring in the field of Cash Flow Management and managing trend of Cash Flow for joint venture banks in Nepal.

**His main objectives:**

- ) company's ability to generate positive future cash flows
- ) A company's ability to meet its obligations its ability to pay dividends and its need for external financing
- ) The reasons for differences between income and associated cash receipts and payments
- ) Both the cash and non cash aspects of a company's investment and finance transaction
- ) A company's quality of earning refers to how closely income is correlated with cash flow the higher the correlation the higher the earning quality.

**His major findings:**

- ) Although most of the business entrepreneurs along with their business philosophy has suggested that cash management of the firm should be in adequate position, no one has had create concrete pillar that cash should be at the would at the level be sufficient for the business.
- ) From current review, it is seen that most of the business entity and bank and financial institution has suffered from the liquidity crisis for which most responsible factors is cash, clearly pointed out that the cash management is the common and major problem in Nepalese enterprises.
- ) The success and failure of an organization is greatly depends upon the efficient management of cash. Hence financial manager not only consider the in present need of cash but also pay attention the future requirement of cash

**Puri (2009)** conducted on research entitled in "*A Cash Flow Analysis of Nepal Telecom (NTC)*". He has collected the data from based upon the secondary sources

that are published by NTC in financial report for the period on FY 2003/04 to 2007/08.

**His main objectives:**

- ) To analyze the trend of cash flow of NTC.
- ) To examine, analyze and compare the cash flow of different headings (i.e. operating, investing and financing).
- ) To identify the strengths and weaknesses of cash management of NTC.
- ) To reflect ability to generate cash flow in future periods.
- ) To provide suggestions and recommendations for future improvement on cash flow and cash management.

**His major findings:**

- ) Operating profit before adjustment of working capital is in positive growth for every year.
- ) Rate of operating cash flow of NTC is in increasing except in the F.Y.
  - o 2061/62 and its annual increment is Rs 93314.7(in ten thousand).
- ) NTC is expanding its investment at the rate of Rs 40530 (in ten thousand) per year is a major cause of cash outflow for each year during the study period.
- ) There is not any sales of investment on F.Y. 2061/62 and 2063/64.
- ) NTC has made huge repayment of retained earnings to Nepal government on the F.Y. 2062/63 and payment of long term debt on F.Y. 2059/60 are the major cause of cash outflow for these fiscal year.
- ) There is not any receipt from long term debt on F.Y. 2063/64.
- ) Regular financing activities of NTC are long term debt receipt/payment,
  - o dividend payment, and repayment of retained earnings to Nepal government.

- ) Net cash flow is also in fluctuating trend.
- ) Standard deviation of CFOA is 156328.41 (in ten thousand).
- ) The average NPBT, CFOA, CFIA and CFFA are Rs 441825.8 (in ten thousand), Rs-186897.8 (in ten thousand) and Rs -155680.8 (in ten thousand) respectively.
- ) There is positive correlation between CFOA and NPBT.
- ) There is negative correlation between NPBT and CFFA, NPBT and CFIA.
- ) There is not scarcity of cash during the period to operate its general activities.
- ) Over all activities are satisfactory.

**Kandel, (2010)** conducted on research entitled in "*Cash Flow Analysis of Salt Trading Corporation Limited (STCL)*". He has collected the data from based upon the secondary sources that are published by STCL in financial report for the period on FY 2057/058 to 2063/064.

**His main objectives:**

- ) To analyze the trend of cash flow of STC.
- ) To examine, analyze and compare the cash flow of different headings (i.e. operating, investing and financing)
- ) To identify the strength and weakness of cash management of STC.

**His major findings:**

- ) Rate of operating cash flow of STC is in fluctuating trend. There is no continuous increment.
- ) STC is expanding its investment at the rate of Rs. 527083.2 (in ten thousand) per year is a major cause of cash outflow for each year during the study period.

- ) Cash at end for the period is positive for all fiscal year. But the amount is on fluctuating.
- ) Correlation coefficient between CFOA and CFIA is 0.208 (Positive) represents positive correlation between those variables.
- ) The Correlation coefficient between CFOA and CFFA is -0.01 is negative.
- ) Correlation coefficient between CFFA and CFIA is -0.48 which represents negative correlation.

**Sharma (2010)** has conducted a research on a topic “A Study on the Impact of Comprehensive Budgeting on Profitability, a case study of Gorkhapatra Corporation”

**His major objectives:**

- ) To analyze actual sales and budgeted sales
- ) To examine the present profit planning premises adopted by the corporation
- ) To point out suitable recommendation and suggestion

**His major findings:**

- ) Sales and production forecast are unrealistic
- ) There is underutilization of available capacity
- ) GC cannot meet even break even sales

**Gajurel (2011)** conducted a research on “*Cash Flow Analysis of Nepal Water Supply Corporation.*”

**His main objectives:**

- ) To examine the internal control policy of cash transaction in NWSC.
- ) To analyze the cash follow structure and cash management techniques Practiced by the company.

- ) To examine the liquidity position of NWSC.
- ) To study the relationship of cash with other influencing variable of cash management.

**His major findings:**

- ) NWSC have not any definite policy regarding how much cash balance to hold in each period. Cash and bank balance hold during the different period of study were observed to be highly fluctuated and thus the fact indicates no definite policy regarding how much balance to be hold in each period. Average cash balance of NWSC during the study period is 265095200.
- ) There is fluctuations have been observed in cash turnover ratio analysis. The fluctuation of cash turnover ratio is the indication of no definite policy holding cash balance in relation to sales volume, is applied by NWSC. The average cash turnover ratio of NWSC is 2.067.
- ) Correlation between sales and cash and bank balance has been observed to be 0.607. Generally, it indicates the positive relationship between the sales and cash and bank balance.
- ) The average current ratio is 1.82, which is normally less than satisfactory level; however satisfactory level is 2:1. Overall, the average ratio signals a little bit unsatisfactory position of the NWSC, which should be little bit above near to 2:1.
- ) NWSC has been operating in loss in all fiscal year during the study period. In overall, NWSC has been operating under loss and the average net profitability margin has been calculated as -52.46%.
- ) NWSC has not utilizing its current assets effectively in earning profit. The overall ratios are dissatisfying, indicating loss in each fiscal year. Overall the return on working capital i.e. current asset is disappointing by indicating drastic downfall of the corporation. The average return on working capital has been calculated as 23.13%.

) Cash and bank balances and current liabilities ratio occurred from lower 21.02% to 88.55% which indicate the significant cash balance to meet current obligation. But on the other hand most of the ratios are less than 30% which shows the excess cash and deficit in making payment during the study. It has clearly indicated that NWSC has not been following a systematic cash management practices.

## **2.22 Research Gap**

All the studies mentioned above about profit planning and controls are basically related with the profit planning system of Nepalese Public Enterprises. These studies have pointed out the similarities findings. The conclusion of those researchers is that there is no proper planning and control system in Nepalese Public Enterprises. Therefore this study is designed to highlight the comprehensive budget process and its impact on profitability. Previous study has not been yet made emphasizing the effect of budgeting on the profitability. Previous study has made by analyzing showing only two years data in details. But this study is made by showing all five years data. This research work covers time period of five years for the purpose of trend analysis.

## **CHAPTER- III**

### **RESEARCH METHODOLOGY**

This chapter stands for the overall approach to the research process, systematic framework of research plan and scheme. Especially this chapter has focused on research design, nature and sources of data, sample, population and tools for analysis etc.

#### **3.1 Research Design**

This research can preferably be said descriptive and explanatory as its attempts to describe and explore various aspects and dimensions of profit planning of Gorkhapatra Sasthan. This study is quantitative data have extensively employed. Trends of profitability, planning methods and practices, financial relationship among financial variables etc. are the main issues to be dealt throughout the research. The data collected using the different methods are tabulated and analyzed using different financial and statistical tools to find out reap condition of profit planning in GC.

#### **3.2 Nature and Sources of Data**

The data upon which this study is made are basically secondary in nature. The secondary data have been collected from financial statements, annual reports, and other published and unpublished official records of concerned companies. All the collected data and information have been properly arranged, synthesized, tabulated and calculated to arrive at the realistic analytical steps.

#### **3.3 Research Variables**

The research variables of this present study are mainly sales, production, capacity utilization, profit and loss, overhead, cash flow, capital expenditure etc.

### **3.4 Tools for Analysis**

Both of financial and statistical tools have been employed here in this research work

#### **3.4.1 Financial Tools**

##### **1. Financial Ratio Analysis**

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

###### **) Current Ratio**

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

###### **) Inventory Turnover Ratio**

This ratio helps to assess the velocity of companies to turn out into sales.

Inventory Turnover Ratio

###### **) Total Assets Turnover Ratio**

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

Total Assets Turnover

###### **) Net Profit Margin**

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

Net Profit Margin

###### **) Ratio on Assets**

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

Return on Assets

###### **) Return on Capital Employed**

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

employed.

Return on Capital Employed

) **Debt/Equity Ratio**

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

Debt-Equity Ratio

## **2. Cost-Volume of Profit Analysis**

Cost-volume-profit analysis is the analytical tool for studying the relationship between sales volume, cost and profit. These three factors depend upon each other because profit depends upon sales, selling price to a greater extent will depend upon cost and cost depends upon volume of production.

) **Profit Volume Ratio (P/V Ratio)**

It is the ratio of contribution margin to sales revenue.

P/V Ratio Break Even Point (BEP)

BEP is the level of output at which total costs equal total sales revenue hence company will be in a position of neither loss nor profit.

BEP (in Rs.)

## **3. Percentage of Sales Method**

It is emphasized to forecasting firm's two key financial statements: balance sheet and income statement as these provide a good picture of the firm's operations.

It has seen that sales to assets turnover is an important control variable and reflects a fundamentally important proposition in planning – that the volume of firm's sales is a good predictor of the required investment in assets.

The percent of sales method provides a practical method of forecasting financial statement. There is a basic logic behind sales and the behavior of individual assets items. For example, in order to make sales, a firm must have an investment in plant and equipment to produce goods. Inventories of work in progress and

finished goods are needed to make sales when sales are made; there is usually an interval before payments are received. This result in the generation of debtors or account receivable. Note that investments in fixed assets and inventories lead sales, while investment in receivable lags sales. With sales fluctuations, these lead and lag relationships result in complex patterns that are understood only when the underlying logic of the relationships kept in mind.

### 3.5 Statistical Tools

#### Standard Deviation (SD)

Standard deviation measures the dispersion of the outcomes from the expected value (it is the measure of the absolute dispersion of the mass of figures in a series). We can know the volatility of the outcomes by calculating the S.D. To illustrate, let's suppose that  $x_1 + x_2 + \dots + x_n$  is a set of 'n' observation then its

$$\text{S.D is given by } \sqrt{\frac{\sum (x - \bar{x})^2}{n}}$$

Where,

$\sqrt{\quad}$  Standard deviation

$\bar{x}$  = Arithmetic mean

n = Total no of observation

#### Arithmetic Mean

Arithmetic mean is the average return over periods. Arithmetic mean of a given set of observation is their sum divided by the number of observations. To illustrate it, let's suppose that denote return of given 'n' number of securities and X is the arithmetic mean of the given observation. It is calculated by,

$$\bar{x} = \frac{x_1 + x_2 + x_3 + \dots + x_n}{n}$$

$$\text{Or, } \bar{x} = \frac{\sum x}{n}$$

Where,

$\bar{x}$  = Arithmetic mean return

$x_1, x_2, x_3$  = Set of observations

n = Total no of observations

$\sum x$  = Sum of given observation

### **Coefficient of Variation (CV)**

Coefficient of Variation (CV) is the standard deviation (SD) per unit average of the given variables. Unlike SD it is the relative measure of the dispersion.

$$\text{Coefficient of Variation} = \frac{S.D}{\text{Mean}}$$

### **Correlation Coefficient**

Correlation is defined as the relationship (or association) between (or among) the one dependent variable (or factor) and one (or more than one) independent variable(s) or factor(s) (Shrestha&Silwal, 2057:315).

It is the statistical tool which can be used to describe the degree to which one variable is linearly related to another and measures the directions of relationship between two set of figures. Correlation coefficient can be either positive or negative. More precisely, if both variables are changing in the same direction, then correlation is said to be positive. On the other hand, if both variables are changing oppositely to each other, then correlation is known as negative. Correlation can be seen between or among several variables.

### **Coefficient of Multiple Determinants ( $R^2$ )**

Coefficient of multiple determinations is very useful tool in interpreting the value of multiple correlation coefficients. It is denoted by 'R' and can be obtained by

squaring the coefficient of multiple correlations. R measures the degree (extent or strength) of linear association or correlation between two variables. One of which happens to be independent and other being dependent variable(s). More precisely, it measures the total variation in dependent variables, which is expressed as percentage.

### **Simple Linear Regression Model**

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

### **Multiple Regression Model**

Multiple regression equation describes the average relationship between one dependent variable and two or more independent variables and this relationship is used to predict (or control) the dependent variable. Thus, a multiple regression equation is an equation for estimating a dependent variable from the independent variables. The multiple regression equation of dependent variable  $X_1$  on three independent variables  $X_2, X_3, X_4$  is given by  $x_1 = a + b_1x_2 + b_2x_3 + b_3x_4$

Where,

$X_1$  = dependent variable

Independent variables =  $x_2, x_3$  and  $x_4$

$a$  = Intercept of the regression line

Slope of the regression line =  $b_1, b_2$  and  $b_3$

## CHAPTER –IV

### DATA PRESENTATION AND ANALYSIS

This chapter stands for presenting and analyzing data to explore solution of the problems mentioned previously. For analysis purpose various statistical and accounting tools have been employed as per necessity. Profit planning and its various dimensions, financial budgets and practices, trends of profitability and assets management, variance of budgeted and actual plan relationship of financial variables etc are the main issues to be dealt here in their chapter.

#### 4.1 Sales Plan

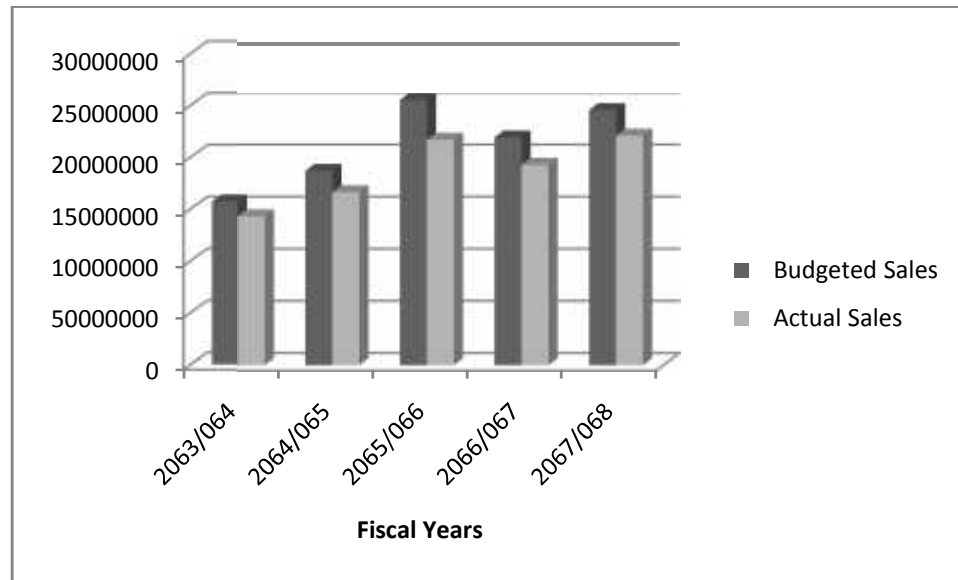
Sales plan is the basic plan at which other plans depend. The table below presents the budgeted sales and actual sales of GC over the study periods.

**Table: 4.1**  
**Actual and Budgeted Sales of GC**

<b>Year</b>	<b>Budgeted Sales</b>	<b>Actual Sales</b>	<b>Percentage Achieved</b>
2063/064	157146447.70	143003267.40	0.91
2064/065	186565701.10	166043474.0	0.89
2065/066	254619713.40	216426756.40	0.85
2066/067	218615304.70	192381468.10	0.88
2067/068	244918169.70	220426352.70	0.90
<b>Mean</b>	<b>212373067.3</b>	<b>187656263.7</b>	<b>0.89</b>

*Source: Annual Report of Gorkhapatra Sansthan*

**Figure: 4.1**  
**Actual and Budgeted Sales of GC**



The table 4.1 and figure 4.1 show that the budgeted and actual sales of GC over the study period. The table shows that actual sales are always below than targets sales. The actual sales achievement is 89% in an average. The achievement are 91% in the FY 2063/064, 89% in FY 2064/065, 85% in FY 2065/066 88% in FY 2066/067 and 90% in FY 2067/068. The highest achievement is in FY 2063/064.

The analysis shows that almost each year sales are below of previous year because of competitive market. The analysis of budgeted and actual sales figure of each year makes clear that targets are not based on previous year sales. While preparing sales budget for coming year, previous year’s sales must also be considered. But in GC sales are budgeted without considering the previous year sales performance.

In order to find out the nature of variability of budgeted and actual sales of different years, it is necessary to calculate the arithmetic mean, standard deviation and co-efficient of variation of budgeted and actual sales figure of GC over the study period. The detail is presented in the following table.

**Table: 4.2**  
**Use of Statistic Tools**

<b>Particulars</b>	<b>Budgeted</b>	<b>Actual Sales</b>
Mean (in Millions)	<b>212373067.3</b>	<b>187656263.7</b>
S.D(Ξ)	<b>36251068.95</b>	<b>29616887.07</b>
C.V	<b>17%</b>	<b>15%</b>

*Source: Appendix-1*

The table 4.2 shows that the statistical tools of GC. Actual sales are deviated from year to year than budgeted sales. But budgeted sales are not made based on target sales because actual sales are 89% in average of target sales. The budgeted sales and actual sales are also presented in graph and diagrams, which are as follows. The above table presentation shows that the gap between budgeted and actual sales. The gap between budgeted and actual sales can be reduced by preparing standard target budget.

#### **4.1.1 Sales Forecasting**

Regression analysis represents a more general method of forecasting sales and is said less subject to potential pit falls of the other statistical method. So regression equations are developed to forecast sales for coming year.

#### **Regression Equation of Actual Sales on Budgeted sales**

A regression model is developed by taking actual sales (AS) as dependent variable and budgeted sales (BS) as independent variable detailed regression result are presented in following table.

**Table: 4.3**  
**Regression Result**

<b>Model</b>	<b>A</b>	<b>b</b>	<b>r</b>	<b>r<sup>2</sup></b>	<b>t-value</b>
As= a+b.Bs	1.77	0.8	0.99	0.98	12.11

*Source: Appendix-2*

The table 4.3 shows the Coefficient of determination  $r^2$  of this model is 0.99 which means that about 99% of the total variation in the total actual sales is explained by budgeted sales and the remaining  $100-99= 1\%$  is still unexplained this unexplained position might be the effect of the factor other than budgeted sales such as the effect of managerial efficiency, seasonality of the variables, unusual events, inflation etc. the table value of t for 3 (i.e. 5-2) degree of freedom at 95% confidence limit (i.e.20% margin of error) is 1.638. Both of these table values are less than calculated value of 't'. It indicates that there is a strong correlation between budgeted sales and actual sales.

For forecasting purpose, regression equation is  $As= a+b_1 BS$ . Now, a budgeted sale for coming year is Rs 21.237. So actual sales would come to be.

$$As = 1.77 + 0.8 | 21.237$$

$$= 18.759 \text{ i.e. Rs } 187596000$$

#### **4.1.2 Sales by Product**

Profit planning is also affected by sales is distributed among the different products the company is producing the following table shows that the sales distribution among different products.

**Table: 4.4**

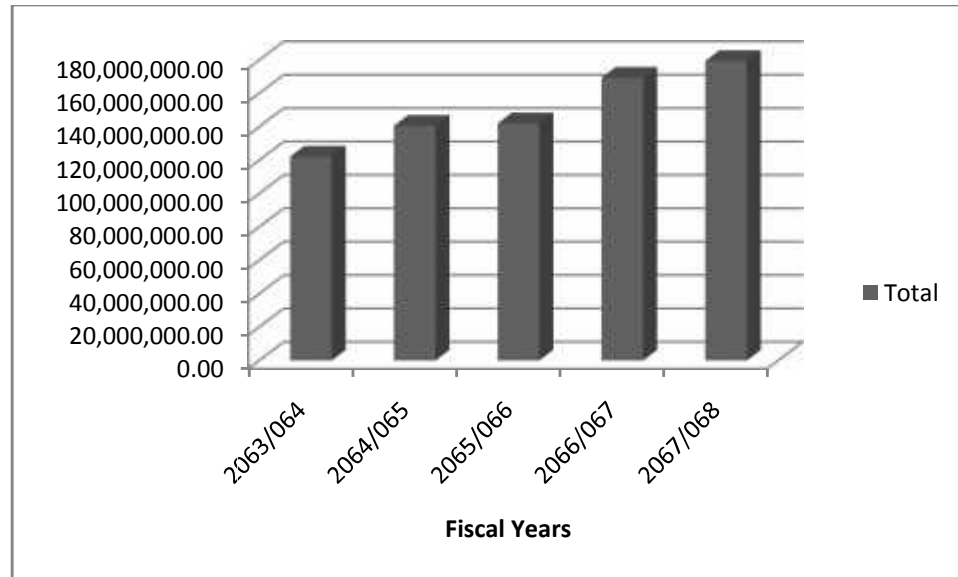
**Sales by different products change percentage of Gorkhapatra Sansthan**

Years	Products						
	Gorkhapatra	The Rising Nepal	Yuva Manch	Muna	Madhu Parka	Total	Change (%)
2063/064	102,091,613.7	14,300,069.68	4,083,875.13	1,209,814.2	569,615.53	122,254,988.24	-
2064/065	122,774,495	12,641,068.75	3,464,052.21	1,215,812.4	595,690.00	140,691,118.36	0.150
2065/066	124,773,591.9	12,173,105.9	3,203,025.32	1,434,143.2	556,506.87	142,140,373.19	0.010
2066/067	140,800,875.5	10,438,043.4	2,413,357.95	11649882.58	4187,584.92	169,489,744.35	0.192
2067/068	165,016,948.3	10,625,424.11	2,080,316.06	1,283,642.8	479,075.02	179,485,406.29	0.058

*Source: Annual Report of Gorkhapatra Sansthan*

**Figure: 4.2**

**Sales by different products change percentage of Gorkhapatra Sansthan**



The table 4.4 and figure 4.2 show that the Sales by different products change percentage of Gorkhapatra Sansthan. The Sales by product is also key factor of sales plan that helps to identify how the sales is distributed among different products that helps to develop overall production and product development plan.

The trend of Gorkhapatra has been increasing over the study years. The sales of Gorkhapatra are Rs. 102091613.7 in FY 2063/064 and it has increased continuously to level up to Rs. 165016948.3 in FY 2067/068. But the sales of The Rising Nepal have decreased over the years. The sales of Yuva Manch, has decreased over the study period. Muna and Madhu parka has fluctuated from year to year.

#### 4.2 Planning Manufacturing Overhead of GC

After the production plan has been completed, expenses budgets should be developed for each responsibility center of the organization. Manufacturing overhead is that part of total production cost, not directly identifiable with (traceable to) specific products or jobs. It consists of a) indirect Material b) Indirect labor c) all other miscellaneous factory expenses such as taxes, insurance, depreciation supplies, utilities and repairs.

GC does not prepare manufacturing expenses budgets and do not follow of the practice of allocating these cost to products. The corporation has record of the expenses incurred under the head of manufacturing expenses separately for every year. The following table shows that actual manufacturing expenses incurred for five year.

**Table: 4.5**

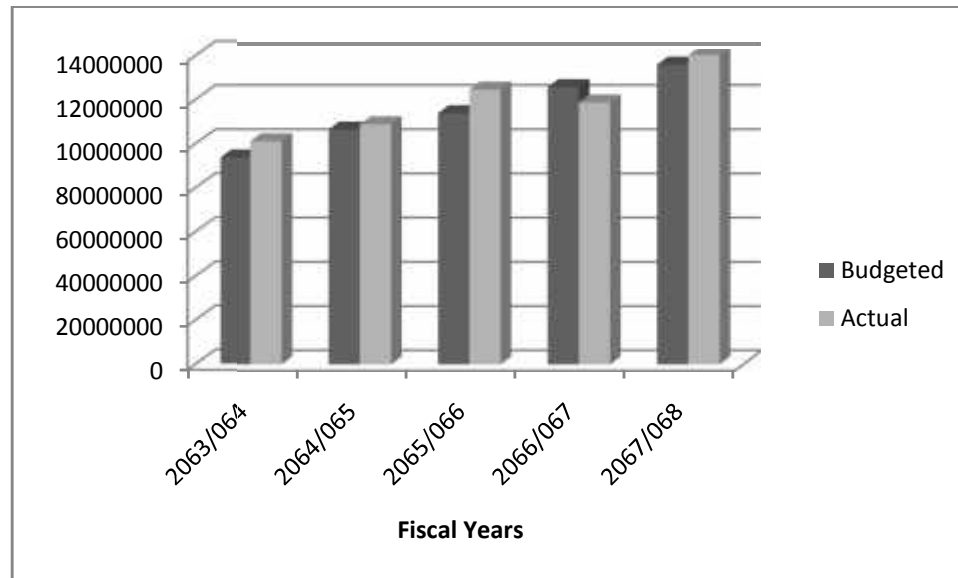
#### **Manufacturing Expenses from 2062/63 to2067/068**

<b>year</b>	<b>Budgeted</b>	<b>Actual</b>	<b>Percentage Change</b>
2063/064	93645210.32	100954276.63	-
2064/065	106235412.03	108598164.64	7.57
2065/066	113654320.56	124304423.92	14.46
2066/067	125436710.54	118508113.43	-4.66
2067/068	135642175.03	139940779.14	18.08

*Source: Annual Report of GC*

**Figure: 4.3**

**Manufacturing Expenses from 2062/63 to 2067/068**



The table 4.5 and figure 4.3 show that the increasing trend of manufacturing expenses. The manufacturing expenses of GC are very high because of poor expenses planning, excessive of break down inefficient machines, political situation, frustrated, employees, lack of proper supervision and regulation, high repaired cost etc. The corporation has not a system of allocating indirect manufacturing cost according to product. The corporation needs to trace manufacturing expenses into controllable and uncontrollable on the basis of responsibility center.

#### **4.4 Planning Administration, Selling and Distribution Expenses of G.C**

Expenses other than manufacturing and distribution expenses are administration expenses. These costs are incurred in the responsibility centers that provide supervision of and service to all functions of the enterprises. They include large portions of fixed costs than variable cost.

Expenses needed for sales promotions, actual sales activities and past sales services are included in selling and distribution expenses. These would include all costs necessary to receive customer orders and get the finished product or service into the hands of the customers. For example, advertisement, promotion sales commission salary travel expenses and other expenses of the selling department. Distribution expenses are not product cost and should not allocated to develop for each responsible center in the distribution function.

GC doesn't prepare the budgeted administrative selling and distribution expenses budget. So, it is impossible to compare the actual expenses with budgeted expenses. But the corporation has clearly recorded the actual expenses incurred under the head of administrative, selling and distribution expenses. There is no adequate transparent policy regarding administrative, selling and distribution expenses in G.C. The following table shows the total actual administrative, selling and distribution expenses of GC for different five years

**Table: 4.6**

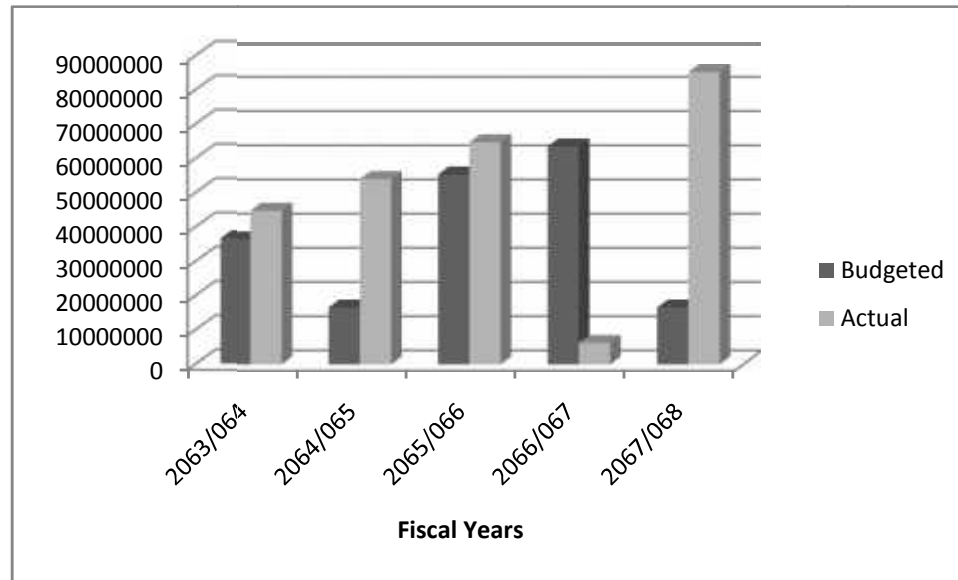
**Administrative, selling and Distribution Expenses of GC for the Fiscal Year  
2063/064 to 2067 / 068**

<b>year</b>	<b>Budgeted</b>	<b>Actual</b>	<b>Percentage Change</b>
2063/064	36573200.13	44969181.73	-
2064/065	16657423.25	54218174.13	13.89
2065/066	55576324.37	64988583.40	26.89
2066/067	63754754.35	6304294.30	-2.59
2067/068	16654721.35	85520122.42	35.09

*Source: Annual Report Gorkhapatra Sansthan Corporation*

**Figure: 4.4**

**Administrative, selling and Distribution Expenses of GC**



The table 4.6 and figure 4.4 Show that the Administrative, selling and Distribution Expenses of GC. In this table clearly indicates that the corporations administrative, selling and distribution expenses are fluctuated. The administrative selling and distribution expenses increased highly in the fiscal year 2067/068 by 35.09 % and decreased only in the fiscal year 2063 /064 by 2.59%.

#### **4.5 Planning Human Resources**

Labor is one major elements of production. Manpower is such power without it no organization can be operated. Effective planning and systematic control of labor cost is essential to achieve the organizational goals. Human Resources planning refer to staff enrichment, recruitment, performance appraisal, remuneration administration.

Labor costs in the broad sense, are composed of all expenditures on those employees by the firm, top executives, middle management personnel, staff

officers, supervisor, foremen, skilled workers and unskilled workers. It is necessary to consider separately the different types of labor costs.

GC has temporary and permanent staffs working in the corporation. Salary is paid in monthly basis. GC has large number of employees working under various units. Present statuses of employees are as follow.

**Table: 4.7**  
**Manpower Plan of GC**

<b>Department</b>	<b>No of Staff</b>
Management & Board	7
Administration Department	51
Finance Department	52
Editorial Sector	100
Production Department	209
Art & Photography Department	8
Marketing Promotional and Distribution Department	95
Business Department	28
Press and Engineer unit	47
District Reporter	107
<b>Total</b>	<b>704</b>

*Source: Annual Report of Gorkhapatra Sansthan*

The Total number of employees working in the corporation is 704. Out of these employees, 200 are in contract basis. All these employees are fixed salaried staff. The number of officer level of employees and administration level of employees are high. So, most of the expenses are paid to them. GC has no any effective program to increase the productivity of manpower. The corporation has not been able to introduce motivational measurement and the system of punishment and reward. So, most of the employees are frustrated.

#### **4.6 Profit and Loss Account of GC**

Profit and Loss account is basically prepared to ascertain net profit or net loss at the end of the accounting period. Since it is a nominal account, it contains all other items of operating and non-operating revenue earned and operating expenses such as office and administration, selling and distribution, legal, financial, etc. and non-operating expenses and losses incurred during the accounting period. Therefore it can be defined as an account that presents a summary of revenues earned and expenses incurred during an accounting period along with the results thereof, i.e. net profit or net loss. The profit & loss account measures net income or loss by matching all revenues earned and expenses incurred during the period according to the accounting principle.

GC prepares its profit and loss account at the end of each fiscal year to know about profit or loss situation of the corporation. GC is suffering from a huge amount of loss from many years. Actual profit & loss A/C of the corporation over the study period is presented in the following table:

**Table: 4:8****Detailed Profit & loss A /C of GC of Fiscal Year 2062/63 to 2067/068**

Particulars	Amounts (in Rs.)				
	2063/064	2064/065	2065/066	2066/067	2067/068
Income	143,003,267.47	166,043,473.99	216,426,756.46	192,381,468.05	220,426,352.68
Manufacturing Expenses	(100,954,276.63)	(108,598,164.64)	(124,304,423.92)	(118,508,113.43)	(139,940,779.14)
<b>Gross Profit</b>	<b>42,048,990.84</b>	<b>57,445,309.35</b>	<b>92,122,332.54</b>	<b>73,873,354.62</b>	<b>80,485,573.54</b>
Other Income	5294872.87	3156681.60	4682945.80	7,469,238.98	5450896.91
<b>Total</b>	<b>47,343,863.71</b>	<b>6,0601,990.95</b>	<b>96,805,278.34</b>	<b>81,342,593.60</b>	<b>85,936,470.45</b>
Adm. & dist. Exp.	(44,969,181.73)	(51,218,174.13)	(64,988,583.40)	(63,304,294.30)	(85,520,422.42)
Interest Depreciation	(5,364,092.97)	(4,153,458.35)	(5,686,458.37)	(5,280,340.21)	(2,973,408.87)
	(6,218,982.93)	(6,129,212.37)	(5,595,611.17)	(4,708,541.61)	(4,986,497.42)
<b>Operating profit(loss)</b>	<b>(9,208,393.92)</b>	<b>(898,853.90)</b>	<b>20,534,625.40</b>	<b>8,049,416.48</b>	<b>(7,543,858.26)</b>
Profit & loss on sale of asset	67,638.13	-	-	64,210.70	117,568.61
<b>Profit before staff bonus and provision for tax</b>	<b>(9,140,755.79)</b>	<b>(898,853.90)</b>	<b>20,534,625.40</b>	<b>8,113,627.18</b>	<b>(7,426,289.65)</b>
Staff Bonus Provision for tax	-	-	(1,642,770.10)	601,009.42	(208,746.39)
	-	-	(5,006,341.70)	-	-
<b>Net profit(loss)</b>	<b>(9,140,755.79)</b>	<b>(898,853.90)</b>	<b>13,885,513.60</b>	<b>7,512,617.76</b>	<b>(9,513,754.04)</b>

*Source: Annual Report of Gorkhpatra Corporation*

The above comparative profit and loss A/C of GC clearly shows that the corporation has been suffering from loss and the trend of loss is increasing. The following tables shows the summary of profit and loss trend of GC from FY 2063/064 to 2067/068

**Table: 4.9**  
**Profit and loss of GC**

<b>Fiscal Year</b>	<b>Amount (RS)</b>	<b>% Change</b>
2063/064	(9140,755.79)	-
2064/065	(898,853.90)	(90)
2065/066	13,885,513.60	164
2066/067	7,5123,617.76	4.4
2067/068	(9,513,754.04)	(112)

*Source: Annual Report of Gorkhapatra Sansthan*

During the period of analysis, the corporation has earned the profit for the year 2065/066 and 2066/067 but the corporation has suffered from huge amount of loss for the rest year.

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

#### **4.7 Balance Sheet of Gorkhapatra Sansthan**

Balance sheet is a statement of the assets, liabilities and capital of a business. Balance sheet is prepared to show the financial position of the business at a particular point in time. Gorkhapatra prepares its balance sheet at the end of each fiscal year but it does not prepare the budgeted balance sheet for coming year. The balance sheet of Gorkhapatra is presented below:

**Table No: 4.10****Balance Sheet of GC****As on 32 Ashad, 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068**

Particulars	Amounts (in Rs.)				
	2063/064	2064/065	2065/066	2066/067	2067/068
<b>Capital &amp; Liabilities</b>					
Share Capital	11,516,600	11,516,600	11,516,600	11,516,600	11,516,600
<b>Reserve and Surplus</b>					
General Reserve	2,698,825.62	2,698,825.62	2,698,825.62	2,698,825.62	2,698,825.62
Profit & Loss	40,289,596.63	39,390,742.73	53,276,256.33	60,788,874.09	51,275,123.75
<b>Short Term &amp; long Term Loan</b>					
Secured Loan	43,861,933.16	62,668,966.37	73,526,024.12	25,005,353.61	24,485,820.72
<b>Total</b>	<b>98,366,955.41</b>	<b>116,275,134.72</b>	<b>141,017,706.07</b>	<b>100,009,653.32</b>	<b>89,976,370.09</b>
<b>Assets:</b>					
<b>Fixed Assets</b>	<b>41,160,469.72</b>	<b>36,106,962.78</b>	<b>32,821,388.03</b>	<b>30,127,765.65</b>	<b>37,872,821.87</b>
<b>Current Assets &amp; Loans and Advance</b>					
Inventories	2,242,821.35	26,109,099.93	41,415,385.29	11,561,514.05	8,046,908.27
Sundry Debtors	89,070,837.87	92,109,099.93	41,415,385.29	11,561,514.05	129,970,712.93
Cash & Bank Balance	29,453,214.0	30,829,449.34	31,298,216.12	17,649,926.13	14,115,448.59
Advance, Loans and Deposit	36,560,869.08	35,978,552.13	35,837,593.08	40,566,830.22	42,721,456.22
<b>Total</b>	<b>157,327,742.30</b>	<b>185,213,518.98</b>	<b>246,690,642.32</b>	<b>206,624,874.57</b>	<b>194,854,526.01</b>
Current Liabilities and provision	(100,121,256.61)	(105,045,347.07)	(138,494,324.28)	(136,742,986.90)	(142,750,977.79)
<b>Net Current Asset</b>	<b>57,206,485.69</b>	<b>80,168,171.94</b>	<b>108,196,318.04</b>	<b>69,881,887.67</b>	<b>52,103,548.22</b>
<b>Total</b>	<b>98,366,955.41</b>	<b>116,275,134.72</b>	<b>141,017,706.07</b>	<b>100,009,653.32</b>	<b>89,976,370.09</b>

*Source: Annual Report of Gorkhapatra Sansthan*

## **4.8 Cash Flow in GC**

Cash budgeting is an effective way to plan and control the cash flow, assess cash. The primary objective of cash flow is to plan the liquidity position of the company as books for determining future borrowing and future investment. A cash budget shows the planned cash inflows outflows and ending position by interim periods for a specific time span. It is directly related to other plans such as the sales plan account receivable and the expenses budget and capital expenses budget. The cash budget focuses exclusively on the amount and timing of cash inflows and outflows.

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

The major sources and application of cash flow for the year 2065/066 & 2067/068 of GC are presented below.

**Table: 4.11**  
**Cash Flow Statement of GC**  
**For FY 2065/066 and 2067/068**

Particulars	Particulars(Rs.)				
	2063/064	2064/065	2065/066	2066/067	2067/068
<b>A. Cash flow from operating activities:</b>					
Net profit(Loss)	(9,140,755.55)	(898,853.90)	13,885,513.60	7,512,617.76	(9,513,754.04)
Adjustment:					
Depreciation	6,218,982.93	6,129,212.37	5,595,611.17	4,708,541.61	4,986,497.42
<b>Cash flow from change in working capital:</b>					
Inventory	18,884,975.69	(23,866,278.58)	(15,306,285.36)	29,853,871.24	3,514,605.78
Debtors	(4,732,625.11)	(3,225,579.71)	(45,843,030.25)	1,292,843.66	6,875,891.24
Loan & advance	848,104.62	582,317.95	140,959.05	(4,729,237.14)	(2,154,626.00)
Current Liabilities & Provision	(202,184.41)	4,924,090.43	33,448,977.24	(1,751,344.79)	6,007,994.59
<b>Net cash flow from operating activities</b>	<b>18,764,497.93</b>	<b>(16,355,092.44)</b>	<b>(8,078,254.55)</b>	<b>36,887,299.75</b>	<b>9,716,608.99</b>
<b>B. Cash Flow from investing Activities:</b>					
Sales of fixed assets	49,376.31	4,811.34	31,976.02	8,616.02	193,486.21
Purchased of fixed assets	(924,824.57)	(1,080,516.77)	(2,342,012.44)	2,023,535.25)	(12,925,039.85)
<b>Net cash flow from investing activities</b>	<b>(875,448.26)</b>	<b>(1,075,705.43)</b>	<b>(2,310,036.42)</b>	<b>(2,014,919.23)</b>	<b>(12,731,553.64)</b>
<b>C. Cash flow from financing activities:</b>					
Bank loan	(16,567,900.08)	18,807,033.21	10,857,057.75	(48,520,670.51)	(519,532.89)
<b>Net cash flow from financing activities</b>	<b>(16,567,900.08)</b>	<b>18,807,033.21</b>	<b>10,857,057.75</b>	<b>(48,520,670.51)</b>	<b>(519,532.89)</b>
<b>Net change in cash (A+B+C)</b>	<b>(5,566,850.41)</b>	<b>1,376,235.34</b>	<b>468,766.78</b>	<b>(13,648,289.99)</b>	<b>(3,534,477.54)</b>
Add: Beginning balance of cash	35,020,064.41	29,453,214.00	30,829,449.34	31,298,216.12	7,649,926.13
<b>Ending balance of cash</b>	<b>29,453,214.00</b>	<b>30,829,449.34</b>	<b>31,298,216.12</b>	<b>17,649,926.13</b>	<b>14,115,448.59</b>

*Source: Annual Report of Gorkhapatra Sansthan*

From the table 4.12 it is clear that net cash from operating activities is negative in fiscal year 2064/065 and 2065/066 and positive in fiscal year 2063/064, 2066/067 and 2067/068 because of decreasing in inventories and loan & advance. Similarly, net cash from investing activities are negative in entire fiscal years since huge amount of fixed assets purchased. Cash flow from financing activities is positive in fiscal year 2064/065 and 2065/066 because of borrowing of bank loan and negative in year 2063/064, 2066/067 and 2067/068 because of re-payment of bank loan. Ending balance of cash has been decreased in the year 2067/068 as compared to previous year.

#### **4.9 Performance Evaluation and Management Control**

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

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

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

- ) Financial Ratio Analysis
- ) Variance analysis
- ) Identification of cost variability
- ) Flexible budget
- ) Cost-volume-profit (C-V-P) analysis

#### 4.10 Identification of cost variability

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

**Fixed Costs:** Costs associated with those inputs which do not vary with changes in the volume of output or activity within a specified range of activity or output.

**Variable Costs:** Variable costs are the costs that tend to vary in direct proportion and same direction to charges in production activity, sales activity or some other measures of volume or cost driver.

**Semi-variable Costs:** The costs which are neither fixed nor variable are semi-variable costs. It is also known as mixed costs.

In the context of Gorkhapatra Corporation it hasn't classified as fixed and variable cost by applying the function and variability nature of cost. So, there is rough practice of classification the expenses in variable and fixed components are as under

**Table: 4.12**

#### **Gorkhapatra Corporation Cost Behavior**

Cost Items	Behaviour
Depreciation	Fixed
Administrative Cost	Fixed
Raw Material Purchase	Variable
Selling & distribution	Variable
Production Cost	Semi-Variable

*Source: Annual Report of Gorkhapatra Sansthan*

From the above table we can say all cost is roughly classified. There is not expressed semi-variable cost and not certain rules and regulation of cost classification. GC doesn't use scientific method in order to classify the cost.

#### 4.11 Flexible Expenses Budget of GC

Flexible expenses budget is related with expenses. A flexible budget calculates budgeted revenues and budgeted costs based on the actual level in the budget period. A flexible budget is calculated at the end of the period when the actual output is known a static budget is developed at the start of the budget period based on the planned output level for the period. A flexible budget is not based on only one level of activity. A flexible budget is defined as a detailed plan for controlling overheads costs a plan that is valid in the firm's relevant range of activity.

The following table shows that the flexible budget of GC at different level of capacity utilization for FY 2067/068

**Table: 4.13**  
**Flexible Budget for the Year 2067/068**

Particular	Activity Level				
	70%	80%	90%	100%	110%
Sales Revenue (In Rs)	154298446.9	176341082.2	198383717.4	220426352.7	242468988
Less: Variable Cost (54.94%)	84771566.73	96881790.56	108992014.3	121102238.2	133212462
<b>Contribution Margin</b>	<b>69526880.17</b>	<b>79459291.64</b>	<b>89391703.06</b>	<b>99324114.53</b>	<b>109256526</b>
Less-Fixed Cost	112324521.5	112324521.5	112324521.5	112324521.5	112324521.5
<b>Net Profit/Loss</b>	<b>(42797641.33)</b>	<b>(32865229.86)</b>	<b>(22932818.44)</b>	<b>(13000406.97)</b>	<b>(3067995.5)</b>

*Source: Annual Report of Gorkhapatra Sansthan*

The above table shows that flexible budget of GC at different level of capacity utilization. The table shows that losses of GC in every level of capacity utilization even in 110% of capacity utilization. It shows that not to proper utilization of its capacity. GC earns operating loss.

#### **4.12 Cost- Volume- Profit Analysis**

Cost-Volume-Profit (CVP) analysis examines the behavior of total revenue total costs and operating income as changes occur in the output level, the selling price, the variable cost per unit, and or the fixed cost of product.

Cost-Volume Profit analysis is a systematic method of examining the relationship between changes in activity (i.e. output) and changes in total sales revenue, expenses and net profit. As a model of these relationships CVP analysis simplifies the real world conditions that a firm will face like most models which are abstractions from reality, CVP analysis is subject to a number of underlying assumptions and limitations never the less it is a powerful tool for decision making in certain situation.

The CVP analysis of GC is based on following assumption:

- ) CVP structure is based on accounting data of FY 2067/068.
- ) The selling price, variable cost and fixed cost per annum are assumed to be remaining constant.
- ) Fixed cost includes operational & non operational fixed cost.
- ) Computations are made on total basis, not on product basis.

Computation of CVP analysis of GC based on FY 2067/068 are as follows:

**Income Statement of GC in 2067/068**

<b>Particular</b>	<b>Amount (In Rs)</b>
Sales Revenue (In Rs)	220426352.7
Less: Variable Cost (54.94%)	121102238.2
<b>Contribution Margin</b>	<b>99324114.53</b>
Less-Fixed Cost	112324521.5
<b>Net Profit/Loss</b>	<b>(13000406.97)</b>

**Table: 4.14**

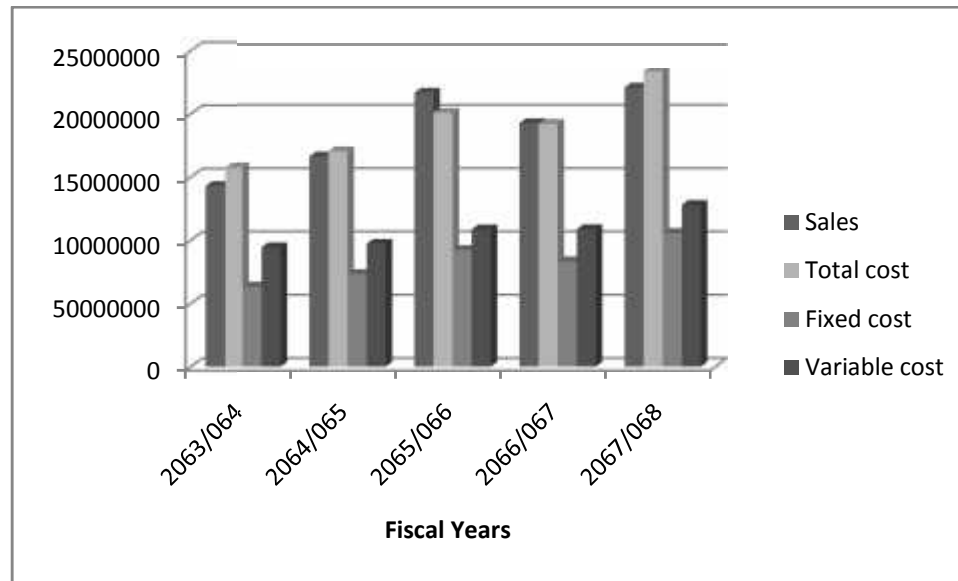
**Sales, Total Cost, Fixed Cost, Variable Cost**

<b>Fiscal year</b>	<b>Sales</b>	<b>Total cost</b>	<b>Fixed cost</b>	<b>Variable cost</b>
2063/064	143003267.47	157506534.26	63243560.31	94262973.95
2064/065	166043473.99	170162009.49	73125762.13	97036247.36
2065/066	216426756.46	200575077.66	92156432.73	108418644.93
2066/067	192381468.05	191801289.55	83215437.54	108585852.01
2067/068	220426352.68	233421107.85	105632147.34	127788960.51

*Source: Annual Report of Gorkhapatra Sansthan*

**Figure: 4.5**

**Sales, Total Cost, Fixed Cost, Variable Cost**



The table 4.14 shows that the sales, Total cost, fixed cost and Variable cost are respectively the huge losses of Gorkhapatra are the effects of poor planning and control of management. The sales amount is increasing trend. The amount 143003267.47, 166043473.99, 216426756.46, 192381468.05, and 220426352.68 respectively. The total cost are respectively 157506534.26, 170162009.49, 200575077.66, 191801289.55 and 233421107.85. The Fixed cost are increasing trend. The values are 63243560.31, 73125762.13, 92156432.73, 83215437.54 and 105632147.34.

**Table: 4.16**

**Calculation of CM, PV Ratio, BEP & MOS**

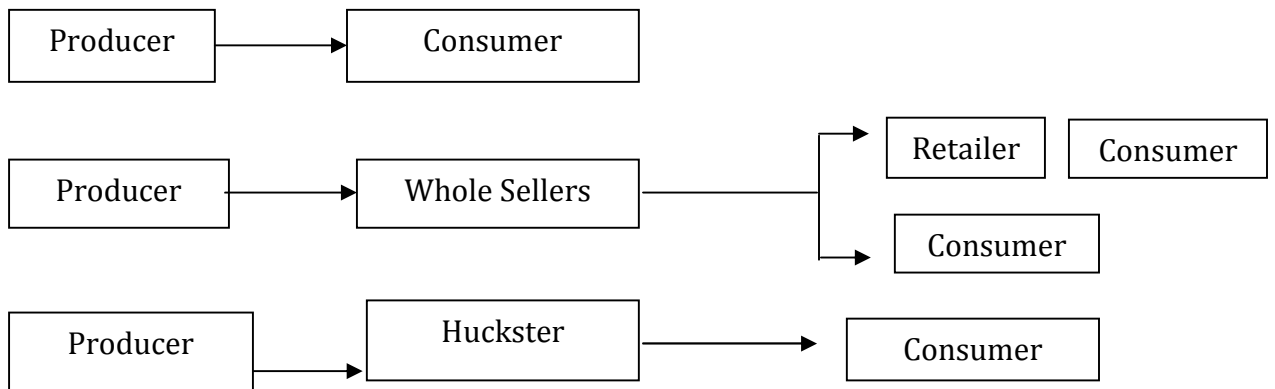
<b>year</b>	<b>Actual Sales</b>	<b>CM</b>	<b>PV ratio</b>	<b>BEP</b>	<b>MOS</b>
2063/064	143003267.47	48740293.52	0.34	185555627.95	-42552360.48
2064/065	166043473.99	69007226.63	0.42	175953391.77	-9909917.78
2065/066	216426756.46	108008111.53	0.50	184663147.43	31763609.03
2066/067	192381468.05	83795616.04	0.44	191049470.07	1331997.98
2067/068	220426352.68	92637392.17	0.42	251346766.34	-30920413.66

*Source: Annual Report of Gorkhapatra Sansthan*

The above table actual sales are increase trend like fiscal year 2063/2064, 2064/065, 2065/066 and 2067/068 are respectively. The actual value is 143003267.47, 166043473.99, 216426756.46, 192381468.05 and 220426352.68. The Contribution margin is increase so the BEP value are increased trend this year value are negative margin of safety indicates that the sales will not recover the company BEP sales. Therefore if the present cost structure remains constant and the sales revenue is same the loss may increase. From the above analysis, it is clear that GC doesn't meet its BEP sales during the study period. The fixed cost of very high which causes huge loss every year.

#### **4.13 Marketing plan of GC**

GC supplies its publication directly to various stationary, consumers and various channels also. The publication of GC is continuously going down its popularity day by day because GC has not adopted the latest technology and good strategy. The distribution channels usually followed by GC for marketing are as follows:



For sales promotion, GC is doing through the Medias like own news paper, Radio, Nepal Television etc. It has direct contact with stationary stores also for sales. Generally, GC has been competing with national market and other publication like; Kantipur Publication, Apka Publication etc. GC follows cost plus pricing method for Yuva Manch, Madhuparka and Muna but Gorkhapatra and The Rising Nepal sells at below cost.

#### **4.14 Financial Ratio Analysis**

Financial ratio analysis is the arithmetical relationship between two or more variables of financial statements. Information provided by the ratio analysis is very useful to evaluate financial performance of a firm. It communicates the strengths and weaknesses of the firm. It is also useful for initiating effective control of business. This section focuses on the financial performance of the enterprises in terms of liquidity, profitability, turnover and capital structure.

**Table: 4.15**  
**Financial Ratio**

<b>Name of Ratio</b>	<b>2063/064</b>	<b>2064/065</b>	<b>2065/066</b>	<b>2066/067</b>	<b>2067/068</b>
Current Ratio	1.57	1.76	1.78	1.57	1.36
Inventory Turnover Ratio	11.1	9.38	6.26	1.95	3.69
Total Assets Turn Over Ratio	0.13	0.11	0.09	0.10	0.13
Return on Capital Employed	(0.07)	(0.008)	0.1	0.08	(0.11)
Debt-Equity	0.80	1.17	1.09	0.33	0.37
Net Profit Margin	(.037)	(0.04)	0.54	0.33	0.32
Return on Assets	(0.05)	(0.004)	0.049	0.33	0.042

*Source: Appendix-3*

From the above table we can observe that the company's liquidity is not satisfactory over the research period. Current ratio of FY 2063/064 is 1.57 which cannot be considered as a good. This ratio has again decreased in FY 2066/067 to 1.57. This decreasing current ratio indicates that the company's ability to pay its debt obligation has seriously been injured.

Inventory turnover ratio of the corporation is very good in the first two years i.e. 11.1 and 9.38 respectively for 2063/064 and 2064/065 respectively. Thus, the corporation has ability to convert its inventory into sales is very good and exemplary however same has decreased in the later years.

Total assets turnover of the corporation is more or less uniform for all the years which are in the range of 0.09 to 0.13. The ability of the corporation assets to generate sales is not good as the turnover of the assets is poor. This also indicates the corporation inability to manage its assets.

Another dismal aspect of the GC is to have very low and negative return on capital employed. It is to be noted that the return on capital employed is negative for first two years i.e. -0.07 and -0.008 for 2063/064 and 2064/065 respectively. These negative operating return on capital employed is due to ineffective utilization of capital. However, the same ratio is positive and seems to be more satisfactory in the latter two years than the ratio of the corporation in the first two years and last years.

Corporation employed more of equity capital as indicated by debt-equity ratios. This ratio for the corporation has been in a fluctuating for all the periods. That means no capital restructuring has been considered in this time period.

Net profit margin and total assets turnover give the return on assets (ROA) if multiplied together. ROA is negative for first two years. These ratio, in absolute term indicates that the company is in absolute term indicates that the company is in difficult verge in the later years and the condition has been improving as the ROA has increased during the FY 2065/066, 2066/067 and 2064/0635. The ROA of the company are -0.05, -0.004, 0.049, 0.033 and 0.042 respectively for fiscal year 2063/064, 2064/065, 2066/067 and 2067/068 respectively.

#### **4.15 Major Findings**

Gorkhapatra Sansthan has been suffering from various internal and external problems in the process of formulating and implementing profit plan. The corporation suffers on each and every year. The techniques of budget preparation seem to be unsystematic, unscientific and imperfect. Expenses incurred by GC in various head are very high.

The major findings of the research period can be presented as.

- ) GC does not have systematic comprehensive profit planning.

- ) The budgeting system is not based on scientific and realistic approach.
- ) Sales and production forecasts are unrealistic.
- ) There is under utilization of available capacity.
- ) GC has not proper practice of segregated cost into fixed and variable.
- ) GC has been suffering from loss most of the year.
- ) GC cannot meet even break even sales.
- ) GC cannot utilize its full capacity.
- ) The flexible budget shows that under utilization of its capacity. It also shows that even in 110% capacity utilization, the corporation incurs loss because of high fixed cost.
- ) Overheads are not classified systematically which creates difficulties to analyze expenses effectively.
- ) Planning section of GC is very poor. Planning division personnel have lack of forecasting techniques.
- ) Most of the financial ratios of the corporation are un-satisfactory. The low assets turnover ratio, current ratio, return on asset is very poor. Higher ratio of debt equity ratio shows the GC more levered.
- ) The return on asset ratio is very poor which shows the lack of effectiveness of management in generating profit with its available assets. All things being equal, the more asset-intensive a business (the lower the profit per dollar of assets) the more money must be reinvested into it to continue generating earnings. This is a bad thing.
- ) The corporation's working capital current ratio and quick ratio is drastically low, this is a sign of serious financial weakness.
- ) The higher ratio of debt equity ratio of GC is riskier to itself if as it is unable to satisfy creditors. Greater amount of debt capital may cause creditors to put unnecessary pressure and intervene into the corporation management.

- ) GC has been facing some problems in profit planning system. They are lack of concept and process of profit planning and corporate planning unspecified goals, absence of strategic management, lack of commercial concept, lack of budgeting concept etc.
- ) The information system of GC is not effective. The lower level staffs normally do not get information about overall operation.
- ) Management has not been made fully responsible for achieving predetermined objectives.
- ) There are not any effective programmes to increase the productivity of manpower. Lack of employee's motivation, performance, evaluation, incentives and training and career development etc becomes the major causes for lower productivity of GC.
- ) There is perfect correlation between planned sales and actual sales.
- ) The corporation is unable to sale the magazines service to customers according to the production.
- ) Strength and weakness are not analyzed in depth by GC because of its low condition.
- ) While setting the target of sales for coming year, GC does not consider other factor such as growth of consumer and other related factors.
- ) Though the objectives underlying the establishment of PEs, GC were ambitious, performance has not matched expectation.
- ) The management of GC has tended to be oriented more towards administrative and political matters than towards business. As the higher management is appointed on the basis of political loyalty and commitment, the decision making process apparently lacks capability and efficiency. Due to lack of managerial autonomy, the working style and concerns tend to underline rather than promote the interest of corporation.

- ) From the above research interpretation the overall economic condition of public enterprises, GC is very poor. GC is financially very weak and its financial condition is becoming more unmanageable.
- ) GC's objectives are not often clear-cut and result oriented. GC does not fix the target for specific goal for the budget period. For example, growth objective, capacity utilization is not targeted to achieve some specific goals.
- ) Management has not been made fully responsible for achieving predetermined objectives.

## **CHAPTER-V**

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

#### **5.1 Summary**

Public enterprises mean state ownership and operation of industrial, agriculture, financial and commercial undertakings. Government ownership, operational autonomy, legal entity, government control, public responsibility, organized business behavior is the key factors of a government enterprise. GC is also government owned enterprises making significant contribution to information development of the country.

A number of public enterprises, covering different sectors of the economy, were set up during different periodic plans of the country. Although the establishment of public enterprise had greatly assisted in the country's industrial and professional development, and helped to prepare the necessary institutional base, the enterprise themselves could not succeed. To accelerate the pace of national development it has become necessary to increase efficiency in all areas through proper and efficient management. Together with this it has become necessary to bring about changes in the structural framework of the corporations in order to enhance the standard of services rendered by them. For this reasons the privatization of public enterprise become a necessity by Government.

Profit Plan is a detailed plan of action during a period of one year or less. A systematic approach in profit-oriented enterprises that facilitates effective management performance is profit planning and control, or budgeting. So profit is the planned and controlled output of management. Profit plan, thus refers to the planning of revenue (i.e. increase the revenue), and planning of cost (i.e. increase the efficiency of the cost). Budget is a plan that outlines an action plan, planning a

budget helps a business allocate resources, evaluate performance, and formulate plans. Practice of business planning even by public organization to promote commercial activities of the enterprises. Profit plan represents an overall plan of operations, covers a definite period of time and formulates the planning decisions of the management. Planning can be broadly divided into two group; Functional Plan and Financial Plan. Functional Plan includes sales plan, purchase plan, labor plan, production plan, and expenses plan. Financial plan include funds flow plan, projected income statement and projected balance sheet. Profit plan are prepared for two types of time dimensions; a strategic long-rang profit plan (5-10 years) and a tactical short-range profit plan (1 year detailed by different time period).

The basic objective of this present research study is to understand the practical aspects of the corporation and to highlight the current practice and application of Profit Planning and its effectiveness in Nepalese Public Enterprises especially of GC. This study tried to understand and analyze various functional budgets adopted in GC, to assess the financial performance, break-even analysis and to measure the profitability and efficiency of GC, to evaluate the variance between target and actual budget.

This study will focus on the evaluation of different operation budget and planning of. Special emphasis will be given on a comparative analysis of following budget of GC for the year 2063/64-2067/2068 B.S. This study has been organized into five chapters. The title of each chapter is given in form of Introduction, Conceptual Framework and Review of Literature, Research Methodology, Data Presentation and Analysis and Topic Interpretation and Summary, conclusion and recommendations.

Analytical and descriptive research design followed by secondary as well primary data is used for the convenience of the study. This is an examination and

evaluation for budgeting procedure in the process of profit plan of GC. This study is closely related with the various functional budgets and other accounting statements as well as the actual results of the budget. All these information and data are presented in an analytical ways. So, the overall study can be viewed as a blend of descriptive, analytical, and exploratory as well as qualitative and quantitative study. To analyze the data some financial tools like Ratio analysis, Break Even analysis, Budget variance analysis, CVP analysis and Statistical tools such as , mean , standard deviation, correlation, regression, least square trend etc. are used as per requirement.

## **5.2 Conclusions**

Based on basic findings presented at the end of chapter four, following conclusion can be drawn:

- ) This study shows that there are gap between budgeted and actual sales. As indicated by standard deviation and C.V, the corporation budgeted sales are more fluctuated than actual sales. In other word, budgeted sales are more inconsistent. This high deviation creates difficulties to forecast sales.
- ) GC does not prepare the long-term strategic profit plan but it prepare short-term profit plan.
- ) GC does not fix the target for the budgeted period, for example growth objective, capacity utilization, return on net capital employed etc. are not focused.
- ) GC has not adequately considered controllable and non-controllable variables affecting the corporation.
- ) GC does not make depth analysis of the corporation's strength and weakness.
- ) The objective of the corporation is not clear in regard to profit making and market penetration.

- ) The sales price of the newspaper has been fixed at low price than production cost; such as Gorkhapatra and Rising Nepal.
- ) The targets are set haphazardly and in an adhoc basis. There is wide gap between target and actual achievements. So the negligence should be minimized as soon as possible.
- ) Regular financial appraisal is absent. No financial efficiency indicators have been identified.
- ) Functional budget and cash flow budget had not been properly used and follow up analysis to budgetary allocation has been poorly conducted.
- ) The sales and distribution division and administration division's poor performance has lead to increase in the cost of sales and administration expenses.
- ) There are no any effective programs to increase the productivity of manpower. Lack of employees' motivation, performance evaluation, incentives and training and career development etc becomes the major cases for lower profitability of GC and lower productivity of the employees'.
- ) The plans are made from top level management only. There is no better communication between the top level and lower level management regarding the corporation's goal and objectives.
- ) Different statistical tools show the positive relationship between planned and actual sales.
- ) Distribution channels of the corporation are adequate. It has four channels of distribution or marketing system. Actual production is made as per the actual sales. Therefore, production activities are not made according to the budgeted production but this is made according to the recent data of actual sales.

- ) The corporation is suffering from excessive fixed cost and non-manufacturing expenses. But the corporation is not sensitive towards costs reducing programs. It has not a system of periodical performance reports.
- ) GC is not seriously conscious to its poor performance, no satisfactory achievement of specific goals that were targeted.
- ) Achievement of goals is very low according to following reasons:-
  - ) Competitive market
  - ) Poor management
  - ) Too much income sources from others sources like advertisement.
  - ) Lack of coordination between the lower and higher level staffs and departments.
- ) Gorkhapatra Corporation is facing competition from other publication like Kantipur Publication, Annapurna etc. But there is lack of special program to face the competition.

### **5.3 Recommendations**

Public enterprises like GC play a major role in achieving the twin objectives of social, information and economic development envisaged in the national policy. The improvement in this public enterprise would then certainly act as a milestone in the development of our country. The following recommendations are abstracted from the overall and specific problems:

- ) GC does not have the policy of segregating cost of each product and department. GC should classify cost of each department and product.
- ) GC should develop the long-term strategic plans for every aspects of its operation.
- ) GC should try to overcome its weakness by using the strengths. GC should have in – depth analysis of the Corporation’s strengths and weaknesses.

- ) GC should revise the pricing policy. The cost of production should be considered while pricing of the publication. It should attempt to control its production cost.
- ) There should be controlled the operating as well as non – operating expenses to increase the net profit of GC. The unproductive expenses should be reduced by management and administrative staffs of GC.
- ) GC should be prepared sales budgets on the realistic ground. Sales forecasting should be made after analyzing all variables that affect the market of the Corporation, effective program should be introduced to study the market.
- ) GC should develop production plan by interim time periods.
- ) Cost reduction is only the way to increase the Corporation’s profitability. Therefore cost reduction program should be introduced for each responsibility centers. There is excess burden of administrative and office expenses. Such expenses on the basis of the achievements.
- ) GC should manage effective sales promotion activities.
- ) GC should develop periodical performance reports about activities of Corporation.
- ) This study has found that there is a serious lack of professional management in GC. So, moves should be made to establish a skilled management to make sure that realistic plan are set and effectively implemented with continuous follows ups.
- ) For the proper Co – ordination with in organization line and staff authorities and responsibilities should be clearly defined. This will considerably help to solve the problem of conflict between departmental managers.
- ) Programs to improve the employee productivity should be made effective. Incentive plan to raise employee morale and motivation should be

developed. Employees should be rewarded and punished on the basis of their work performance.

- J GC needs to classify costs in scientific manner i. e. variables, semi – variable and fixed, so that cost can be better analyzed, effectively planned and controlled.
- J GC should be developed planning experts to develop planning activities.
- J For effective control of cost and expenses, the principle of flexible budget is important. GC has not use flexible budget at present. So, it should prepare flexible budget at present. So, it should prepare flexible budget for various volume of activity.
- J GC should consider break-even analysis while preparing sales plan and adopt contribution margin approach to improve profitability.
- J Capital expenditure should be planned in advance and discounted cash flow techniques should be applied to evaluate the proposals.
- J Profit planning manuals should be communicated from top to lower levels. All personnel should be made to participate on decision – making and planning process.
- J GC should decide and make policy about research and development, productivity, capacity utilization and costs control.
- J GC is in loss mainly due to excessive non – manufacturing costs and excessive idle capacity. Management should initiate rigorous measures to avoid this situation. Cost reduction program should be formulated and applied and present cost – capacity structure should be changed, efforts to reduce fixed costs should be made.
- J When developing the tactical profit plan, the expenses for each responsibility center should be carefully assessed. After the production plan has been completed, expenses budgets should be developed for each responsibility center in the organization. Classification of an expenses item

as controllable and non – controllable must be made within a specific framework of responsibility and time.

- ) Finally, in the GC a systematic approach should be made towards comprehensive profit planning. Systematic approach can considerably contribute to increase the strength and the profitability of the Corporation.
- ) Periodic performance reporting system should be followed to take corrective action and to improve the performance variances regarding sales, expenses etc.
- ) Reducing administrative expenses, timely auditing, financial discipline, and full utilization of capacity are the most important challenges that had to be overcome to renovate the corporations.
- ) The need for Board of directors to be more active and independent from the government
- ) The need for Boards to adopt planned measures to encourage the corporations to fulfill the objectives by regular follow-up with monitoring of activities and to implement effectively a system of reward and punishment
- ) The need to make the top management fully responsible and accountable
- ) They need to bring about changes in the methods and systems of their operation, which should be simplified.
- ) The human resource should be trained in such a way that they behave like through professionals when it comes to serving the customers. The employees should be motivated to work like professionals.
- ) Proper maintenance of books of accounts, internal auditing and external auditing may be some of the ways of curtailing leakages
- ) Lower level of management participation should be encouraged for decision making in GC. GC should hire qualified and technically enriched manpower to utilize its idle capacity.