

A STUDY ON PROFIT PLANNING AND CONTROL

(A Case Study of Herbs Production and Processing
Company Limited)

To
Office of the Dean
Faculty of Management
Tribhuvan University

By
Bishnu Maya Chidi
Lumbini Banijya Campus, Butwal
T. U. Registration No. 7-2-302-013-2000
Campus Roll No. 1029

In partial fulfillment of the Requirements for the
Degree of
Master's in Business Studies (MBS)

Butwal, Nepal
July, 2010

RECOMMENDATION

This is to certify that the thesis

Submitted By

Bishnu Maya Chidi

Entitled

A STUDY OF PROFIT PLANNING AND CONTROL
(A Case Study of Herbs Production and Processing Company Limited)

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

Mr. Tara Prasad Upadhyaya
Thesis Supervisor

Dr. Ishwor Gautam
Campus Chief/ Head of Research Dept.

VIVA – VOICE SHEET

We have conducted the viva – voice examination of the thesis presented

Submitted by

Bishnu Maya Chidi

Entitled

A STUDY OF PROFIT PLANNING AND CONTROL

(A case study of herbs production and production company limited)

and found the thesis to be original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for

Master's Degree in Business studies (M.B.S)

VIVA - VOICE COMMITTEE

Head OF Research Department: _____

Thesis Supervisor: _____

Member (External Expert): _____

DECLARATION

I, hereby, declare that the work reported in this thesis entitle “A Study on Profit Planning and Control in Nepal: A Case of Herbs Production and Processing Company Ltd.”submitted to Lumbini Banijya Campus, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement of the Master Degree in Business Studies under the guidance and supervision of Tara Prd. Upadhyaya.

Bishnu Maya Chidi
Lumbini Banijya Campus
Exam Roll No. 1029
Date: 7-2-302-013 -20

ACKNOWLEDGEMENT

First of all, I would like to express my sincere gratitude to my Supervisor Mr. Tara Prd. Upadhayaya Lumbini Banijya Campus, Butwal for his constant guidance, suggestion and for providing enough time during the preparation of thesis. I extend my hearty thanks to Dr. Ishwor Gautam, Campus Chief of Lumbini Banijya Campus for his valuable suggestion and guidance and all my teachers.

I would like to thanks all staff of Library and Administration of Lumbini Banijya Campus who helped me directly and indirectly for the completion of this thesis. I am very grateful to Mr. Rabin pradhan for helping me to arrange all the material.

Finally, I would like to express debt to my brother and sister in families and friends who inspired me to complete this thesis.

Bishnu maya chidi
Lumbini Banijya Campus

TABLE OF CONTENTS

| | Pages No. |
|--|------------------|
| Recommendation | i |
| Viva-Voce Sheet | ii |
| Declaration | iii |
| Acknowledgement | iv |
| Table of Contents | v |
| List of Table | ix |
| List of Figure | ix |
| Abbreviation | x |
| | |
| CHAPTER – I: INTRODUCTION | 1-5 |
| 1.1 Background | 1 |
| 1.2 Statement of the Problem | 2 |
| 1.3 Research question | 2 |
| 1.4 Objective of the Study | 3 |
| 1.5 Significance of the Study | 3 |
| 1.6 Limitation of the Study | 3 |
| 1.7 Organization of the Study | 4 |
| | |
| CHAPTER II: REVIEW OF LITERATURE | 6-36 |
| 2.1 Conceptual Framework | 6 |
| 2.1.1 Concept of Profit and Planning | 7 |
| 2.1.2 Concept of Profit Planning | 10 |
| 2.2 Importance and Limitation of Profit Planning | 11 |
| 2.2.1 Importance of Profit Planning | 11 |
| 2.2.2 Limitations of Profit Planning | 12 |
| 2.3 Development of Profit Planning | 12 |
| 2.3.1 Sales Plan | 13 |
| 2.3.1.1 Sales Planning and Forecasting | 13 |
| 2.3.1.2 Strategic and Tactical Sales Plan | 14 |
| 2.3.1.3 Developing a Comprehensive Sales Plan | 14 |
| 2.3.1.4 Methods of Projecting Sales | 15 |

| | |
|--|----|
| 2.3.2 Production Plan | 16 |
| 2.3.2.1 Responsibility for Production Planning | 16 |
| 2.3.2.2 General Consideration in Planning Production and Inventory | 16 |
| 2.3.2.3 Developing the Production Plan | 17 |
| 2.3.2.4 Setting Inventory Policy | 17 |
| 2.3.2.5 Setting Production Policies | 18 |
| 2.3.3 Material Purchase and Usage Budget | 19 |
| 2.3.3.1 Concept of Materials Purchase Budget | 19 |
| 2.3.3.2 Materials and Parts Inventory Policies | 19 |
| 2.3.3.3 Purchasing Policy | 20 |
| 2.3.4 Direct Labour Budget | 21 |
| 2.3.4.1 Concept of Direct Labour Budget | 21 |
| 2.3.4.2 Planning Standard Labour Time | 22 |
| 2.3.5 Overhead Budgets | 23 |
| 2.3.5.1 Concept of Overhead Budget | 23 |
| 2.3.5.2 Manufacturing/Factory Overhead Budget | 23 |
| 2.3.5.3 Selling and Distribution Overhead Budget | 24 |
| 2.3.5.4 Administrative Office and Administrative Overhead Budget | 25 |
| 2.3.6 Capital Expenditure Budget | 26 |
| 2.3.6.1 Concept and Capital Budget | 26 |
| 2.3.6.2 Method for Evaluation of Capital Budgeting | 26 |
| 2.3.7 Cash Budget | 29 |
| 2.3.7.1 Approaches used to develop Cash Budget | 29 |
| 2.3.7.2 Techniques for Improving Cash Flow | 30 |
| 2.4 Forecasting | 30 |
| 2.4.1 Concept of Forecasting | 30 |
| 2.4.2 Level of Forecasting | 31 |
| 2.4.2.1 Short-Term Forecasting | 31 |
| 2.4.2.2 Intermediate-Term Forecasting | 31 |
| 2.4.2.3 Long-Term Forecasting | 32 |
| 2.4.3 Planning versus Forecasting | 32 |
| 2.5 Budgets and Budgeting | 32 |
| 2.5.1 Budget | 32 |
| 2.5.2 Budgeting | 33 |

| | |
|--|--------------|
| 2.5.3 Budgetary Control | 34 |
| 2.6 Review of Previous Related Research Works | 34 |
| 2.7 Research Gap | 36 |
| CHAPTER III: RESEARCH METHODOLOGY | 37-43 |
| 3.1 Research Design | 37 |
| 3.2 Nature and Sources of Data | 37 |
| 3.3 Sample | 37 |
| 3.4 Population and Sample | 37 |
| 3.5 Research Variables | 38 |
| 3.6 Tools for Analysis | 38 |
| 3.6.1 Financial Tools | 38 |
| 3.6.2 Statistical Tools | 41 |
| CHAPTER IV: PRESENTATION AND ANALYSIS OF DATA | 44-74 |
| 4.1 Sales Plan | 44 |
| 4.1.1 Sales Forecasting | 46 |
| 4.2 Production Budget | 50 |
| 4.2.1 Production Budget in HPPCL | 50 |
| 4.3 Inventory Consideration | 54 |
| 4.4 Trend of Cost of Goods Sold and Estimation | 55 |
| 4.5 Estimation of Cost of Goods Sold | 56 |
| 4.6 Expenditure Budget of HPPCL | 57 |
| 4.6.1 Capital Expenditure Plan for HPPCL | 60 |
| 4.7 Planning of Cash | 62 |
| 4.8 Forecasting of Financial Statements: Percentage of Sales Method | 64 |
| 4.9 Identification of Cost Variability | 68 |
| 4.10 Financial Ratio Analysis | 69 |
| 4.11 Discrimination Analysis: Measure of Company's Overall Performance | 71 |
| 4.12 Multivariate Regression Analysis | 73 |
| 4.13 Major Finding | 74 |

| | |
|---|--------------|
| CHAPTER V: SUMMARY, CONCLUSION AND RECOMMENDATIONS | 75-79 |
| 6.1 Summary | 75 |
| 6.2 Conclusion | 76 |
| 6.3 Recommendation | 78 |
| BIBLIOGRAPHY | |
| APPENDICES | |

LIST OF TABLE

| | |
|--|----|
| Table 2.1: Capital budgeting decision criteria | 29 |
| Table 4.1: Target and Actual Sales | 44 |
| Table 4.2: Regression Results | 46 |
| Table 4.3: Regression Results | 47 |
| Table 4.4: Sales Report by Territory | 48 |
| Table 4.5: Estimated Sales by Types of Product | 49 |
| Table 4.6: Production Budget of HPPCL | 51 |
| Table 4.7: Estimated Production Level for FY 2062/63 by Types of Product and Branches | 53 |
| Table 4.8: Inventory and its Turnover | 54 |
| Table 4.9: Cost of Goods Sold | 55 |
| Table 4.10: Results of Regression of CGS on Sales | 56 |
| Table 4.11: Expenses of HPPCL | 58 |
| Table 4.12: Actual and Forecasted Cost Statement for 2061/62 and 2062/63 | 59 |
| Table 4.13: Capital Expenditure of HPPCL | 60 |
| Table 4.14: Estimated Capital Expenditure for FY 2062/63 | 61 |
| Table 4.15: Cash Flow Statement for FY 2060/61 | 63 |
| Table 4.16: Income Statement for FY 2060/61 | 65 |
| Table 4.17: Balance of HPPC for the FY 2060/61 | 65 |
| Table 4.18: Proforma Income Statement for FY 2062/63 | 66 |
| Table 4.19: Proforma Balance Sheet | 67 |
| Table 4.20: Total Fixed and VC for FY 2060/61 | 69 |
| Table 4.21: Financial Ratio of HPPCL | 70 |
| Table 4.22: Calculation of Z score | 72 |
| Table 4.23: Regression Results | 73 |
| Table 4.24: Major Finding Table | 74 |

LIST OF FIGURES

| | |
|---------------------------------------|----|
| Figure 4.1: Target and Budgeted Sales | 45 |
|---------------------------------------|----|

LIST OF ABBREVIATION

| | |
|-----------|---|
| AOH | : Administrative Overhead |
| AS | : Actual Sales |
| BEP | : Break Even Point |
| BS | : Budgeted Sales |
| CA | : Current Assets |
| CGS | : Cost of Goods Sales |
| CL | : Current Liabilities |
| CV | : Coefficient of Variation |
| Depr | : Depreciation |
| F.A. | : Fixed Assets |
| FOH | : Factory Overhead |
| GON | : Government of Nepal |
| HPPCL | : Herbs Production and Processing Company Ltd |
| IRR | : Internal Rate of Return |
| JIT | : Just In Time |
| MBO | : Management by Objective |
| NP | : Net Profit |
| NPV | : Net Present Value |
| NWC | : Net Working Capital |
| P/V Ratio | : Profit Volume Ratio |
| PBP | : Pay Back Period |
| PPC | : Profit Planning and Control |
| ROA | : Return on Assets |
| ROCE | : Return on Capital Employed |
| S.D | : Standard Deviation |
| TA | : Total Assets |
| TTE | : Tokla Tea Estate |