

CHAPTER – I

INTRODUCTION

1.1 General Background

Profit is the outcome of overall good management of an organization. It is the result of excess revenue over expenditure. When revenue exceeds cost of production profit occurs. To run an organization at profit all the resources of an organization, must be utilized in a planned and systematic manner. If the organization fails to utilize its resources in a planned manner the organization incurs loss and the debacle occurs. The status of organization can be determined well from the amount of profit the organization is earning or the loss it is incurring. So position of organization can be determined from the profit it is earning or the loss it is incurring. So profit to a great extent determines and shows the true picture of an organization.

To run an organization at a profit or even at break even point the concept of PPC should be used in a better way. So what profit planning and control says should be known in a better way. Profit planning is known to be the most difficult task faced by the top-level managers. It is the continuous process of developing the objectives and setting goals of an organization. Profit planning's main aim is to make sure that the set goals and objectives are attained. Profit planning is a part of overall planning process of any organization profit panning and control is a widely used concept in management. So to make the concept of profit planning and control clear and easy to comprehend different well known scholars have defined the term in their own way. Glenn A. Welsch defines the term as “Comprehensive profit planning and control is a systematic and

formalized approach for accomplishing the planning co-ordination and control responsibilities of management”.

R.M. Lynch and R.W. Whillimsen defines PPC as “The concept of a comprehensive budget covers its use in planning, organizing and controlling all the financial and operating activities of the firm in the forthcoming period”.

I.M. Pandey has defined PPC as "A profit plan or budget is the formal expression of the enterprise's plans and objectives stated in financial terms for a specific future period of time".

If we combine and study the above three definition we come to the conclusion that PPC is an overall plan of operation, providing guidelines to management and acting as single light for management. It enables the management to correct its policy. It covers a definite period of time and formulates the planning decision of management, so PPC involves development and application of:

- a. Broad and long range objectives for the enterprises.
- b. Specification of goals.
- c. Long-term goals.
- d. Tactical short-range profit plan.
- e. A systematic performance reports detailed by organized responsibilities.
- f. Control system.
- g. Follow up procedure.

PPC is an important approach used mainly in profit-oriented enterprises. PPC facilitates the manager to accomplish managerial goals in a systematic way. A systematic approach that facilitates effective

management performance is profit planning and control or budgeting. Budgeting is therefore an integral part of management. PPC assist in systematic planning and control of operation in an organization, as well understood and utilized PPC lead the organization towards success, on the contrary failure to understand and use of PPC in a proper way might lead the organization towards debacle. PPC consists of three main budgets:

- a. Operational Budget: Budget related with revenue and expenses, such as Sales Budget, Production Budget, Purchase Budget etc.
- b. Financial Budget: Budget related with financial statements, such as: Balance Sheet, Income Statement etc.
- c. Appropriation Budget: Budget related with advertising and publicity, expenditure, research etc.

Profit is considered as a backbone of an organization without it no organization can exist for long profit is needed to day to day functioning of an organization profit is indispensable as it has a great role to play in the future development of the organization. So profit should be carefully controlled and planned as it is the ultimate goal of an organization. Profit plan is the planning of an organization profit plan is the planning of revenue and cost and involves sequential and systematic steps.

The broad concept of PPC entails an integration of numerous managerial approaches and technique that might be exploited such as sales forecasting, capital budgeting, cash flow analysis, cost volume profit analysis, variable budget, time and motion study, standard cost, production planning and control, inventory control, management by objective, organizational planning, manpower planning and cost control, So, PPC is an important part of management as it helps in analyzing the

overall financial condition of an organization. It is a systematic and formal means of decision making and attaining the organization's objective within the stipulated time period by the proper use of available resources.

1.1.1 A Brief Account of Public Enterprise in Nepal

Nepal is at infant stage in terms of big organization and is in the developing process, which is to some extent at a slow pace. Nepal is sandwiched between two Asian super power India and China. Nepal possesses few of the natural or human resources necessary for industrialization. It is endowed with natural resources. The beautiful Himalayas, which covers 1/3rd of the land, is the highlight of the beauty of Nepal. The Himalayas are mostly unproductive and not properly utilized in terms of production.

Mostly people depend on agriculture as nearly 81 percent of the total population bank on agriculture. Agriculture is the main source of income for the people of rural areas. Nepal is in her pursuit for development of enterprise, for development in service as well as productive sectors. After 1954 the running of Nepal bank ltd. as a public sector enterprise there has been rapid growth of public enterprise in Nepal. Foreign aid has helped to flourish the situation of public enterprise in Nepal.

Nepal has adopted the mixed economy system where there exist both public and private sector. In Nepal only after the political changes in 1951 public enterprise was set-up, since 1965 Nepal has witnessed growth and development of public enterprise. HMG had played a great role in the development of public sector thereby improving the economic condition of the country.

Public enterprises were established for rapid socio-economic development of the country. Objective differ from organization to organization public enterprise has to maintain proper balance between profit and service motive. Public enterprise should render service to public and in the mean time should make enough profit to survive. In order to expedite the development process Nepal government has to make contribution to public enterprises by providing different facilities such as tax concession, foreign exchange facilities, technical and economical assistance. So industrial sector can flourish only through the investment of the government.

The history of business in Nepal stretches many years back. The origin of corporate sector can be traced back to 1936 when Biratnagar Jute Mills the first corporate body was established immediately after the establishment of the jute mill, world war second started resulting in the emergence of ample business enterprise, soon after their birth quite few of these were successful enough to persist. The largest no of company failure took place during the period between 1951 and 1959.

In Nepal public enterprise is considered as an important government tool for the rapid development of the Nation. Public enterprise is the only means for the growth and rising the living standard of people. So government has tried its best to raise the living standard by expanding its existing public enterprise. Though Nepal is agriculture based country development in agriculture sector is not upto the mark. Scarcity of capital, skilled labour, poor infrastructure, lack of proper knowledge and technology, hindered the growth of public enterprise in Nepal.

The need for public enterprise was felt to rise the living standard of the people by creating jobs to public. The need of the growth of public

enterprise was felt to reduce import and increase export and to better the balance of payment, which is not in favour of Nepal. Despite the growth of public enterprise the industrial sector has not been able to contribute more than 10 percent in the national economy as more than 80 percent of the total population still depend on agriculture, which is in traditional form. In Nepal there were 64 public enterprises before HMG has privatized many and now there are altogether 38 public enterprises. Out of these enterprises 10 are in industrial sector, 6 in trading sector, 6 in service sector and 5 in social sector, and 3 in public utility sector, and 8 in financial sector. In manufacturing sector there are 10 public enterprises. They are:

- a. Agricultural Lime Industry Ltd.
- b. Dairy Development Corporation.
- c. Herbs Production and Processing Company Ltd.
- d. Hetauda Cement Industry Ltd.
- e. Janakpur Cigarette Factory Ltd.
- f. Nepal Resine and Turpentine Ltd.
- g. Royal Drugs Ltd.
- h. Udayapur Cement Industry Ltd.
- i. Nepal Orient Magnesite Pvt. Ltd.
- j. Birgunj Sugar Factory.

For the enterprises, which are in the list of public enterprise, several programme and initiative have been taken by the government to uplift the position of the enterprise, by proper utilization of the resources, structural reforms, improving the quality of goods and services, overall business efficiency, refining the process of pricing, controlling, financial irregularities. In a nutshell government should take concrete steps in

order to improve the goodwill and profit of the above-mentioned public enterprise.

1.1.2 Roles of Public Enterprises in Developing Countries

The increasing role of public enterprises in developing countries is an accepted fact today. Since the Great Depression, it has virtually been accepted that the private sector alone may not be able to work, then it was contemplated, even if the maximum free play is allowed to them. After the Keynesian revolution, the role of the state in the economy is well recognized and well established. Besides, contributing to the development efforts being pursued by different developing nations, PEs have specific roles and motives all of which private sector is not known to contribute properly. Further, there is a sort of urgency and immediateness in the industrialization process in underdeveloped countries, which is quite different from the early stages of industrial development in developing countries. Public enterprises have become important instruments of socio-economic policies in developing countries. In many cases, they have become dominate features of the economic scenario and claim lions share of public investment. Their micro level plans generally get integrated with the macro level national development plans. They are required to accomplish multidimensional objectives and discharge a complex array of obligations. In recent years, however their social objectives of providing essential goods services and employment opportunities to promote public welfare are being looked upon as complementary to business objectives of making profits through surplus generation. Public enterprises in developing countries are almost wholly dependent either on government budgetary support or support by government intermediary agencies for their financial resources. This has traditionally provided justification for government control in their

functioning. The government appoints, who manage the affairs of public enterprises, so are the chief executives. Economic controls exercised by government in public enterprises may take the form of price administration, regulation of salaries and remuneration, appropriation of surpluses, and the approval of their budgets and long term plans, etc.

The political base for the establishment of public enterprises in Nepal can be ascribed to the constitutional arrangement for mixed economic system whereby public and private sectors coexist to enhance public welfare by creating a society, which is just dynamic, democratic, and exploitation free. However the guiding rationale for their establishment have been pragmatic ones and such pragmatism as articulated in different plan documents are; creation of infrastructure, supply of essential public goods and services, control, private sector monopoly, enhance public welfare, huge capital investment etc. (Manandhar, 1987). PE is expected to be the principle agent for rapid economic and social transformation, by developing infrastructure and the core sector, and closing the gaps in the industrial structure. Its dominant position in the financial field is intended to control and guide the private sector, wherever necessary. It is also likely to step in, if and when private enterprise fails the economy. And the economic growth via PE will be adequately leavened with social justice.

Since the time of Great Depression no one is left with any doubt that, "The invisible hand" does not work the way it was contemplated even if the individual initiative is allowed the maximum possible free play. The theory that if the government is kept out of the business, it would automatically provide the community with all it desired, without any plan or conscious planning opened door to the devil has long ago been exploded. Government intervention in the economic system for social and

economic reasons is over the world, particularly in the developing countries, have gone far beyond the indicative planning to price, wage and numerous other controls and to state entrepreneurship. However, the level, extent and methods of controls, and the ownership of industry and business by the government often lead to wide and violent difference of opinion.

It has been made clear by experience of other developing nations that the public sector can play an active and important role in augmenting the national economic and social development activities on the basis of mixed economy, in which the private sector alone may not be able to perform wholly, besides, HMG/N has to take initiative in the promotion of service oriented industries associated with the national and public benefit, which generally require a large investment as the private sector will generally be attracted by profit oriented industries. This realization has led HMG/N to take initiative in the promotion of varied PEs according to the national need. Further, our constitution also has recognized the need for developing PEs in the country. Public enterprises are productive entities, which are owned and/or controlled by the state and the bulk of whose output is sold in the market place. As sector, PEs play a significant role in mixed economics, averaging 10% of GDP in countries higher than the average (17%), Asian and the Latin American countries some where in between (12%). They dominate important sectors in most countries. (e.g. Infrastructure, heavy industries, etc) Further more, PEs are major borrowers in domestic and international markets, they draw extensively on government budgets, and often employ a large segment of the labour force. Therefore, attempts to improve their performance are critical to the macro-economic performance of most countries (Ahmad, P.1).

1.1.3 Development of Industrialization or Growth of Public Enterprise

Industrialization is a major infrastructure for stable and reliable economic development neither the government nor people themselves are able to establish the industries, Nepal in her pursuit for development has basically embarked upon PEs for development in service as well as productive sectors. Lack of industrialization on the one hand the stagnatory private sector enterprise on the other, contributed its growth in rapid speed.

Nepal has adopted the mixed economy system where by public and private sector co-exist. In Nepal only after the political changes in 1951 public enterprises were set-up through Nepal Bank Ltd. and is in operation in public sector, before the political changes since the adoption of first five year plan public enterprises have been given greater significance. For the industrial development the government has provided a lot of facilities such as tax concession, foreign exchange facilities, technical and economical assistance.

Although the history of business in Nepal stretches many years back the origin of corporate sector can be traced back to 1936. Only when Biratnagar Jute Mills the first corporate body was established. Immediately after the establishment of Jute Mill, World War Second started resulting in the emergence of ample business enterprise. But most of them were only Bubble Company in the sense that they are out of existence. Soon after their birth quite few of these were successful enough to persist. The largest number of company failure took place during the period between 1951 and 1959 (Shrestha, 1986). The various plan periods has been reviewed as below:

1. First Five Year Plan (1956-61)

Nepal has adopted the first five-year plan for the development of industrialization and other sector. The industrial policy of this plan was gave priority to the following (CCC and ISC Performance of PEs, In Nepal, 1977).

- a. To revitalize cottage industries.
- b. To encourage private capital towards industrial investment.
- c. To attract foreign investment while protecting national welfare.
- d. To render assistance to existing industries in the interest of national welfare.
- e. To encourage vocational trainings to industrial workers.
- f. To utilize efficiently foreign technical assistance.
- g. To enact new laws conducive to industrial growth.
- h. To undertake industrial research.
- i. To co-ordinate the activities of the government departments concerning industries.

As regards the line of jurisdiction in the fields of operation between public and private sector, the first plan denounced the adoption of any dogmatic principle. Rather adapting the policy of pragmatic approach, it stated that private sector should be allowed undertaking those industries, which could flourish with private entrepreneurship, capital and skill. HMG's role in this case was limited to rendering industries support services e.g. to provide technical know-how, necessary economic and, market information and also to generate profit in case of need (CCC & ISC performance of public Enterprises in Nepal P-56 "1977").

As regarding public involvement in the manufacturing sector, the plan gave priority to industries such as cement, sugar, cigarette, textile, iron and steel, provided they were feasible. Out of this priority few are limited only in the paper not on the pragmatic field. During that plan period the seven PEs were established in conformity with nation objectives the established enterprises were Asahaya Kalyan Kendra, Royal Nepal Airlines Corporation, Nepal Industrial Development Corporation, Balaju Yanhtra Shala Ltd. Balaju Industrial District, Raghupati Jute Mills Ltd, and Timber Corporation of Nepal.

2. The Interim Period (1961-62)

The interim constitution remained in force till constitution of kingdom of Nepal. The Nepali congress emerged as the ruling party winning more than 2/3rd majority in the House of Representatives. The late King Mahendra invited the leaders of the Nepali congress party B.P Koirala to form cabinet and run the administration in accordance with the constitution but after one and half year of operation with King Mahendra dissolved the cabinet “ISC and CCC performance of PEs in Nepal 1975 P 24”. The late king Mahendra ruled directly for about two years under the emergency clauses. On the above mentioned causes, in the period (1961-62) was not launched the plan. It was the great losses to a nation when the country was forging in a Industrial Development direction. Again the great politician fluctuation or the eve of replacement of parliamentary democracy with Panchayat system three PEs came into existence. They were Ratna Recording Corporation, National trading limited and National Construction Company of Nepal.

3. The Second Plan Period (1962-65)

The period of second three-year plan do way with the demarcation of public and private sector undertaking and public sectors were confined to the areas of public utilities infrastructure and financial institution (Manandhar, 1987).

The plan was stated that HMG had brought into force an industrial policy in order to encourage domestic private capital and foreign capital towards industrial development the policy was incorporated in the enterprises act dated 28th May 1961, which was amended in 1961, 1963, 1966 and 1968 remained in force till replaced by another industrial act of 1974 Prof. Dr. Rajbahank Ram P. 1983 P. 3. The Act had classified all industries into five categories on the basis of capital investment “CCC and ISC performance of PEs 1977”.

Table 1.1: Classification of Industries on the Basis of Capital

Industry	Capital Investment	Establishment and Control or Organized
1. Cottage and Village	Not more then Rs. 50,000	Nepalese Nationals
2. Small Industries	Range from Rs. 50,000-5,00,000	Nepalese Nationals
3. Medium Scale	Range from Rs. 5,00,000 – 10,00,000	Domestic capital or foreign capital or joint ventures
4. Large Scale Industries	Not less than Rs. 10000000	Left to the private sector and foreign investors as in the third category. Recognized as monopoly affairs of HMG
5. Difference and basic industries		

In the manufacturing sector, the plan laid emphasis on such industries which help to increase GDP at a faster rate to combat with unemployment problem on the basis of utilizing domestic resources, manufacturing basic materials for construction such as cement timber and export oriented. In the view of planning circumstance, priority was given more to renovating existing industries than to establishing new industries. Under the cottage industries development programs some trading cum manufacturing units and pilot project were put into effect in order to develop and promote cottage and village industries. During the plan period eleven enterprises were incorporated which is given priority “ISC and CCC performance of PEs – 1977”.

- a. Provident fund
- b. Gorkhapatra corporation
- c. Nepal electricity corporation
- d. Hetauda industrial district
- e. Nepalese carpet ltd. (now it were sold to private sector)
- f. Patan industrial state
- g. Rastriya banijya bank
- h. Birgung sugar factory
- i. Janakpur cigarette factory
- j. Transport corporation of Nepal
- k. Fuel corporation

4. The Third Year Plan (1965-70)

The third plan emphasized the need to involve both private as well as public sectors in the industrialization process of the country. Outlined the need to follow pragmatic approach as to which industries are required to be established under the public as well as private sector. The plan gave

the priority to the import substitute goods or manufacturing goods of basic necessity and export-oriented industries, which have great prospects of earning foreign exchange, which are based on local material and producing basic materials. In the development policy on industries the plan set the following objectives (CCC and ISC 1997:60).

- a. To provide job opportunities for seasonally unemployed agriculture labour.
- b. To foster self-sufficiency in different regions through the development of appropriate cottage industries.
- c. To develop cottage industries with prospects of earning foreign exchange.

During the plan period these PEs were incorporated they are listed follows.

- a. Bansbari Lather and shoe factory.
- b. Agricultural Input Corporation.
- c. Agricultural tools factory ltd.
- d. National Insurance Corporation.
- e. Himal Cement Company.
- f. Nepal Tele-communication board.
- g. Chandeswari textile industry.
- h. Cottage industry and handicraft emporium.
- i. Nepal tea development corporation
- j. Brick and tile factory
- k. Dairy Development Corporation.

5. The Fourth Five-Year Plan (1970-75)

The industrial policy of the fourth plan was for rapid growth of industries in private sector and providing of facilities and subsidiary services including industrial district in the public sector and give emphasize to the established manufacturing industries.

They were agricultural industries natural resources industries (forest product and drug), basic material producing industries, textile industrial which were import substitute and industries producing the basic materials necessary for development (fertilizer, agriculture implements cement etc.) (CCC Profile of Public Enterprises in Nepal, P. 7). The fourth plan stated it cannot be said that the private sector will set up all the basic and feasible industries capable of making special contributions to the industrial development of the country. The government will attempt to establish paper, and cement industries with the aim of gradually selling them to the private sector in the future. New industries policy of 1974 also came into effect during the period and which was more open towards private sector. While following the earlier plan policies expressed its apprehension regarding forward coming of the private sector in fulfilling its assigned role and hence therefore took the strategy of starting key industries. Accordingly in the plan 27 public enterprises were come into existence during the five years period as enlisted below.

Balaju textile industry ltd., Nepal Oil Corporation limited, Jute development and trading corporation, Rastriya Chamal Karkana ltd., Tobacco Development Company, Nepal transit and warehousing Pvt. Ltd., Cultural corporation, Royal Nepal film corporation, Royal Drug ltd., Nepal livestock company (p) ltd., Drinking water and beverage board, Agro-lime industry ltd., Vegetable Ghee industry (p) ltd., Nepal food

corporation, Hetauda textile industry ltd., Nepal Chauri ghee industry, Nepal electricity corporation, Electronics data processing center, Janakpur rice and paddy export company ltd., Lumbini rice and paddy export company, Sagarmatha rice and paddy export company ltd., Narayani rice and paddy export company, Mechi rice paddy export company, Koshi rice and paddy export company ltd., Seti Mahakali rice and paddy export company ltd., Far-western rice and paddy export company ltd.

6. The Fifth Five-Year Plan (1975-80)

This plan adopted the industrial policy of 1974 and provisioned for establishment of four industrial districts and four industrial sectors. This plan was assigned greater responsibility to the public sector for the industrial development. This plan was given emphasis to the following objectives "CCC and ISC performance of PEs in Nepal, 1977: 10".

- a. To mobilize local capital, skill and resources to maximum extent.
- b. To generate employment opportunity in order to absorb surplus agriculture labour.
- c. To bring about qualitative and quantitative improvement in productivity in industrial goods.
- d. To attain self-sufficiency in the production of some daily necessities and certain construction materials.
- e. To reduce regional economic imbalance.
- f. To improve balance of payment by creating a favourable balance of trade through export.
- g. Promotion of import substitution.

Public enterprises which were established during the plan period are:

- a. Hetauda Cement Factory.
- b. Security Marketing Center Ltd.
- c. Janak Educational Material Center.
- d. Brick and Tile Factory Bhaktapur.
- e. Agriculture Projects Service Center Ltd.
- f. Hetauda Leather Company.
- g. Nepal Metal Company.
- h. Nepalese Carpet Pvt. Ltd. and Nepal Vegetable Ghee Industry Pvt. Ltd. were sold to private sector. It was the period of review reconciliation.

7. The Sixth Five-Year Plan (1980-85)

This plan comes out for the first time in the history of PEs in Nepal with the definite PEs policy. Considering the poor performance of PEs the plan promise to provide greater economy and less interference's in the PEs internal operation. The policy input of the plan contains the consolidation of similar PEs. The basic objective of the policy was to co-operate public enterprise in business. During the plan period few PEs are established and few PEs were consolidated and sold to private sectors. Public enterprises, which were established during the plan period, are:

- a. Bhrikuti Paper Factory
- b. Herb Production and Processing Company
- c. Lumbani Sugar Factory.
- d. Roshi Turpentine Co.
- e. Nepal Orient Megnisite (Pvt.) Ltd.
- f. Butwal Spinning Factory.

- g. Nepalgunj Paper Factory.
- h. Nepal Resettlement Co. Pvt. Ltd.
- i. Nepal Arab Bank Ltd.

Basically some of the objectives were met in 6th plan period. PEs were established according to national plan objectives.

The cursory review of historical growth of PEs in Nepal indicates expansion and contraction in the proliferation of PEs. The growth phase is basically accounted for the accommodation of multilateral and bilateral foreign aid packages rather than government's comprehension for the planned development. Thus many of the PEs were established that were not conceived in the plan document at all or some even contradictory with the stated policies of the government (CCC and ISC performance of PEs in Nepal, 1977). General Findings about PEs:

- a. Most PEs are operating without a clear set of performance evaluation criteria under these conditions managing is both difficult and ad hoc. No individual can be expected to perform efficiently since which actions are rewarded and which punishments are never known.
- b. The working and performance of PEs fall behind their stated objectives but nobody seems to be bothered. There is a high degree of allocation inefficiency in the establishment of PEs and an equally virulent inefficiency in their operation "A search project jointly HMG/N and Research Center Canada".

Policy for Public Enterprises During 6th Periodic Plan:

A comprehensive examination needs to be made of all the functions of existing PEs to establish their essentiality and their legal status. The

propriety of setting up PEs as going concern on the basis e.g. development board act, education act, communications corporation act etc. whose basic principles guiding commercial behavior have never identified as indefensible.

Based upon the unsatisfactory performance of PEs trade and industry it is proposed that where appropriate and feasible some PEs be divested to private sector such action should contribute significantly in time to improving the overall performance of the economy. To the extent the HMG desires public limited companies as a more appropriate and efficient form of ownership in trade commerce and industry then it should take the necessary lead to promote such ventures and after a definite period of time, divest itself of such activities.

8. Seventh Five Year Plan (1985-90)

During the period of seventh periodic plan the government has realized the bitter feeling regarding the public sector corporation. Although they were equally playing significant role for the enhancement of economic standard of the people thus enhancing living standard of nationals. As long as the private sector investors do not take a leading role in the rapid development of the country as desired the role of the government corporation becomes very important especially in terms of developing of the infrastructure extending social services and increasing industrial production. Giving this fact more prominence and greater recognition was given in the previous plans to the role of government corporations. Against the background of lack of the entrepreneur, lack of management skills and limited professional knowledge existing in private sector the government corporations contributions contribute substantially in the economic development of the country. "Seventh five year HMG/N plan"

The government has enunciated following objectives and policies for PEs for the current five-year plan. "HMG/N National planning commissions seventh plan".

Objectives:

- a. So long as the private sector is not prepared to produce necessary import substituting goods and undertaken the expansion of the infrastructures, government corporation will be developed as major medium for producing such goods and service.
- b. The government will be supplying the essential goods and basic services to the people.
- c. Encouragement will be given to private sector participation in the management and investment of government corporations and gradually transfer of ownership to them will be affected.
- d. Steps to mobilize resource from the private sector will be intensified and the participation of the sector, Policies:

- a. A list of unnecessary or financial enviable corporation will be prepared and the process of amalgamating similar corporations or liquidating them or transferring similar corporations or liquidating then or transferring their ownership to the private sector will be affected.
- b. Though the process of amalgamating of similar corporations has begun, there are still a number of corporations, which need to be amalgamated more effectively.
- c. Corporation will be given full freedom to make decisions on their own determination of salary allowances and other facilities, appointment and promotion of employees, fixation of price of their

products, capital investment, etc based on their financial resources economic conditions and annual profit.

- d. Accountability and responsibility of the corporation chief will be clearly defined, so they improve skill and efficiency of the management.
- e. With a view to safeguard the national and consumers interest.
- f. Ministry of commerce and ministry of supply will prepare a supply plan jointly.
- g. Priority will be given to establish such enterprise in the industries sector will contribute to the goal of self-sufficiency.
- h. Share of Government will be floated widely for mobilizing the saving of people.
- i. Corporation will be made to submit their balance sheet and profit and loss statement within 6 months following the closing of the fiscal years there by enabling to review financial performance regularly.
- j. If some of the decisions taken by HMG in view of overall national interest causes any loss to the concerned corporation HMG will extend financial assistance to compensate the loss.
- k. Separate unit will be established within the concerned ministry for necessary control direction and for providing active support to the Government Corporation.
- l. Classify the functional objectives of enterprises' nature with which it was established (i.e.) to earn profits or remain at to break-even point or to run purely on commercial basis, subsidy, will be develop accordingly.
- m. Will be encouraging the participation of private sector, which are run on government subsidy.

- n. Provision will be made to award incentives to management, which maximize profits and minimize wastes against set targets.
- o. The board directors will be made jointly responsible for decision with respect to the fulfillment of the annual objectives and monitoring of monthly progress reports.
- p. Anomalies found in the existing acts related to establishment of corporation will be corrected on a timely basis.

Following public enterprises were developed during the seventh periodic plan:

-) Nepal Television.
-) Nepal Coal Limited.
-) Udayapur Cement Factory.

9. Eight Five Year Plan (1992-97)

The eighth plan is the first plan of the democratic government formed through popular election following the restoration of democracy brought by the history people's movement of 1990. In this context, the perspectives of this plan are based on two principle contradictory factors. These factors consist of one hand the positive aspects of the new aspirants and enthusiasm generated among the general public and on the other, the negative aspect of the legacy of economic depravity left behind by the Panchayat Regime.

Since the initiation of this periodic plan the government have realized that the present challenges of the plan is to struck an effective balance between the ever-growing needs and rising expenditure, Rapidly increasing population and the limited available finance resources: public enterprises were established in order to prepare infrastructure, services, to

produce the required goods in the country and to export, to help in controlling the price situation, the create opportunities for employment to increase government revenue and to contribute significantly in the national development as well as to assist in the country's economic advancement.

Although the development of PEs has achieved the above-mentioned aims by creating employment opportunities, increasing production in the country and providing the important basic services, the enterprises have not been functioning in an efficient manner. Despite the long-term protection given to this PEs they have not been able to achieve financial capabilities and work efficiency and are still dependent upon government grants.

So in order to enhance their efficiency it has become necessary to think seriously about them. The eighth plan has been laid down the much more emphasis on public enterprises. Highlighting the needs of privatization it mentioned, "Although the establishment of PEs has greatly institutional based the enterprises 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 service rendered by them.

Mainly the following reasons make the privatization of public enterprises a necessary, were out lined, in the paper presentation of Mr. Shambhu Saran Prasad joint secretary MOF entitled privatization in Nepal Public exchequer aspects as following (Shrestha, 89).

- a. To bring the participation of the private sector into government PEs in order to mobilize their surplus saving in the productive sector.
- b. To gradually transfer some of the PEs ownership to the private sector.
- c. To achieve the desired efficiency with the participation of the private sector.
- d. To bring a commercial aspects to bear on PEs management.
- e. To utilize the private sector development managerial skills, abilities and entrepreneurship in PEs.
- f. To give priority to the private sector in the establishment of industries other than those related to defense.
- g. To raise revenue.

Besides these above-mentioned causes some common and usual reasons makes the privatization of PEs a necessary.

- a. Most of the enterprises are running in losses.
- b. Public enterprise lack commercial ethics.
- c. PEs is over staffed. Lack of skilled professional and responsible management in corporation.
- d. Unnecessary government interference.

Because of these reasons HMG has adopted the aim of privatizing PEs. The objectives of privatization are mainly concerned with the development of industry and business sector, increment in productivity and efficiency the mobilization of saving and increase in public participation in commercial field (Shrestha, 89). Objectives of Eighth Periodic Plan Relating to PEs:

- a. By enhancing the efficiency and competitive ability of corporation, production and productivity will be increased along with the proportion of co-operatives.
- b. Programs to increase efficiency in both types of corporations which are not to be privatized and which are to be privatized in future are to be initiated and reorganization works for better management to be conducted.

Policies during the plan period regarding PEs to Achieve Specified Objectives:

- a. Along-term strategy on privatization will be devised. Corporation of industrial and business nature will be gradually privatized. All policies and programs relating to privatization will be made transparent.
- b. The private sector will be allowed to operate projects related to public utility sector like hydroelectricity, drinking water and other public utility services but for the present PEs set up in those areas will be continue to operate in the government sector. And the PEs which is considered as important from the public viewpoint will also be operated in the government sector.
- c. In the process of privatization of corporations or in implementing efficiency, enhancing programs for the current employees will also be included as far as possible but if the number of employees/labours are then unnecessary, they will be removed only after providing, adequate compensations.
- d. To privatize and to increase the efficiency in corporations a central unit will be formed. This unit will conduct all the works relating to privatization with the support of concerned ministries.

- e. In order to increase the efficiency of PEs, which are not going to be privatized of, which are going to be privatized in future programs related to organizational changes, financial and managerial reforms and top managerial appointments will be conducted. In order create a responsible management. During this plan period, some public enterprises are privatized and some are going to be privatized in future.

That PEs which is privatized is as under:

- a. Bansbari Leather and shoe factory.
- b. Harisiddhi Brick and Tile factory.
- c. Bhrikuti paper factory.
- d. Royal Nepal film development company ltd.
- e. Balaju textile industry ltd.
- f. Rawhide collection and development corporation ltd.
- g. Raghupati jute mill ltd.
- h. Nepal carpet ltd.
- i. Nepal bitumen and barrel co. ltd.
- j. Nepal coal ltd.
- k. Cotton development company ltd.

In relation to improvement of efficiency in PEs which will not be privatized or those which will be privatized in future the government try to implement the following programs.

- a. As the important service sector such as electricity, water and communication can provide more services in the form of PEs auctioning under enhancement programs will be conducted in these types of corporations. Public participation in corporate sector will

be increased by privatizing many corporation of a commercial nature.

- b. To increase the efficiency of the corporation, expenditure will be deducted and to increase productivity by adoption of the cost benefit approach etc. will be implemented. Thus the corporations will be made self-sufficient and grants to these corporations will be reduced gradually.

10. Ninth Five Year Plan (1997-2001)

Though the main objective of privatization is to enhance productive uses of resources, in the light of economic, social, and political realities of the country there can be various aims of privatization. In our context, privatization programmed encompasses all political, economic, financial, social aspects and is geared to achieve a particular objective.

Hence the programmed of the privatization has been oriented to attain multiple objectives. The ninth plan has set the following objectives of privatization.

- a. To increase the effectiveness and productivity of government resources through efficient utilization.
- b. To make the government gradually assume the role of facilitator by encouraging and motivating the private sector for participation in economic development.
- c. To help maintain economic stability by enforcing financial discipline and relieving the government progressively from the burden of financing corporation deficits.
- d. To promote the participation of common people in the economic development by means of privatization. (9th five year plan, 184)

Policy and Implementation Strategy:

- a. As the process of privatization affects different sectors of society, it is necessary that the concerns of those affected be heeded to. Accordingly, a consensual environment will be created through keeping people well informed about the positive and adverse consequences associated with the process.
- b. While selecting a corporation for privatization, it will be assessed properly applying various criteria such as the nature of the job currently performed by the enterprise, its future prospects current economic profile, potential to attract private sector investors, the size of additional investment required, technological and managerial requirements, the expected role of government and the needs of the consumers etc. Besides, detailed analysis will be carried out to determine the priority based on the study of timing, sequencing, and pace of privatization.
- c. The selection of the investor will be made only after careful assessment of the business and technical resources, skills, knowledge and experience, the business plan, financial status and reputation, managerial, efficiency, access to national and international market, competitive ability etc.
- d. To ensure that the government gets fair price from privatization, arrangements will be made to provide the prospective investor with all relevant information about the enterprise. To enhance the credibility of the program and secure a competitive price for the enterprise, all relevant information about the business value of the enterprise, the value of its assets, its strengths, and prospects will be widely disseminated to the public.

- e. In view of many public enterprises operating poorly due to the lack of capital and technology, foreign investment will be encouraged in some corporations requiring huge amount of capital and modern technology.
- f. The terms and conditions in which the transfer of ownership and management of a corporation are to be negotiated with the investor concerned will be explicitly laid down. Such terms and conditions will address the issues such as the continuity of an enterprise, restriction on the sale of assets and reduction in employees compensation, value payment, the rights and duties of the investor, the right of HMG, the size of share which must be distributed to the employees, and general public, resolution of disputes and type of act applicable to the process.
- g. A clear policy and approach will be evolved to protect the interest and rights of the employees as well as to determine the other necessary compensation to be given to them while privatizing government corporations.
- h. Keeping in view the differences in the operations of government owned enterprise and business enterprises in the private sector, programs will be launched where possible to make government corporations which are to be privatized, operation like commercial enterprises by developing appropriate work culture, initiating measures to improve their efficiency and even by restructuring them as required.
- i. Monitoring of the privatized enterprises will be undertaken in post-privatization phase with a view to ensuring that they are observing all terms and conditions and are providing necessary goods and services as required, and the results will be made public. Moreover, the public will be informed about various aspects of corporations

such as their efficiency, employment profile, quality and prices of goods and services, business expansion, revenue increase and economic status, etc.

- j. Measures will be taken to promote the private sector by keeping the door open for investment, enacting appropriate laws and by – laws, and executing them. Emphasis will be given to the development of capital market, banking and financial sector. Instruments like shares and debentures will be utilized as a means of mobilizing necessary resources.
- k. As the private and the public monopolies tend to be similar, to prevent the monopoly from taking place before privatizing public monopolies, necessary laws and by-laws will be formulated for the appropriate regulating of such monopolies.
- l. Necessary of the program will be enhanced in a way to ensure that the actions and procedures confirm the dictates of law, all people willing to participate in the program get equal opportunity, and anybody with an interest in the entire business or the decision process of privatization be given all relevant information without any barriers. (9th five year plan, 185)

Program:

Within the conceptual framework mentioned earlier, to achieve the set objectives, actions will be taken to privatize the following enterprise during the ninth plan based on the findings of studies.

1. Nepal Tea Development Corporation
2. Pokhara Daily Development Project
3. Gorkhaptra Corporation
4. Himal Cement Company

5. Nepal Resin and Turpentine Ltd.
6. Nepal Bank Ltd.
7. Salt Trading ltd.
8. Rastriya Banijya Bank
9. Rastriya Beem Sanstahan
10. Butwal Power Company Ltd.
11. Lumbini Sugar Factory Ltd.
12. Janakpur Cigarette Corporation
13. Nepal Transport Corporation
14. Nepal Houseing Development Finance Company
15. Industrial Management Ltd.
16. Agriculture Lime Industry
17. Agriculture Projects Service Center
18. Birgunj Sugar Factory Ltd.
19. Dairy Development Corporaiton
20. Cotton Development Committee
21. Herbs Production and Processing Company
22. Hetauda Cloth Industry Ltd.
23. Morang Sugar Factory Ltd.
24. Nepal Telecommunication Corporation
25. Royal Nepal Airlines Corporation
26. Birendra International Conference Center
27. Nepal Orient Magnetite
28. Hetauda Cement Company
29. Udayapur Cement Company
30. Nepal Electricity Authority.

In case of the enterprises remaining in the public sector for the time being, various improvement programmes should be initiated so as to

optimize the utilization of available resources and capabilities. Structural reforms will be achieved by improving goods, services and overall business efficiency, refining the process of pricing, controlling financial irregularities and leakage, making political and government involvement more productive, and orienting the size and capacity of enterprises towards the market. (9th Five Year Plan, 186).

11. Tenth Five Year Plan (2001-2006)

The overriding objective of development in Nepal is poverty alleviation. In spite of noticeable progress achieved over the past decade, there is still widespread poverty. The tenth plan represents a renewed commitment by His Majesty's Government of Nepal to this all-important task. Its sole objective is to achieve a remarkable and sustainable reduction in the poverty level in Nepal from 38 percent of population at the beginning of the plan period to 30 percent by the end of the tenth plan, and to further reduce the poverty ratio to 10 percent in about fifteen years time.

The reduction of poverty to 30 percent by the end of the tenth plan is a daunting task by itself. It has been made even more challenging in several recent developments in the country. Among these, the following are particularly important:

- a. Nepal has persisted for decades, and it is recognized as a deep-seated and complex phenomenon, for which there are no quick and easy solutions. What has changed particularly over the last decade is the socio-political situation in the country.
- b. Second, Nepal is currently experiencing complete socio political situation, which has intensified over the past few years. It has created considerable insecurity in many parts of the country, made

difficult for the government agencies and development partners to carry out development activities in such areas. The situation also pre-empted a significant and rising share of the government's limited financial and administrative resources for maintaining peace and security in the country. The costs so far in terms of human, lives, destruction of property and infrastructure, increased security expenditures and foregone development and economic activities have been considerable.

The Tenth Plan-Goals, Targets and Strategies:

Activity levels in most sub-sectors such as manufacturing, trade, tourism, transport, contraction and financial and social services have been depressed in the last 2-3 years because of the present domestic social disorder, and weak export demand. It is reasonable to expect that the ceasefire declared in January 2003 would lead to a quick rebound in a number of sub-sectors, especially tourism, manufacturing where substantial under-utilized capacity exists. And, a pick up in development activity and rehabilitation and reconstruction efforts would also help provide a quick stimulus. Over the medium term, a revival of business confidence and private investment, increased domestic demand (associated with rural/agricultural growth), continued reasonably high growth in neighbouring India, (trade with India has increased rapidly in the last few years).

However, the impending internal security issues and gloomy global economy will have implication private sector promotion. The core objective of the private sector can make a meaningful contribution to poverty eradication. The major strategies to achieve the objective include: the acceleration of economic reforms, ensuring policy-wise consistency

in order to create an investor friendly environment, simplifying entry and exit procedures for facilities and sector reforms. As per liberal economic policy, the government will gradually reduce its role in economic activities, while private involvement will be encourage in a wide range of economic activities, such as investment in power, roads, telecommunications and other infrastructure developments. To create a level playing field, the privatization of public enterprises will be accelerated and those areas will be fully opened to the private sector. The government intends to increase the involvement of the private sector in a number of public enterprises including Nepal Electricity Authority, Nepal Telecommunications Corporation and the Royal Nepal Airlines and the Royal Nepal Airlines. Effort will be made to streamline the regulatory processes and to make them more transparent, for example reducing complicated documentation requirements for exports and improving tax administration so as to reduce discretionary power of tax officials. A fiscal reform commission (which is currently sitting) is expected to make important recommendation in this regard. Legal reforms will be initiated and new liquidation; merger and bankruptcy laws will be enacted. Finally, reforms currently under way in the financial sector (aimed at creating an efficient and competitive banking system and transferring state-owned banks to private management and ownership, among others), will help considerably in facilitating private sector developments.

1.1.4 Introduction of Dairy Development Corporation

Nepal is one of the least developed country of Asia where almost 80 percent of the population are poor and depend on agriculture. Because of lack of big industries and factories there is wide spread unemployment and most of the people depend on traditional method of farming and production. Due to lack of skilled manpower, capital and outdated

technology industries has not been able to flourish. Nepal is trying its best to develop economy and living standard of people by creating employment by establishing more industries. In this case dairy development corporation is one of those.

In order to provide employment to unemployed and quality milk and milk products to the consumer, dairy development corporation was established in B.S. 2026, with the main objective of providing guaranteed milk at reasonable price to the consumer of urban areas. It supplies hygienic pasteurized milk and other dairy product to the urban consumer. Dairy Development Board established dairy collection centers at Tusal (Kavre) and in Karipati (Bhaktapur) in 2009 B.S. Yak cheese center was also established in Lamtang (Rasuwa) the same year. The centers were established under agriculture department. Small dairy house was established in Bhotahiti (Kathmandu) in 2010/11 B.S. As the capacity of Bhotahiti dairy house was low, dairy-processing factory with the capacity of 500 liters per hr. processing capacity was established in Lainchaur on 29 falgun 2013, forming dairy development corporation according to the corporation act 2021. Dairy development board handed over all kinds of dairy centers and dairy houses to the corporation in 2026 B.S.

DDC has been collecting around 3 lakhs liters of milk per day from around 100000 milk producing farmers and providing employment to 12000 people such as in collection, sales and in production. 41 milk-chilling centers are in operation in 29 different districts for the preservation of collected raw milk and milk-processing center are located in 4 cities.

DDC is totally owned by the government. It is supported by the foreign countries by providing loans and grants world food program (WFP) has

been providing moral and financial support since 2031/31 (1973/74). The New Zealand and Danish Government has contributed a lot for the existence of DDC. US have been the major donors. So dairy development corporation has been providing quality milk and thereby increasing the living standard and health of the urban people.

Among the dairy industries throughout the nation DDC Kathmandu supply scheme is the first to receive ISO 9001:2000 for the sale and distribution.

The main reason of its survival is consistency in its approach and hard work and its main objective is to supply pasteurized milk at reasonable price and in the mean time earning reasonable profit in order survive and flourish in future.

1.1.5 Aims and Objectives of DDC

When a corporation or organization is set or established it has its own objectives and plan for the future some are formed for the welfare of the people while some are formed with the aim of earning profit. DDC, which is totally owned and managed by the government of Nepal, has the following aims and objectives.

- a. Provide market for milk of the farmers of rural areas.
- b. Supply pasteurized milk and milk product at a reasonable price to the consumer and pay right price to the farmers.
- c. Develop a well-organized system of milk collection in order to fulfill the increasing demand of the milk and other products made from milk.
- d. Develop an organized marketing system for milk and milk products in urban areas so that customer gets the product when needed.

- e. Providing good and hygienic (quality) products made from milk and liquid milk to the consumer thereby improving the health of the customer.
- f. Lastly creating employment opportunities to the public and thereby increasing the level of living standard of the people of the contry.

1.1.6 Introduction of Product

Since the inception of DDC it has been providing several products made from milk to the consumer. The products currently produced by DDC are as under:

- a. Standardized and pasteurized milk.
- b. Yoghurt (Yogurt)
- c. Ice cream d. Ghee e. Table butter f. Paneer (Cheese)
- g. Yak Cheese h. Kanchan Cheese (Cow Cheese)
- i. Buffalo Cheese j. Skim milk powder k. Bottle milk
- l. Rasbari m. Lalmohan n. Peda o. Mozerella cheese (Pizza)

1.2 Statement of Problems

In the present age of industrialization competition exist everywhere. To survive and earn profit is the biggest challenge organization is facing. Nowadays most of the organization has not been able to earn sufficient profit most of them are running either at loss or break-even point. The cause is less utilization of capacity, mismanagement, unskilled manpower and ignorance of objective by the managers of the organization limited participation of low-level managers in the overall management of the organization. Big communication gap between lower level and higher level official in the organization. Lack of planners, who have vision and adequate knowledge to run enterprise and can analyze the internal and

external factors affecting the organization. Less involvement of lower level officials in the decision making of the organization frequent change of chief executive, high turnover of employees and use of obsolete technology in the organization are among the problems of the corporation, not following the rules and regulation and not working for the welfare of the people is also seen in most of the organization. Rules and regulation are seen only on papers.

DDC has been operating at loss since its inception because of the above mention factor. The cost has exceeded its output thereby resulting in loss. So, it can be presented that the success or failure of an organization regardless of its types or size largely depends upon the profit planning system it has been adopting and implementing. PPC requires effective co-ordination between various functional budget such as sales, productions cash. Besides the problem mention above the main problems can be listed as under:

- a. Calculation of revenue and cost of production of the corporation.
- b. Compare the production and sales trend.
- c. Compare and contrast the budgeted and actual sales and production.
- d. What are the fundamental principal adopted in short and long-term planning?
- e. Whether the firm is applying budgeting system properly or not?
- f. Whether the reason of failure of corporation is in implementing PPC concept.
- g. What are the steps that are to be taken for the betterment or upliftment of the existing position of the corporation?
- h. Whether to change the targeted amount of sales, production and profit.

- i. How to run the corporation at profit or break even point and to survive in the market.

1.3 Objective of the Study

The objectives of the study are as under:

- a. To find out the performance of the corporation in relation to the set criteria.
- b. To show the relation that exists between planned and actual production, and sales.
- c. To identify the profit and expenses trend.
- d. To identify the revenue and cost of production of the corporation
- e. To assess the financial performance of DDC and the capacity utilization.
- f. Recommendation & suggestion needed for the corporation.

1.4 Limitation of the Study

The present problems are information and exact data relating to the study have not been available to the required extent due to various constraints posed by inadequacy of time, human and financial resources. The study has simply analyzed the trend of the past five years of sales, production and profit achieved in relation to the set amount. This study will be concerned mainly with the profit planning in DDC and the period covered is five years 2059/60 to 2063/64. The data included are based on the information provided by the management and staffs of the DDC.

1.5 Need of the Study

Study implies the analysis of the performance of any organization. Study is done to find out how well the corporation is running. Recommendation and suggestion can be provided only through detail study of any organization. Trend can be analyzed only through study and improvement can be done only on the basis of the result of study. For the continuous improvement of the corporation study is must. It helps one to know in which direction the organization is heading. So overall study of any organization helps to understand the problem faced by it and the steps are taken accordingly towards improving the condition of it. So yearly or monthly study of any organization helps it to move towards the goal. So timely study is must for any type of organization to survive and earn profit.

CHAPTER – II

CONCEPTUAL FRAME WORK

2.1 Concepts of Profit and Planning

Profit results when total sales revenue exceeds total cost of production. Profit is the measuring tool, which measures the overall performance of any organization. It plays a vital role in the managerial decision-making. Profit is regarded as a part of an organization. It is as important as blood to human body.

Deon Joel : Managerial Economics defines profit as “profit is the rewards for bearing risk, the risk of enterprise, the risk of entering in business. The risk of owing something in hope of selling it later for the dynamic managerial drives for destination through creative innovation”. Had there been no reward in return of risk no entrepreneur would have dare to take risk involve in the business, profit induce entrepreneur to take risk. The entrepreneurs always expect minimum return on the invested capital. As high the risk high will be the profit so profit lure entrepreneur into entering the business in the hope of earning profit.

Profit is the result of innovation, which reduces cost of production, helps in smooth running of the business. It always maintains a reasonable gap between selling price and cost of production. Huge gap between selling price and cost of production may result profit in the short run but in the mean time invites disaster for the organization. The innovation may come in many forms such as introduction of new technology, new product, new method of production, the restructuring of organization internally and externally, change in the method of sales, inclusion of skilled man power, change in the quality of product and the use of new source of raw material.

A good innovation always helps rise in profit and goodwill of the organization. Innovation can be copied from other organization or can be self-developed. But imitated innovation may or may not yield better result than the self one. So new and fresh innovation yields better results.

Great economist says that profit is the reward of undertaking risk. It is the result of risk taken by the entrepreneur involved in the business. But the concept of high-risk high return may not hold true in all the cases as many entrepreneur fail despite taking risk. Profit is not certain only by investing and taking risk involved in the business. Profit results from taking risk plus carefully managing of business in very systematic manner. So profit results from both risk and proper planning. Risk without planning invites only loss to the organization. Profit are of two types gross which is a rough profit which does not include indirect expenses related to purchase and sales and other is net profit which takes all the indirect expenses into consideration.

In putting the profit in a nutshell we can conclude that profit is the primary tool that measures the effectiveness of the business. It helps the firm to further expand and diversify. So diversification and expansion of an organization largely depends on profit.

Broadly speaking planning means deciding in advance which is to be done and it is the anticipation of further course of action. Every venture needs planning. It is the determination of action to achieve a desired result. According to Glenn A. Welsch "Planning is process of developing enterprise objective and selecting a future course of action to accomplish them. It includes establishing enterprise objectives, developing premises about the environment in which they are to be accomplished, selection of

a course of action for accomplishing the objectives including activities necessary to translate planning to be correct current deficiencies”.

Planning is not a one-time activity and is a continuous process. Planning is needed in every step of life. Planning involves formulation of goals. Planning has a great impact in the end result of organization. Good planning always yields better result whereas bad planning result in the end of an organization. Organization should set targets that are reasonable and achievable and suitable course of action is taken towards achieving it. Planning should be made only after analysis of the strength and weakness of on organization for future. Thus planning is considered as an important tool in achieving organizational objectives.

2.2 Nature of Planning

Planning involves choosing a course of action for future. It involves an attempt on the part of a manager i.e. to lower level manager to fix course of action that would be adopted for the realization of organizational objectives. The following points say the nature of planning.

1. Planning is an Intellectual Process

One has to think of the possible results of the action before doing or involving into any action. So a manager should analyze the possible results, the negative and the positive. Before any action, thinking and proper planning is must, before involving in the operation, manager has to keep in mind the internal and external factors affecting the organization. Will the organization be able to achieve the target set by the organization. Unachievable targets should not be set. There must not be big difference between the planned and actual figure. When targets are not met, this leads to frustration and debacle of the organization. The

planning process depends on the calibers of the managers. The organization should quietly not rely on one single course of action. Several course of action should be in mind, if one action fails another alternatives should be on the bench. If all level manager and employee's opinion and ideas are taken while making decision, planning never fails.

2. Planning is Goal Oriented

Planning is directly connected with the goals and objectives of the organization. Planning has a direct impact on the goals of the organization. As the planning, as will be the result proper planning results in good outcome, improper planning yields bad results. Proper planning is the good foundation of the organization which work towards the fulfillment of the organization is objectives. Planning without keeping the organization objectives in mind of no use.

3. Planning Includes all Managerial Activity

Planning is the main duty of every manager of an organization. Whatever be the nature of activity, management starts with planning. The quality of planning and its result vary from manager to manager of organization. Manager without vision and proper planning knowledge leads the organization towards the abyss. Manager with proper knowledge of accounting and profit planning takes the organization to its pinnacle and its goals.

4. Planning is Directed Towards Efficiency

Planning leads to efficiency, proper planning increase the output with less input and expenses and thereby increasing the efficiency of the organization. Planning helps in optimizing the relationship between the

output and input. A good relationship between output and input is must for the organization to flourish. The stakeholders of the organization are satisfied with the positive outcome of the organization. A good communication among the managers and employees is must for the betterment of the organization and it is the most important factor affecting the existing condition of the organization.

2.2.1 Importance of Planning

Planning implies selecting a course of action towards the fulfillment of the objectives of the organization. It is a systematic approach taken to solve the problem in front of the manager of the organization. Planning is an important tool, which helps the organization manager towards reaching the goal. Random planning takes the organization nowhere. So systematic and formalized planning is must for an organization to succeed. The importance of planning can be known from the following point below.

1. To Manage by Objectives: A good and effective management can only be termed as management by objectives. The planning function brings the managers attention towards the goals and focus on the future of the organization. Planning prepares a blue print of the courses of action to be taken towards fulfilling the objectives of the organization. It also helps the manager to consider the current problem and then the problem ahead can be solved. It compels the manager to draw a possible future or picture of the organization. So planning helps in knowing the problem before hand.

2. To Know the Possible Future Uncertainty: Future is uncertain and the manager therefore can know the possible future of the organization

through proper planning. By setting the attainable objectives of the organization manager can know the future picture of the organization. With proper planning manager can adjust its objectives with the passage of time. Adjustment in planning is also important from time to time. Planning helps to evaluate the alternatives course of action and determine which one best suits the organization objectives. So proper planning is must as future is uncertain.

3. To Secure Economy in Operation: To secure economy in operation planning is must, as planning involves in the profitable course of action, which leads to the economy in operation planning helps in the selection of most profitable course of action that will produce better result at minimum cost. So planning helps in reducing the cost of production and thereby increasing the efficiency of the organization.

4. To Help in Coordination: Coordination among different activities is must for an organization. All the objective of the organization is interrelated. So proper coordination among those is very important. So proper planning creates a platform for proper coordination, without planning, coordination is unthinkable and it is almost impossible for an organization to co-ordinate among different activities of an organization.

5. To Increase Organizational Effectiveness: Planning helps manager measure the organizational effectiveness in the context of the stated objectives and takes the necessary future course of action towards fulfilling the organization objectives. Organizational effectiveness can only be enhanced through planning. So for overall improvement of the organization planning is must.

2.2.2 Steps Involved in Planning

As planning is a step by step process. It is a very systematic approach to be taken by the manager of the organization. The various steps involved in the planning can be learnt from the following points below:

1. Recognition of the Need for Action: The first step in planning involves the identification of the problem and the possible course of action to be taken to solve the problems of the organization. So the first step involves the recognition of the problems and ways to solve it.

2. Establishment of Clear-cut Objectives: Keeping in view the strength and weakness of the organization the manager should come up with clear-cut objectives, if the objectives are not clear the organization cannot attain it. So the organization should first set objectives and work towards its attainment.

3. Building the Premises for Planning: Collection and dissemination of the facts and figures necessary for planning the future course of action of an enterprise is involved in the third step of planning. So forecasting is an important part and step in planning. A forecast is the inference drawn from the available facts and figures. A business enterprise or organizations need to forecast its sales, price, cost, production, profit, expenses before the course of action or the fulfillment of the objectives.

4. Identifying Alternative Course of Action: Manager should not rely only on one course of action. So various alternative courses of action should be taken into account. So the alternative course of action is must for the organization to succeed. While identifying alternative course of action, the strength and weakness of the organization should also be taken

into consideration. So if alternative course of action fails another course of action is taken as the other alternative in order to achieve the target set.

5. Evaluation of Alternative Courses: As there are various alternatives available for a manager in terms of course of action. But the manager has to evaluate all the strong and negative points of all the alternatives available before choosing the right one. Comparative evaluation of the alternatives is not as easy job. Since there are so many complex variables connected with each goal and plan. So correct and reliable course of action is a must for planning purpose.

6. Choice of Course of Action: The last stage of planning is the selection of the course of action. After analyzing the various alternatives of course of action. One course of action is selected on the basis of its advantages. The final phase of planning is done by the top level manager after consultation with the lower level manager and the employees of the organization. Thus choice of correct course of action ends the planning process of the organization.

2.3 Forecasting

In short forecasting means calculation of probabilities of what will happen in future. Forecasting is done on the basis of latest and the past information available. Forecasting is to reduce the uncertainty of risk involved in the business. And it is also done to achieve the desired goals and objectives of the business.

Actually forecasting is usually an important part of any business. It is a prediction of a future event, condition or situation, whereas a plan includes a program that have intended future action and desired result. According to Kuchhal S.C. (corporate finance) 2nd “Forecasting is the

prerequisite of planning, forecast is the statement of the expected future condition. It is an attempt to find the most probable courses of events”. Thus forecasting is thinking about what will happen in the future. It is just a guess. We recognize problems and opportunities in planning. We develop scheme of action to achieve the objectives. It is just a glimpse at the future happenings and attempt is made to attain.

2.3.1 Accuracy of Forecasting

Forecasting is done with the aim of reducing uncertainty about future. Forecasting is technique by which company reduces the probabilities of risk in the business. According to Riky and Cruck “Forecasting aims to reduce uncertainty about tomorrow so that effective decision can be made today by providing prediction of future values of variables from past and present information”. Forecasting can be a one-time activity or it can be made from time to time. The forecasted figure and actual figure sometimes may not match. In such a case there may be an error. So reasonable forecasting is done and reasonable target must be set. Thus forecasting is done in such a way that there is not much of difference exist in the forecasted figure and actual figure. After all forecasting can not be completely correct and must be made according to the demand of time and situation of the business.

2.3.2 Development of Profit Planning

There are different major profit plan that are listed and discussed below:

- a. Sales plan
- b. Production plan
- c. Material budget
- d. Purchase budget

- e. Direct labour budget
- f. Direct overhead budget
- g. Inventory and promotional expenses budget
- h. Administrative budget
- i. Cash flow budget

a. Sales Plan

Sales plan is one of the important plans of any business enterprise and budget to be prepared. Sales planning is the formulation of all other budget; it affects production, purchase and operation. It is an estimate of the goods that will be sold. All plans are depend on sales plan. A sales budget is a forecast of what the company expect to sales during a budgeted period. It is a forecast of total sales expressed and incorporated in quantities and money.

A sales plan should be realistic as most plans are depended on it. A comprehensive sales plan can be classified into two types i.e. long range (strategic) and short-range (tactical) plan. It is formulation of all other budget. As the main source of income and cash is sales, the amount of expenses, capital needed, planning of manpower requirement depends on the volume of sales.

b. Production Plan

The production planning refers to the development of policies about optimum production level. Production planning is the second step of profit planning and control. This plan entails the development of policies about efficient production level use of productivity facility and inventory level.

Production plan is prepared after sales budget and it is based upon the sales forecast. Production planning can be expressed in equation as under:

$$\text{Production unit} = \text{Planned sales} + \text{Final inventory} - \text{Initial inventory}$$

The main component of production budget are production, finished goods inventory, work-in-progress inventory, plan capacity, availability of raw material, its type, availability of labour & capital, timing for production.

c. Material Budget

Material budget is prepared after the preparation of production budget. Material budget co-ordinates raw material and parts required for production, inventory level of raw material and parts that must be purchased. The main objectives are to:

-) Provide quantity data for purchase of raw material and parts.
-) Provide quantity data to compute material cost per unit.
-) Establish effective inventory policy.
-) Introduce effective control system on material use.

According to Chowdhary, A.K. Roy (Cost Management Account) “Raw material which are to be processed for conversion into finished goods product is shown in this budget. It will show the units or quantities of different material to be issued to production centers during the budget period from stores. It may also contain information regarding levels of stock of raw material their estimates price. This will ensure the purchase of right quantity & quantity of material”.

d. Purchase Budget

The material purchase budget specifies the quantities and timing of each raw material needed. So a plan for material purchase must be developed. The purchase budget specifies the estimated cost for each raw material and required delivery dates.

The preparation of material purchase budget is the job of purchase manager. It is his duty to provides projected unit material cost for use in the purchase budget.

e. Direct Labour Budget

Direct labour is defined as those labour cost identifiable with the production of specific units of finished goods. The direct labor budget requires two additional inputs: →the standard direct labour hours per unit of each finished goods →the average hourly wage rate planned.

The budget must show the planned direct labor hours and cost by organizational responsibility and by product. The main reason for using a separate direct labour budget are to provide planning data about the amount of direct labour required, number of direct labour employee needs, labour costs per unit produced, cash requirement.

Direct labour cost occupies a significant portion of total cost. So labour cost needs systematic planning and control. The following authorities are responsible for planning and controlling direct labour of enterprise.

-) Chief executive
-) Production manager
-) Personnel manager
-) Financial manager

f. Manufacturing Overhead Budget

Manufacturing overhead is a part of total production cost. It is not directly chargeable to specific products and jobs. Manufacturing overhead consist of:

-) Indirect material
-) Indirect labour
-) All miscellaneous factory expenses such as taxes insurance , depreciation, repairs and maintenances.

There is a problem in the allocation of manufacturing overhead to products because it includes many dissimilar expenses. The main problems are :

-) Control of manufacturing overhead
-) Allocation of manufacturing overhead to products manufactured

i. Inventory Budget

This budget is prepared after the preparation of manufacturing overhead budget. This is prepared to know the stock and its value at a particular date. The various stocks are:

-) Raw material
-) Work in progress
-) Finished goods

A manufacturing enterprise may follow FIFO, LIFO and simple average method policy for inventories (i.e. pricing of material issued and valuation of closing stock).

j. Distribution Expenses Budget

In this expenses budget all cost relating to selling distribution and delivery of products to consumer are included. These steps are involved in the distribution expenses budget.

-) Development of promotion & advertising
-) Development of selling expenses plan.
-) Development of marketing plan.

k. Administrative Expenses Budget

Administrations expenses budget include those expenses which are incurred in the responsibility center and provide supervision service to all function of the enterprise. The overall administrative expenses budget includes several departmental budgets, which are involve in administration.

l. Cash Flow Budget

The cash budget is a forecast of expected cash receipts and payment for future period. A cash budget shows the planned cash inflow, outflow and end position of cash . In annual profit plan, short term cash plan is to be included. Cash budget include two parts:

-) Planned cash receipts (inflow)
-) Planned cash disbursement(outflow)

Cash budget is related with other budget such as sales budget, expenses budget, capital expenditure budget. It helps in determining whether there is a deficit of cash or there is surplus of cash.

The primary purposes of the cash budget are:

-) To give the probable cash position at the end of a period as a result of planned operation.
-) To identify cash excess or shortage by time period.
-) To establish the need for financing and for the availability of financing and for the availability of idle cash for investment, co-ordinate cash with (a) working capital (b) Sales revenue (c) expenses (d) Investment (e) Liability.
-) To indicate the availability of cash discount.
-) To preserve liquidity

The financial manager is directly responsible for developing the cash flow budget.

2.4 Profit Planning

Profit planning is an estimation of profit, estimating revenue and cost of production in the mean time. It can be explained as a systematic and formalized approach for accomplishing the planning, co-ordination and control responsibility of management. It is a management tool. It is important that all the related person inside the enterprise understands it. The success or failure totally depends on planning and efficient management. Effective management system is must for the effective utilization of profit planning concept. Profit planning is the statement of policy and plans objectives and goals established by top management in respect of some future period. It is a future course of action.

Profit planning and control means the development and acceptance of objective and goals. It has the ultimate objective of attaining the optimum profit. It is a tool, which may be used by the management in planning the

future course of actions and controlling the actual performance. Management is the process of planning, organization, directing, coordination, decision-making, communicating and controlling the bases for profit planning and control. So management must be confident in its ability and work towards establishing realistic goals and attaining it profit planning involves.

- a. The development and application of broad and long range objective for the enterprise.
- b. The specification of enterprises goals.
- c. A long range profit plan developed in broad terms.
- d. A short range profit plan detailed by assigned responsibility.
- e. A system or periodic performance report detailed by assigned responsibility.
- f. Follow up procedure.

2.4.1 The Fundamentals and Elements of Profit Planning

The fundamental concerns with effective implementation of the management process, responsibility, organization, activities and approaches necessary for proficient application of comprehensive profit planning. The major fundamentals are:

- a. Managerial involvement and commitment.
- b. Organizational adoption.
- c. Responsibility accounting.
- d. Full communication.
- e. Realistic expectation.
- f. Time dimension.
- g. Flexible application.

- h. Individual and group recognition.
- i. Follow up.

The basic elements are:

- a. It is a comprehensive and co-ordinate plan
- b. It is expressed in financial terms
- c. It is a plan of the firms for operation and resources
- d. It is a future plan for a specific period.

2.4.2 Process and Purpose of Profit Planning

The profit planning process involves the following:

- a. Identification and evaluation of external variables
- b. Development of broad objective of the enterprise
- c. Development of specific goals for the enterprise
- d. Development and evaluation of company's strategies.
- e. Executive management planning instruction.
- f. Preparation and evaluation of project plans
- g. Development and approval of strategies and tactical profit plans.
- h. Implementation of profit plans
- i. Use of periodic performance report
- j. Implementation of follow up.

The purpose of profit planning can be known from the following point listed below:

- a. To state and determine firm's future expectation and goals in clear and formal terms for avoiding confusion and facilitating their attainability.

- b. To communicate expectation (goals) to all concerned parties so that they are understood, supported and implemented.
- c. To Provide detail plan of action for reduction of uncertainty and for the proper direction of individual and group efforts to achieve goals.
- d. To coordinate the activities and efforts in such a way that resources are used efficiently and effectively.
- e. To provide a means of measuring and controlling performance of individual or unit and to supply information on the basis of which necessary action can be taken.

2.4.3 Importance of Profit Planning

Profit is inevitable if business is well planned. A well planned business always results in profit. So profit planning is vital for any organization. Profit is a measuring tool which measures the strength of the business. The importance of profit planning can be known from the following points below:

- a. It helps management to plan for future.
- b. It instills into manager the habit of evaluating carefully the variable affecting the decision-making.
- c. It helps to co-ordinate, integrate and balance the efforts of various departments in the light of the overall objectives of the enterprise.
- d. It helps to optimize the use of firm's resources like labor, material and capital.
- e. It increases efficiency and productivity of employees by seeking meaningful participation in the establishment of goals, objectives and plan bringing harmony between them by providing incentives to perform more efficiently.

- f. It removes the cloud of uncertainty that exists in many organizations.
- g. It reduces cost by increasing the span of control, because fewer supervisors are needed.
- h. It promotes understanding among members of management and their co-workers problem.
- i. It helps in the periodic analysis of the co-workers' performance.
- j. It checks progress or lack of progress towards the objective of the enterprise.
- k. It rewards high performance percent and seek to correct unfavorable performance.

2.5 Corporate Planning

J.C. Higgins defined corporate planning as “The systematic process of setting corporate objectives and making the strategic decision and developing the plans necessary to achieve these objectives”. Whereas S.A Sherlekar opines “Business or corporate planning is reasoning out how a business will get where it wants to go. It is largely a mental process of thinking before doing (look before you leap). The essence of corporate planning is to see opportunities and threats or risk in the future and exploit the opportunities, combat the threats or face the risk as the case may be.

After going through or analyzing the above definition it is clear that corporate planning determines long term goals of a company as a whole in order to achieve the plan. Corporate planning is action oriented and concerned with long term goals which cannot be obtained without forecast. So from the forecast aim can be drawn. Corporate planning is a

technique for action now for ensuring the long term goal. It is a pattern and policies for achieving goals.

Corporate planning is done for company as a whole on a continuous basis organizing systematically the efforts and resources needed to carry out the decision and measuring the decision against the expectation through organized and systematic feedback. The C/P responsibility lies with the chief executive of the company and is essential part of management process.

2.5.1 Importance of Corporate Planning

An organization goal cannot be accomplished without proper planning. Organization without planning activity is certain to fail. Organization goals cannot be accomplished without corporate planning and will drift away from the goals. Working without planning is just like shooting in dark. In the absence of proper planning it is almost impossible for the organization to move towards its goal.

C/P is a continuous process of awareness, adaptation and determined attempt to grasp issue before they become critical. It is just a process of knowing problem in advance and nipping it in the bud. It make tough problem much easier by knowing it before it gets tough. Corporate planning is the most powerful tool available to management and has enormous potential for those who use it well. To survive and flourish in the market the organization should continuously adapt and respond in time to change in environment. So planning helps the manager to assure the survival of the organization under tough competition and changing environment.

2.5.2 Corporate Planning in Public Enterprises of Nepal

Planning is not only about improving business result but it is the only way to ensure survival in tough business environment. Clarification of objectives will help to improve the performance of the business. It is impossible to have management control without planning.

M.B. Shrestha (1986) has very lucidly described the corporate planning practices and its problem in Nepalese enterprises. He is of the opinion that lack of a well structures planning as a system of corporate management in Nepal is one reason why corporate result is rather disappointing in maximizing the economic and social benefits that would have been possible with systematic and planned attempts. He further states that the corporate planning practice in Nepal suffers from a number of institutional set back emerging both from governmental and corporate levels which must be paralyzed to make the practices effective. (M.B Shrestha “Corporate Planning concept and its practice in Nepal”)

2.5.3 Advantages of Corporate Planning

The advantages of corporate planning can be learnt from the following points below:

- a. It enables to prepare the corporation to exploit the expected future opportunities.
- b. Corporate planning enables the organization to realize the problem beforehand and solve it.
- c. Improves the coordination of organization activities and helps to create the platform for further improvement.
- d. It leads for greater cooperation between the organization department and division.

- e. Increases awareness of companies' requirements among managers and improve organizational control.

2.5.4 Components of Corporate Planning

Corporate planning is a continuous process, it is an activity carried but in a sequence of steps taken in a certain order. John Argenti says "The corporate planer must take hundred of steps to complete his work but it is possible to describe the process meaningful by saying that it is component involved in corporate planning are as follows:

- a. Determine the company's objectives and goals.
- b. Determination of forecast amount and probable error.
- c. Decide constraints and means.
- d. Draw up the plan".

J.C. Higgs describe it in ten steps process. The steps described by him are more or less similar to that of Mr. Agrenti on several grounds but Mr. Argenti describes it in critical way. The components of corporate planning as stated by him are as follows:

- a. Setting of corporate/strategies objectives.
- b. Establishment of the corporate performance required from the objective.
- c. Internal appraised viz. assessment of the organization current state in resources and performance terms.
- d. External appraised viz. surveying and analyzing the organization environment.
- e. Forecasting future performance based in the first phase on the result of external and internal appraisal.

- f. Analysis of the gap between the result of external and internal performance and corporate performance.
- g. Identification and evaluation of strategies to reduce the performance gap or in other words to meet the strategies objectives.
- h. Choice of strategies.
- i. Preparation of final corporate plan.
- j. Evaluation of performance plan against plan.

2.5.5 Corporate Level, Deficiencies of Hindrance

Improper management information system has rendered planning not only difficult but has developed a wrong notion also that planning is just collecting information and interpreting it for management purpose. There is extreme lack of management support for analytical and innovative planning proposition to systematic functional problems. Corporate planning practice in Nepal suffers a number of drawbacks which renders the exercise more ritualistic and less effective to solve corporate problem planning hindrance to effective planning may be precisely listed as below:

- a. Faulty application of macro planning approach regardless of micro corporate needs in its formulation and evaluation.
- b. Misunderstanding about the nature and content of corporate planning at different level of management.
- c. Management's pre occupation on current problems leaving almost no time for discussion on planning issues at the board of chief executive level.

- d. Separation of planning from the entire management process resulting in the disintegration of planning function and lack of participation from various levels of management.
- e. Failure to create congenial environment in the company.
- f. Managerial performance and plan targets are not properly coordinated for evaluation and control purpose.

A formal structures corporate planning system virtually does not exist in practice in Nepalese context. The only reason is due to the prevailing pressure on management that could not care much to develop corporate planning practice more than meeting the National Planning requirement instead of the company needs. No serious discussion on long term plans and policies. Seriousness about attaining the targets also is found nowhere. The corporate planning in public enterprise of Nepal is in a very rudimentary form and limited to annual program and budget.

Long term strategic planning is missing mainly because of the lack of financial commitment of the policy makers, lack of motivation due to system and non-committal attitude of the policy makers/politicians for goal-setting. The absence of national/sectorial strategies, long term planning are also the main constraint. The main cause lies in the feudalistic culture which has its negative impact on all the managerial/institutional elements and is thus an obstacle in the establishment of a rational, participatory and scientific industrial culture in Nepal. The problem underlying in corporate planning have been described and mentioned at length on the basis of some available literature. But the information obtained from those source fail to provide extensive knowledge and the Nepalese PEs especially the PMEs are not in a position to introduce corporate planning despite realizing its importance.

2.5.6 Organizational Effectiveness

Mere efficiency in the organization is not important, it should also lead to production and effectiveness. Planning enables the manager to measure the organizational effectiveness in the context of the stated objectives and take further actions in this direction organizational effectiveness is measured by how much the organization accomplishes its goal. So the extent to which an organization accomplishes the desired results indicates the extent of organizational effectiveness. Organizational effectiveness is the measure of the extent to which a manager achieves the output requirement of his position.

CHAPTER – III

REVIEW OF LITERATURE

Reviewing the literature means stocktaking of available literature in one's field of research. It is just going through the work of past researchers in the past, which is related to the work or study currently done. It's main purpose is to develop some expertise in one's field of research and to see what new contribution can be made and to receive some ideas for developing a research design past work done by the researchers cannot be sidelined as they provide the platform to the present study. By reviewing literature continuity in research is ensured by connecting the present study with the past research studies. So literature review helps to find out what research studies have been conducted in the chosen field and what remains to be done and provides the researcher with the knowledge of their field of research.

In Nepal, we find very few research work done in this topic, so only few thesis are available in this regard. The research has not been done extensively regarding the applying of profit planning and control concept in the corporation. The lack of information needed might prove to be the reason. The past research done on dairy development corporation has the following findings:

1. Madan Bahadur Badu (2000): Madan Bahadur Badu has conducted a research about profit planning in public manufacturing enterprise. He had tried to find out the position of dairy development corporation. He had discussed some problems seen in DDC and the recommendation is also provided by him.

The Major findings of DDC are:

- a. DDC has practiced short term planning rather than long term planning.
- b. No segregation of cost (i.e.) Into fixed and variable.
- c. DDC has failed to maintain the quality of the product.
- d. Financial position of DDC is not sound.
- e. Lack of proper management. The main problem is seen in collection from the rural areas and distributing it to the urban areas.

Recommendations:

- a. DDC should set reasonable and achievable goals and work towards it. The main goal should be good return on the investment.
- b. DDC should form long term planning on scientific and practical basis.
- c. For the decision making purpose all the capable person should be involved regardless of their position political interference should be discouraged.
- d. The storing system of milk should be made more effective and good transportation system for milk is a must.
- e. Proper cost and selling price must be set to earn reasonable profit.

2. Daya Ram Shrestha (2002): A case study has been done by Daya Ram Shrestha on DDC during research work. The researcher has tried to find out the condition of the corporation in detail. After the detail study of the corporation the major findings and recommendation are as under.

Major Findings:

- a. Sales and production are not in systematic order, production is not in accordance with the sales.
- b. Some amount of milk (Raw Material) is being lost due to human error in transportation.
- c. Lack of proper management system.
- d. Profit is not satisfactory. In most of the year DDC has incurred loss and hardly any profit is seen. DDC is not consistent in earning reasonable profit and also not been able to hang itself at break-even point.
- e. Improper supply of milk in the urban areas. Lot of fluctuation is seen in planned and actual figure.
- f. Wrong estimation of profit.

Recommendations:

- a. DDC must try to avoid the losses of milk in production and storage. Process, distribution & storage wastage should be minimized.
- b. DDC must formulate clear cut long term strategic plan, objectives, targets, goals, policies. Sales & production budget should be prepared on regular basis.
- c. DDC must keep in touch with the existing trend of customer, taste and wants and should come up with such product at proper time and price.
- d. DDC should utilize its full capacity and should keep itself away from the danger point and break-even point.
- e. As the competition is wide spread DDC should bring a radical change in its operation, production and distribution system.

Modern method should be applied in all cases. It should try to maintain the quality of product at all time and should work for the welfare of the customer. It should adopt both profit and service motive.

3. Mukta Devi Sharma (2005): Mukta Devi Sharma has submitted thesis on DDC trying to find out the overall condition of the DDC and came up with the following findings and the recommendation.

Major Findings:

DDC is not able to earn profit and is running at loss or break-even point. Heavy loss has incurred in the past years. Based on the study, the findings and the recommendations suggested by the researcher are listed as under.

- a. The corporation has not been able to earn profit and running at loss or break-even point.
- b. The planning process is poor and weak utilization of resources.
- c. More emphasis on quality control and customer satisfaction and less emphasis to profitability & employment.
- d. The technology employed by the organization is not sufficient for achieving the objectives.
- e. Financial position is not sound.
- f. Communication gap between top level and lower level managers.
- g. Environment factors affecting the corporation are assessed frequently.
- h. Utilization of owner's fund is satisfactory and investment in fixed asset is increasing year after year.

Recommendations:

To avoid the problem and improve the existing condition of DDC the study recommends the following.

- a. Planning procedure should be modified.
- b. Corporation should have in-depth analysis of corporation's strength and weakness, it should try to overcome its weakness by using the strength.
- c. To increase the financial position of DDC the available capital, manpower and asset should be fully utilized.
- d. It should make sales promotion by different media throughout the country.
- e. Highly skilled planners should be involved while preferring planning process of the organization.
- f. Proper motivation program i.e. reward and punishment system must be implemented.
- g. Good communication and coordination should be developed between managers.

CHAPTER – IV

RESEARCH METHODOLOGY

4.1 Introduction

Nepal is still known to be an underdeveloped country, as its development has been at snail's pace. i.e. its development has not been progressing as needed. It has put its steps in the industrial sector long ago. Nevertheless, a steady progress but in the right direction, for the development purpose, the government has invested reasonable amount of money in public sector for the upliftment of the company's condition. The outcome has not been satisfactory but to some extent a good one. Profit planning is the only remedy seen to improve the condition of the organization, as many enterprise uses profit planning concept in the modern business world.

The main aim of this study is to find if profit-planning concept has been implemented in DDC or not. The research is mainly based on secondary source of data, that has been used in the research. This study has intended to show the effectiveness of PPC in the corporation, for the proper study of the implementation of PPC in the corporation and to find the variance in the planned and actual (productions, sales) various methodology has been used. The study has also tried to find out the strength and weakness of the corporation.

4.2 Research Methodology

"Research methodology is the way to solve systematically about the research problem" (Wolf and Pant, 1999). Methodology is the research method used to test the hypothesis.

The main objective of this study is to highlight the degree of application of profit planning concept in DDC with respect to planned production and actual production, degree of sales realization in respect to budgeted figure and the trend of profit and expences of past five years. The study is closely related to draw the picture of profit trends, their capacity utilization and the result of DDC. So the study is to evaluate managerial performance of dairy development corporation with objectives and strategies and focuses on the relationship that exist between budgeted and actual performance. In the course of the performance of dairy development corporation the following process are taken:

4.3 Research Design

According to Kerlinger (1986) research design is the plan, structure, and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do from writing the hypotheses and their operational implication to the final analysis of data. The structure of the research is more specific. It is the outline, the scheme, the paradigm of the operation of the variables. When we draw diagrams that outline the variables and their relation and juxta position, we build structural scheme for accomplishing operational research purpose. Strategy implies how the research objectives will be reached and how the problem encountered in the research will be tackled. In order to make any research successful a research design is a must. A research is designed in such a way so that it aims at fulfilling the objectives of the research. In simple language research design means the procedure and technique to be taken which may prove as a guide in research and ways of research. In order to make any type of research a

success, a well set research design is necessary which fulfill the objectives of the study.

Research design has two purposes a. To answer the research questions or test the research hypothesi. b. To control variance. The research design come out with the follwing questions (i) What approach to the problem should be taken? (ii) What methods will be used? What strategies will be most effective? Identification, selection, formulation of a research problem my be considered as the planning stage of a research and the remaining activities refer to the design, operation, and completion of the research study. It is just the outline of a plan to test the hypothesis and refers to the entire process of planning and carrying out a research study.

Generally research design means definite procedure and technique which guides to study and propounds way for research viability. The main objectives of this study is to highlight the degree of application of profit planning and its effectiveness and information is collected from management personnel of corporation and actual data as provide by them are used in the research. So keeping this in mind the study is closely related with profit trend, its capacity utilization, its production, sales and the actual profit derived or loss incurred of the last 5 accounting years. In a nutshell the study mainly focuses on the overall study of Dairy Development Corporation (DDC) and its past 5 year's performances.

4.4 Research Procedure

The research procedure involves:

- a. Various selected and related books are collected and studied extensively.
- b. Reliable and actual data are used.

- c. Data are explained in detail for the further researcher.
- d. The data available are presented and arranged in systematic order and shown in percentage and ratio.
- e. Needed suggestion for further improvement is provided.

4.5 Period Covered

The study is done to know the current status of Dairy Development Corporation by analyzing the past and present performance. But only five year data are taken into account while analyzing the performance of DDC i.e. 2059/60 to 2063/64. Both budgeted and actual data are used in the process.

4.6 Nature and Sources of Data

Data are obtained with the help of various personnel involved in the lower and upper level management of the corporation. So, in order to find the financial performance of the corporation both primary and secondary data are used. Primary data are obtained through interview with the staffs, executives and survey personal investigation of the corporation. Whereas secondary data are obtained from magazines, newspapers, booklets, journals and various financial reports of the Corporation. Here secondary data are used for study purpose.

4.7 Tool (Statistical) Used

In order to analyze the collected data various financial and statistical tool are used.

- a. Mean Standard deviation
- b. Variance
- c. CVP

- d. Correlation regression probable error
- e. Time series analysis
- f. Diagram and graphs

The above tools are used according to the objectives of the study.

4.8 Data Processing

Data cannot be obtained as per needed. They might be in haphazard manner i.e. they may not be in the systematic order. So important and immaterial data should be sort out. So data processing includes arranging and presenting in percentage, Ratio, graph to create a clear cut picture. It includes arranging the obtained data according to the objectives of the study. It is a pivotal stage in the research and entails a lot of hard work. So, good data processing creates a good platform for future study on the topic by the researcher.

CHAPTER – V

DATA PRESENTATION AND ANALYSIS

5.1 Introduction

This chapter deals mainly with the presentation and the analysis of the available data regarding the performance of Dairy Development Corporation. The main objective of the study is to search and highlight the use of profit planning concept in DDC. This chapter will analyze the various aspects of profit planning and their accomplishment. This study has tried to find out the reason behind the difference as seen in the planned and actual result. Why there is huge difference seen in this respect it has tried to find out. This study has focused only on short term profit plan of DDC as DDC has been producing and focusing on short term profit plan since its inception.

So, for the study of its performance 5 years data are taken and an in-depth study is done using various statistical tools. So for the study purpose and reader's-friendly, data has been well placed in systematic and chronological order, so that it might prove social foundation for future researcher. So the study deals with the meaningful presentation of data and draw a true picture of DDC.

5.2 Present Performance and Situation of DDC

Dairy Development Corporations has been established in B.S. 2026 with the aim of providing pasteurized and quality milk and milk products to the consumer of urban and sub-urban areas. It has tried to encourage the producer of milk in rural areas by providing incentive and reasonable price thereby increasing the economic status of theirs. DDC has tried to

better the health of the consumer and also it has contributed towards the revenue of Nepal government.

As the production of milk is increasing by the day, DDC has not been able to purchase all the milk produced by the farmers. DDC is the prominent supplier of milk and the products made out of milk. It has been serving consumer in main cities as Kathmandu, Biratnagar, Hetauda, Birgunj, Narayangadh, Pokhara and Butwal and its services has reached to other cities at a rapid place. DDC is planning to scatter its products all over Nepal in near future. The present situation can be known from the following:

Dairy Development Corporation has been collecting around 3 lakh liters of milk per day from around 100000 milk producing farmers under collection network. 41 milk-chilling centers are operating in 29 different districts and milk processing centre are there in 4 cities for the preservation of the collected raw milk. A factory for producing skim milk powder was established in 2051 in Biratnagar. This is the only factory in Nepal. It has fulfilled the demand of powder milk to a large extent. Mozeralla cheese production factories are in Chipa Bhanjyang and in Trishuli (Nuwakot). Nagarkot based factory has been producing Rasbari and Paneer while Hetauda based factory has been producing milk. For the sales and distribution of milk and milk products 1511 booths, nine distributors, seven sales centers throughout the nation and seven Franchise sales centers in Kathmandu. The service extension will continue in near future. The sales centers, Franchise steps & distributor are:

DDC Franchise Shops:

- a. Sai Baba Store (way to Chappagaon)
- b. New B.K. Traders (Thahiti Chowk)
- c. Aabha International (Chabahil Chowk)
- d. Tek Trade International Pvt. Ltd. (Gopi Krishna Nagar)
- e. Hiranu Store (Naya Bazaar Kirtipur)
- f. Matangi Agro Udhyog (Maitidievi Chowk)
- g. Lagan Khel Rice Mill (Lagankhel Chowk, Lalitpur)

DDC Sales Centers:

- a. Lainchaur
- b. Basantpur
- c. Harihar Bhawan
- d. Hetauda Bikrikachhya (Hetauda Bazaar, Makwanpur)
- e. Hetauda Aayojana (Bikri Kachhya Aayojana, Makwanpur)
- f. Biratnagar Aayojana Shop (Aayojana Kanchanbadi, Morang)
- g. Mahendra Chowk Shop (Biratnagar Chowk, Morang)

*** DDC Distributors:**

- a. Nanda Store (Jawalakhel, Lalitpur)
- b. J.B. Store (Khusibu, Naya Bazaar)
- c. Nanda Store (Thamel)

Outside Valley:

- a. Pokhara Cold Store (Lek Side Pokhara)
- b. Devendra Tel Udhyog (Birgunj, Prasa)
- c. Dharan Dudh Supplier (Dharan, Sunsari)
- d. Lahan Dudh Dahi Bikri Centre (Lahan, Siraha)
- e. Britamod Cold Store.

Among the Dairy industries throughout the nation, Dairy Development Corporation, Kathmandu supply scheme is first to receive ISO 9001: 2000 certificate. DDC has helped in balancing regional development from the business of Dairy. It has tried to alleviate the existing poverty. Rise of economic condition of milk farmer by the role of milk entrepreneur, for the economic development of the rural area, is the major concern of DDC. It has managed the supply of healthy dairy products for urban and sub-urban consumer. It has created direct and indirect employment opportunity to the people of rural and urban areas. Dairy Development Corporation is a powerful medium to flow around 1 billion. 20 crore Rupee from urban area to rural area as milk payment annuity. DDC has been contribution around 5 crores annual as a revenue to Nepal Government so DDC is working for the overall improvement of the nation.

5.2.1 Broad Objectives of DDC

- a. Provide a guaranteed market for milk to the rural farmers with fair price.
- b. Supply pasteurized milk and milk products to urban consumers.
- c. Develop organized milk collection system to meet increasing demand for pasteurized milk and milk products.
- d. Develop an organized marketing system for milk and milk products in urban areas.
- e. Better the health of consumer and its financial condition by earning reasonable profit.
- f. Contribution towards the revenue of Nepal Government and work towards building the nation.

5.3 Sales Planning and Forecasting

The sales plan is the platform for periodic planning of any organization. Being the primary source of cash, sales budget helps in preparing other functional budget. Capital requirement, expenses, manpower requirement, raw material, cash, production etc. all depends on the volume of sales. Sales determine the future planning of the organization.

Forecasting means determining the future happening of an organization. It is just thinking in advance for future. Forecasting is not a plan; rather it is a statement or a quantities assessment of future condition assumptions. The management of the organization may accept, reject or modify the forecast before actual happenings. So the management adjust the forecast according to the requirement i.e. adjust the forecast price, profit, sales volume, production volume, capital and the amount to be financed are determined. So in a nutshell forecast is a statement about what will happen in the future, based on information that is available now. So with the available information management forecast and the planning about future starts. Setting the target, management work towards achieving the targeted amount. The sales plans are:

5.3.1 Strategic Sales Plan

Strategic means, which is done as a part of a plan and that is meant to achieve a particular purpose or to gain an advantage. Strategically activities are done as a part of plan in achieving the target. Strategic planning is done to fulfill the planned target, when management tries to make something happen it forecasts and plans it in order to achieve the targets set by it.

Sales plan that covers a time period of 5 to 10 years can be termed as strategic sales plan. It entails lot of hard work and critical thinking by the management, taking into consideration the opinion of all the employees and the opinion of all the high level and low-level officers of the organization. It should not be planned carelessly. A proper sales planning takes the organization towards its target, whereas, careless planning results in the downfall of the organization. So to continue and flourish in the future sales planning is paramount.

Strategic plan involves long term planning (i.e.) planning for the long-term requirement of capital, assets, manpower (skilled), raw material, and production. Long-term sales plan usually involves in depth analysis of future market potentials. Sales planning is done after studying the market and analyzing the strength and weakness of the organization.

5.3.2 Tactical or Short-term Sales Plan

Sales planning which is done for short period of time (i.e.) 1 year or less than 1 year can be termed as short or tactical sales plan. It can be for a quarter or a month. Organization, which does not practice long-term sales plan practices short-term sales plan. Short-term sales plan does not need critical thinking or in-depth study of the market and the strength and weakness of the organization. The reason why DDC have not practiced long-term sales plan are:

- a. Lack of expert planner and skilled manpower
- b. It does not have employee who have technical expertise.
- c. Cut throat competition with private sector dairy industries.
- d. Perishable goods
- e. Lack of proper management rules & regulation

- f. Efficiency of the planner is evaluated from the commission on sales
- g. Lack of long-term term profit plans

5.4 Sales Budget

Sales budget is considered as the starting point of comprehensive profit planning and control. Sales budget is prepared after the estimation of goods that are to be sold in near future. After having the idea of sales it can produce the goods to be sold and the purchase of goods are made accordingly. Sales budget is considered as the foundation of other budget. Sales budget is prepared for a definite period of time considering the number of planned and sales units. Sales budget determines the capital needed, raw material, manpower and other expenses. It is considered as the door to financial plan. So it is an estimation of sales of uncertain future where actual & planned does not vary with large units if properly estimated.

Table 5.1: Sales Budget Showing Actual and Planned

(In 100000 liters)

Year	Planned	Actual	Achieved %
2059/60	583.37	566.44	97.09
2060/61	616.68	600.08	97.31
2061/62	571.29	574.91	100.63
2062/63	536.28	569.57	106.20
2063/64	541.20	533.288	98.54

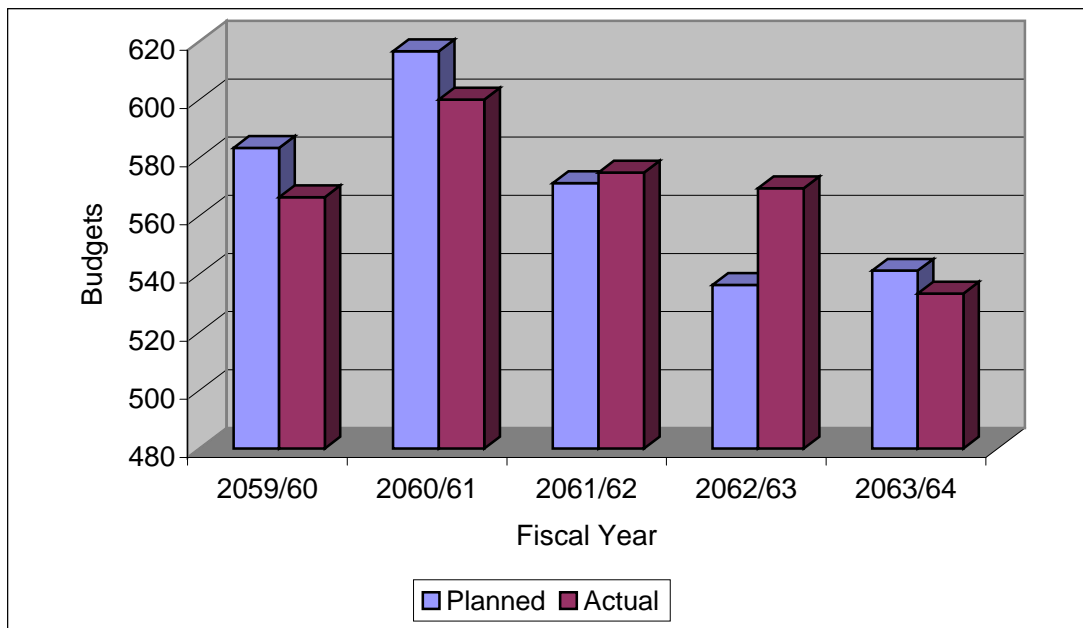
Source: DDC, Kathmandu Office

The above calculation shows the planned sales and actual sales of Dairy Development Corporation. Comparison is done to show the % achieved

of planned total. The table clearly shows that the target sales are able to achieved in the year 2061/62 and 2062/63 in other years DDC has not been able to achieve the target. It is somewhat stable in nature. The sale of 2061/62 and 2062/63 looks satisfactory. Except 2061/62 and 2062/63 DDC has not been able to achieve the set target. The sales achievement is 97.09%, 97.31%, 100.63%, 106.20%, 98.54% in the year 2059/60, 2060/61, 2061/62, 2062/63, 2063/64 respectively. When use analyzes the budgeted and actual sales figure of each year, we can say that target is not based on trends but are set on the basis of last year sales. When we prepare sales budget, past trend is studied and it should be considered as the basis of future forecast.

The target and actual sales achievement is shown in diagram below:

Figure 5.1: Target and Actual Sales Achievement



From the above figure Arithmetic mean, standard deviation, coefficient of variation, co-efficient correlation, and probable error is calculated.

Year	X	Y	x = $X - \bar{X}$	y = $Y - \bar{Y}$	x^2	y^2	xy
2059/60	583.37	566.44	13.61	-2.41	181.23	5.81	-32.80
2060/61	616.68	600.06	46.92	31.23	2201.49	975.31	1465.31
2061/62	571.29	574.91	1.53	6.06	2.34	36.72	9.27
2062/63	536.28	569.57	-33.48	0.72	1120.91	0.52	-24.10
2063/64	541.20	533.28	-28.56	-35.57	815.67	1265.22	1015.88
Total	2848.82	2844.28			$x^2 =$ 4321.64	$y^2 =$ 2283.58	$xy =$ 2433.56

Let,

X= Budgeted (Planned) sales

Y = Actual Sales

Calculation of Arithmetic Mean (A.M.)

$$\begin{aligned} \text{A.M. } (\bar{X}) &= \frac{\sum X}{N} \\ &= \frac{2848.82}{5}, = 569.76 \text{ units} \end{aligned}$$

$$\begin{aligned} \text{A.M. } (\bar{Y}) &= \frac{\sum Y}{N} \\ &= \frac{2844.28}{5}, = 568.85 \text{ units} \end{aligned}$$

Calculation of Standard Deviation

$$\begin{aligned} x &= \sqrt{\frac{\sum (X - \bar{X})^2}{N}} \\ &= \sqrt{\frac{4321.64}{5}}, = \sqrt{864.33}, = 29.40 \end{aligned}$$

$$\begin{aligned}
\sigma_y &= \sqrt{\frac{(\sum YZ\bar{Y})^2}{N}} \\
&= \sqrt{\frac{2283.58}{5}}, = \sqrt{456.72}, = 21.37
\end{aligned}$$

Calculation of co-efficient of variation

$$\begin{aligned}
\text{C.V. (X)} &= \frac{\sigma_x}{\bar{X}} | 100\% \\
&= \frac{29.40}{569.76} | 100\%, = 5.16\%
\end{aligned}$$

$$\begin{aligned}
\text{C.V. (Y)} &= \frac{\sigma_y}{\bar{Y}} | 100\% \\
&= \frac{21.37}{568.85} | 100\%, = 3.67\%
\end{aligned}$$

Table 5.2: Summary of the above Calculation

Items	Budgeted sales (x)	Actual Sales (y)
Mean	$\bar{X} = 569.76$	$\bar{Y} = 568.85$
S.D.	$\sigma_x = 29.40$	$\sigma_y = 21.37$
C.V.	X = 5.16%	Y = 3.76%

From the above analysis planned and actual sales are fluctuating each year. Both planned sales and actual sales are not variable. The relationship between budgeted and actual can be find out by another tool (i.e.) correlation co-efficient. The most important method of measuring the correlation between two variables. The relationship between two variables dependent and independent is called simple correlation. Karl Pearson's coefficient of correlation is the mathematical method of measuring the degree of association between the two variables say 'x' & 'y' (Sunity and Silwal, 2000). Here a statistical tool correlation of

coefficient (r) can be used to analyze the relationship between budgeted sales (X) i.e. independent variable & actual sales i.e. dependent variable. It is assumed that if budgeted sales increases then actual sales increases or vice versa. It means there is positive correlation between budgeted and actual sales.

The probable error (P.E.r) of the correlation coefficient is applicable for the measurement of reliability of the computed value of the correlation coefficient 'r'.

If $r < 6P.E.r.$, the value of 'r' is not significant. There is no evidence of correlation between the variables.

If $r > 6P.E.r.$, the value of 'r' is significant. There is no evidence of correlation between the variables.

Calculation of Karl Person's correlation of co-efficient (r)

$$r = \frac{XY}{\sqrt{(X^2)(Y^2)}}$$

$$= \frac{2433.56}{\sqrt{4321.64 \mid 2283.58}}, = \frac{2433.56}{3141.47}, = 0.77$$

Calculation of probable error (P.E.r) of correlation coefficient (r)

$$P.E.(r) = \frac{0.6745(1 - Zr^2)}{\sqrt{5}}$$

$$= \frac{0.6745(1 - 0.53^2)}{2.236}, = \frac{0.6745 \mid 0.41}{2.236}, = \frac{0.2765}{2.236}, = 0.12$$

This correlation shows that there is positive correlation between actual and planned. Actual sales will be in the same ratio of planned sales.

So the regression line of achievement y on budget x (y on x) is as follows.

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

$$Y - 568.85 = 0.77 \frac{21.37}{29.40} (X - 569.76)$$

$$Y - 568.85 = 0.56x - 319.00$$

$$Y = 0.56x + 568 - 319$$

$$Y = 0.56x + 249.85$$

From the above it is clear that there exist a positive relation between actual and budgeted sales. The actual sales for 2064/65 will be if say budget sale = 50000 units.

$$\dots Y = 0.56x + 50000 + 249.85$$

$$= 28249.85 \text{ Units}$$

If the relation remains then actual sales of 2064/65 will be 28249.85 by the above equation.

5.5 Production Budget

Production budget is prepared with the help of sales budget. It is the estimation of the quantity of goods to be produced during the period. The production is based on the sales. Production unit can be derived from the formula.

$$\text{Production} = \text{Planned Sales} + \text{Closing Inventory} - \text{Initial Inventory}$$

Generally two types of production plan are noted (i.e.) short-term and long-term production plan lies in the hand of production department. But

some time we see marketing department and other high level authorities are involved in production. The production of milk of DDC depends upon the collection of milk. DDC produces dry milk power to adjust the production in dry season.

DDC only prepares short-range plan and has not established inventory policy. The production of DDC is shown as under production budget of DDC.

Table 5.3: Production Budget Showing Actual and Planned

Year	Planned	Actual	Achieved %
2059/60	763.47	733.47	99.07%
2060/61	740.22	737.00	99.56%
2061/62	750.25	735.73	98.06%
2062/63	720.50	701.28	97.33%
2063/64	675.00	676.14	100.16%

The above table shows the percentage achieved of the set target. The percentage achieved in the year 2063/64 is satisfactory. The minimum achievement is 97.33% of the planned target. Mean, standard deviation, co-efficient of variation and correlation coefficient is shown. The detail calculation is shown below.

X = Planned Production

Y = Actual Production

Year	X	Y	x = $X - \bar{X}$	y = $Y - \bar{Y}$	x^2	y^2	XY
2059/60	763.47	733.47	33.59	16.75	1128.29	280.56	562.63
2060/61	740.22	737.00	10.34	20.28	106.92	411.29	209.69
2061/62	750.25	735.73	20.37	19.01	414.94	361.38	387.23
2062/63	720.50	701.28	-9.38	-15.44	87.98	238.39	144.83
2063/64	675.00	676.14	-54.89	-40.58	3012.90	1646.74	2227.43
Total	3649.44	3583.62			$x^2 =$ 4751.03	$y^2 =$ 2938.36	$xy =$ 3531.81

Calculation of Arithmetic Mean (A.M.)

$$\begin{aligned} \text{A.M. } (\bar{X}) &= \frac{X}{N} \\ &= \frac{3649.44}{5}, = 729.88 \text{ units} \end{aligned}$$

$$\begin{aligned} \text{A.M. } (\bar{Y}) &= \frac{Y}{N} \\ &= \frac{3583.62}{5}, = 716.72 \text{ units} \end{aligned}$$

Calculation of Standard Deviation

$$\begin{aligned} x &= \sqrt{\frac{(X - \bar{X})^2}{N}} \\ &= \sqrt{\frac{4751.03}{5}}, = \sqrt{950.21}, = 30.81 \end{aligned}$$

$$\begin{aligned} y &= \sqrt{\frac{(Y - \bar{Y})^2}{N}} \\ &= \sqrt{\frac{2938.36}{5}}, = 24.24 \end{aligned}$$

Calculation of Co-efficient of Variation

$$\begin{aligned} \text{C.V. (X)} &= \frac{\bar{x}}{\bar{X}} | 100\% \\ &= \frac{30.81}{729.88} | 100\% , = 4.22\% \end{aligned}$$

$$\begin{aligned} \text{C.V. (Y)} &= \frac{\bar{y}}{\bar{Y}} | 100\% \\ &= \frac{24.24}{716.72} | 100\% , = 3.38\% \end{aligned}$$

Table 5.4: Summary of the Above Calculation

Items	Budgeted sales (x)	Actual Sales (y)
Mean	$\bar{X} = 729.88$	$\bar{Y} = 716.72$
S.D.	$\sigma_x = 30.81$	$\sigma_y = 24.24$
C.V.	$X = 4.22\%$	$Y = 3.38\%$

Another method is used to analyze the relationship between two figures. The method is correlation coefficient.

X = Independent Variable

Y = Dependent Variable

Calculation of Karl Person's correlation of co-efficient (r)

$$\begin{aligned} r &= \frac{\sum xy}{\sqrt{(\sum x^2) (\sum y^2)}} \\ &= \frac{3531.81}{\sqrt{4751.03 \times 2938.36}} , = \frac{3531.81}{3736.34} , = 0.94 \end{aligned}$$

Calculation of probable error (P.E.r) of correlation coefficient (r)

$$\begin{aligned}
 \text{P.E.}(r) &= \frac{0.6745(1 - Zr^2)}{\sqrt{5}} \\
 &= \frac{0.6745(1 - Z0.94^2)}{2.236}, = \frac{0.6745 | (1 - Z0.8836)}{2.236}, = 0.035
 \end{aligned}$$

Correlation of coefficient is positive. There is 94% correlation in actual production and planned production. We can fit regression line to show the degree of relationship between planned production and actual production and forecast the possible actual production with given budget figure. So the regression line of achievement y on budget x (y on x) is as follows.

$$\begin{aligned}
 Y - \bar{Y} &= r \frac{Y - \bar{Y}}{X - \bar{X}} (X - \bar{X}) \\
 Y - 716.72 &= 0.94 \frac{24.24}{30.81} (X - 729.88) \\
 Y - 716.72 &= 0.74(X - 729.88) \\
 Y &= 0.74X + 176.94
 \end{aligned}$$

Correlation of coefficient is positive. The regression shows that there is positive relationship between planned production and actual production. By using the above equation to find out the actual production of 2064/65 the following result is derived say planned production is 60000 units.

$$\begin{aligned}
 \dots Y &= 0.74X + 176.94 \\
 &= 0.74 | 60000 + 176.94, = 44576.94 \text{ Units}
 \end{aligned}$$

If the relationship between budgeted production and actual production remains same as previous year than the actual production for 2064/65 will be 44576.94. On the analysis of milk production, collection and actual,

the actual is nearly touching the planned, even sometimes exceeding the target. So we can conclude that production is satisfactory and the production will increase in future as desired by Dairy Development Corporation.

5.6 Raw Material Budget

Raw material is a one of the important element of production. Raw material budget is prepared after the completion of production budget without raw material we cannot produce finished goods. So comprehensive PPC program includes planning and controlling of raw material and components used in the manufacturing of finished goods. When raw material requirement or consumption is known then considerations should be given on inventories of raw materials. Raw material to be purchased is calculated by using the following formula.

$$\text{Material Purchase} = \text{Material Usage} + \text{Final Inventory} - \text{Initial Inventory}$$

Raw material to be purchase budget is prepared by the types of raw material and by interim periods. It should clearly show that when and how much the raw material is needed for production process and when, how much to be purchased. Raw material purchases budget should be clearly show the quality of raw material and cost of raw material to be purchased.

Milk is basic raw material of DDC to produce milk and dairy product. DDC has established a network of milk collection center in urban area of the country. DDC's strategy of milk collection composes of the base milk collection center. This is the lowest level that is contact with the direct farmers. The farmers, around the area about walking hour of one to four distances are bringing the milk to these milk collection centers. Usually

milk is collected in the morning and evening. Most of the milk collected from the collection center has to be transported by farmers and vehicles to the chilling center and then milk is preserved. Milk chilling center serves as a bulk milk collection center as well as a chilling place.

Dairy Development Corporation has not prepared the raw material purchase budget and not considering about raw material inventories. So DDC mostly depended upon the collection of milk but has not implement any effective and scientific program to the farmers to improve animal husbandry nor milk collection center are expanded to rural areas. So thousand of liters of milk, which is being produced in those area, is being wasted and thereby having no return to farmers. DDC is unable to collect very cheapest milk of rural area is obliged to purchase dearest milk of quasi-town area. There is invariantly some losses of milk in collection center i.e. 1 to 1.5 percent, from milk chilling center to factory 1 percent to 0.5 percent at the plant, 1 percent at the store and 0.5 percent from the distribution due to handling transportation and human errors in testing etc. The main product of DDC is pasteurized milk with 3 percent fat and 8 percent SNF which is filled in 0.5 liter bottle as well as 0.5 plastic packets. It is distributed through DDC's own vehicles under contract the various distribution points that is milk booth, sales centers etc. around the junction of cities two times a day morning and evening. The personnel attending the milk booth are not the staff of DDC. However, they are paid fixed amount as per the amount of milk. In this way the DDC has to involve from the milk collection to service to consumers. Due to seasonal fluctuation in milk collection it has to re-combine and re-constitute with imported powder milk heavily during lean period starting February to July in order to keep up demand of milk and milk products. The surplus milk in one project is delivered to another project for balancing the

supply and demand portion in flush as well as in lean season from 2056/57 Biratnagar dairy distribution project is producing skim milk powder as a raw material.

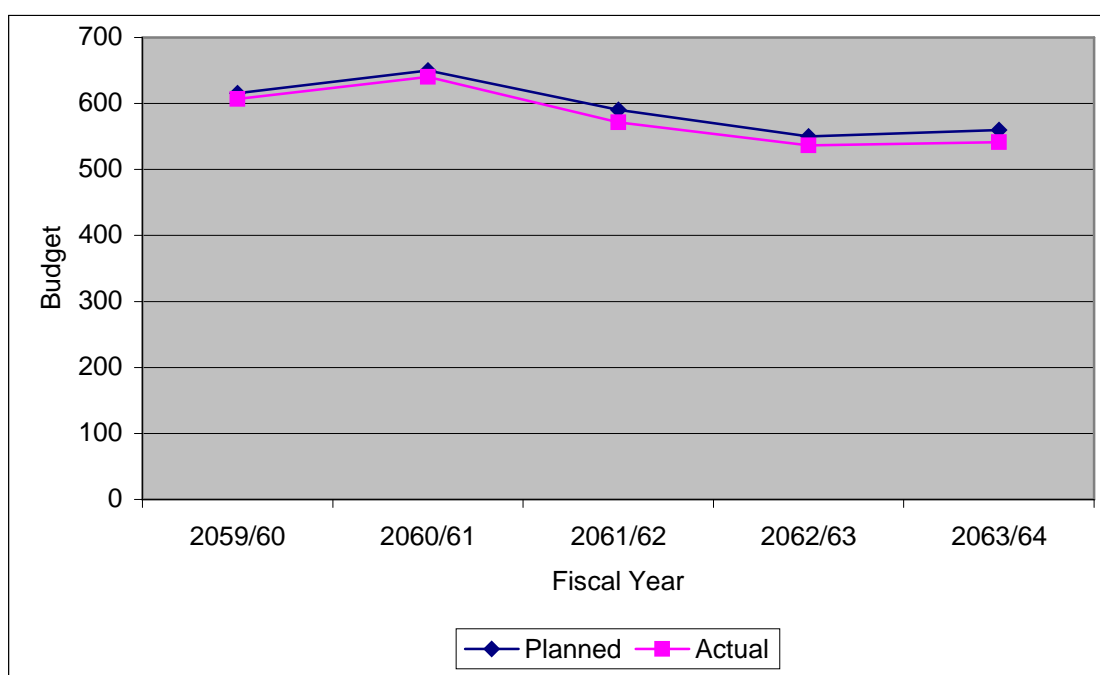
Table 5.5: Dairy Development Corporation Milk Collection Target and Comparative Progress from Fiscal Year 2059/60 to 2063/64

(in Lakh Units)

Year	Planned	Actual	Achievement in %
2059/60	615.50	606.85	98.60
2060/61	650.00	640.22	98.50
2061/62	590.50	571.29	96.75
2062/63	550.00	536.28	97.50
2063/64	560.00	541.20	96.64

Source: Auditor of DDC

Figure 5.2: Milk Collection, Target and Comparative



5.7 Direct Labour Budget

Direct labour budget specifies about the manpower requirement in term of both direct labour hours and labour cost. This budget point out estimate of direct labour planning and is the subject of personal management which is to apply the concept of profit planning in manufacturing enterprise effective planning, control of labour cost and scientific personal management starts from recruitment to job retire. Direct labour budget is prepared according to the needs of organization and by adopting the same method of other budget.

Most of Nepalese manufacture PEs, there are existing over staff. When we analyzed the direct labour of DDC, there is no systematic approach of planning personal management. DDC has fixed salaries to employee and few daily wages workers are employed in the corporation. These daily wages workers are allowed to work when the necessary is felt. From this approach, we can say that DDC has neglected basis of productivity and piece of work. DDC has no any effective programs to increase the morale of employees. It has also not encouraged its employees to work with zeal.

DDC has only records of total number of employees as technical and administration. The officer level and assistant level staff are in technical and administration level.

Table 5.6: Manpower Planning Staff Members of Dairy Development Corporation for Fiscal Year 2063/64

S.N.	Name of Project	Technician		Administration		Total
		Officer	Assistance	Officer	Assistance	
1	Central Office	6	4	18	43	71
2	KMD	20	179	10	136	345
3	HMD	5	84	4	53	146
4	BMD	2	106	6	56	170
6	LMD	4	41	2	25	72
	MPSDP	7	113	5	48	173
	Total	44	527	45	361	977

Staff Members of DDC

Post	Technician	Administration	Total
Officer	44	45	89
Assistance	527	361	888
Total			977

Source: Administration Section of DDC and Official Record

5.8 Capacity Utilization

Capacity utilization is one of most important aspect of financial performance of any manufacturing PEs. Both production and sales plans are depended on capacity of machine higher capacity, higher units can be produced, cost of product also depended upon the utilization full utilization means low cost of product and low utilization of capacity increase per unit manufacturing costs over utilization of capacity reduce working life of machine.

DDC has a total production capacity of 25000 liters per shift. If the capacity is utilized 5 hrs per shift the total production capacity is 125000 liters. Reference of skim milk powder plant can produce 3 metric ton skim milk powder by processing 40000 Liters milk per shift.

Table 5.7: Production Capacity Established Under Dairy Development Corporation

(In Lakh)

S.N.	Particular	Production Capacity P/hrs	Holding Capacity	5 hrs Operation/shift (P/day)
1	KMSS	15000	135000	75000
2	HMSS	3000	60000	15000
3	BMSS	5000	90000	25000
4	LMSS	2000	21000	10000
Total		25000	306000	125000

Per year capacity $125000 \times 365 = 45625000$

Table 5.8: Capacity Utilization Dairy Development Corporation Milk Production

(In Lakh Units)

Year	Production in Lakh Liters	Capacity Utilization %
2059/60	606.85	133
2060/61	640.22	140
2061/62	571.29	125
2062/63	536.28	117
2063/64	541.20	118

Capacity Utilization = $\frac{\text{Production}}{\text{Capacity}} \times 100$

Capacity = $125000 \times 365 = 45625000$

The above of capacity position shows that the greater utilization of capacity but on the other hand the production is decreasing. The capacity utilization position and the productivity level are not well adjusted. The coordination is not seen between capacity utilization and production. From this analysis, we can say that it is running with over utilization. In this case, machine is utilized most efficiently but it is not favourable for long term. Working life of machine will be reduced and it will also increase higher maintenance cost and because of over capacity utilization, cost has also increased and machine may break at any time. Therefore, production and capacity of utilization relationship is poor.

5.9 Overhead Expenses Trend of DDC

The expenses condition of DDC in different five years, the expenses are administration, depreciation, collection expenses, processing expenses and selling expenses. These are as follow:

Table 5.9: Dairy Development Corporation Overhead Expenses

FY	Administration	Depreciation	Collection	Processing	Selling
2059/60	72649263	28146823	110164928.3	205368892	39686500
2060/61	79998862	29428738	1198481863	271312817	40905163
2061/62	61131047	29993611	1127653155	233845039	39302977
2062/63	76692653	29406299	1132317996	346325345	41093440
2063/64	73529349	31778505	1144708429	284171570	42681441

Sources: Annual Report of DDC

From this above table we can see that administration and collection expenses are in increasing trend and other depreciation, processing, selling expenses are fluctuating in every years.

5.10 Cost Volume Profit Analyses (BEP Analysis)

Cost volume profit (CVP) analysis is the process of examining the relationships among revenues, costs and profits for a relevant range of activity and for a particular time frame. It is one of the most important and powerful tools that managers have at their command in short-term planning. It helps manager understand the interrelationship between cost, volume and profit in an organization by focusing on interaction between the following five elements:

- a. Price of Products.
- b. Volume or level of activity.
- c. Per Unit variable costs.
- d. Total fixed costs.
- e. Mix products sold.

CVP analysis seeks to estimate the profit or loss at different activity level. The aim of CVP is to have a fair estimate of total costs, total revenue, and profit at various sales volume.

- a. On the analysis of DDC position the following assumption should be consider.
- b. It is based on profit and loss account of FY 2063/64.
- c. Opening and closing stock are not changed.
- d. Selling price, fixed cost, variable cost are assumed to be remain constant.
- e. Calculations are based on total basis.
- f. Other types of income are not included in total revenue.
- g. Activity based is selected in terms of sales revenue.

BEP Cost Volume Profit Analysis:

Total Sales Revenue = Rs. 1634589337

Total Fixed Cost = Adm. + Dep. + Gratuity + Interest
= 73529349 + 31778505 + 4663760 + 54353267
= Rs. 164324881

C/exp. + P/cost + S/E

Variable Cost = 1144708429 + 284171570 + 42681441
= Rs. 1471561440

Calculation of BEP

Contribution Margin = Sales Revenue – Variable Cost
= Rs. 1634589337 – 1471561440
= Rs. 163027897

$$\text{P/V Ratio} = \frac{\text{CM}}{\text{Sales}}, = \frac{163027897}{1634589337}, = 0.10$$

Variable Cost Ratio = 1 – PV/Ratio
= 1 – 0.10, = 0.90

$$\text{BEP of DDC} = \frac{\text{Fixed Cost}}{\text{P/V Ratio}}, = \frac{\text{Rs.164324881}}{0.10}, = \text{Rs. 1643248810}$$

BEP analysis is one of the important and powerful tool in running business in modern age. It is a logical extension of marginal costing. It is based on the same principle of classifying the operating expenses into fixed and variable. Policy makers can determine maximize profit and may change the level of production due to many reasons, such as competition, introduction of new product, depression or bloom, increased demand for the products, scarce resources, change in selling price of product etc.

The above calculation of BEP analysis shows us that the DDC is not in BEP. DDC is operating with high cost and prices are kept low, because

high cost or low prices clearly show a high BEP. There is no clear records and cost classification system. Top managers who are in decision-making level are not in favour of cost control and scientific record of cost, which shows wrong, finance sector of DDC. Without classification of cost there is no chance of cost control, where cost are uncontrolled ultimately the corporation will suffer in loss. On the other hand the collection and administrative cost is very high and low price of product in unable to higher profit.

5.11 Identification of Cost Separation

Determination of cost variability of each expenses item in a responsibility center is most critical problem in the development of various budget in every manufacturing enterprises. The classification of expenses by variability should begin within a careful study of each expenses in the responsibility center under consideration. Accounting department of DDC the comparison and classification of cost variability is a follows.

Table 5.10: Cost Separation of Dairy Development Corporation of 2063/64

Cost Item	Fixed	Variable
Collection	-	1144708429
Processing Exp.	-	284171570
Selling Exp.	-	42681441
Adm. Exp.	73529349	-
Depreciation	31778505	-
Interest on loan Exp.	4663760	-
Gratuity	53753234	-
Total	163724848	1471561440

5.12 Profit Trend of DDC

Table 5.11: Profit Trend of DDC

Year	Amount (Rs.)
2059/60	(227756810.76)
2060/61	8931871.41
2061/62	10588194.06
2062/63	(1367713.79)
2063/64	(25541922)

Source: DDC Kathmandu Office

5.13 Dairy Development Corporation Description of Chilling Centre & Average Collection

Table 5.12: Dairy Development Corporation Description of Chilling Centre & Average Collection

Project	District	Chilling Centre	M.P.C.A.	Milk Collection Per Day
KMSS	7	16	457	88000
BMSS	6	10	120	28200
HMSS	4	7	107	13894
MPMSS	3	3	42	1070
LMSS	3	5	68	12500
Other	6	-	-	-
Total	29	41	794	143664

Source: DDC, Kathmandu Office

5.14 Variance Analysis

Variance is the difference between the budgeted and actual result. Variance analysis gives the knowledge about the difference in the two

amounts. In this study two variance is calculated (i.e.) sales and production and analysis done of the variance in sales and production is shown.

Table 5.13: Statement of Variance of Budgeted and Actual Sales

Year	Budgeted	Actual	Variance	Remarks	%
2059/60	583.37	566.44	-16.93	Adverse	2.90
2060/61	616.68	600.08	-16.60	Adverse	2.70
2061/62	571.29	574.91	3.62	Favorable	0.63
2062/63	536.28	569.57	33.29	Favorable	6.28
2063/64	541.20	533.28	-7.92	Adverse	1.46

Source: DDC, Kathmandu Office

Table 5.14: Statement of Variance of Planned and Actual Production

Year	Budgeted	Actual	Variance	Remarks	%
2059/60	763.47	733.47	-30.00	Adverse	3.93
2060/61	740.22	737.00	-3.22	Adverse	0.44
2061/62	750.25	735.73	-14.52	Adverse	1.94
2062/63	720.50	701.28	-19.22	Adverse	2.67
2063/64	675.00	676.14	1.14	Favorable	0.16

Source: DDC, Kathmandu Office

5.15 Profit and Loss Account

Profit and loss account of the company can be defined as a final account which summarizes the incomes and gains earned and expenses incurred during the financial year, and the results thereof. Profit and loss account is prepared to ascertain the operating results of a company in terms of net profit or loss. The profit and loss account determines net income or loss by matching incomes and expenses occurred during a particular financial

year. It is the conclusion of operating performance of a company in an accounting year.

DDC's has not been able to earn reasonable profit. It is incurring heavy losses. At the end of accounting year DDC prepares income statement to show profit and loss. The profit and loss of dairy development corporation is as under.

**Table 5.15: Profit and loss A/C of Dairy Development Corporation,
Year Ending 2063/64**

Particular	Amount (Rs.)	Particular	Amount (Rs.)
To Collection expenses	1144708429	By Sales	1536340564
To Processing expenses	284171570	By Misc. income	16939055
To Selling expenses	42681411	By Closing stock	98248772
To Administration expenses	73529349	By Loss	25541922
To Depreciation	31778505		
To Interest on loan	4663760		
To Opening balance	41183989		
To Gratuity	53753234		
To Deferred exp. w/off	600066		
Total	1677070313	Total	1677070313

5.16 Balance Sheet

A Balance sheet is a statement of the financial position of a company prepared on a particular date. It shows the financial position of a concern at a given date of accounting period. A balance sheet may therefore be defined as "A statement prepared with a view to measure the exact financial position of a business on a certain date." R. Stead defines balance sheet as "Balance Sheet is a screen picture of the financial position of a going business at a certain moment." It shows the financial

position of the company in terms of its assets, liabilities and share capital as on the date for which it is prepared. A Nepalese company has to prepare its balance sheet in a form prescribed by the company act 2053 of Nepal. So a balance sheet is a written statement showing the amount of money and property it has and the amount to be paid out.

The accounting department of DDC prepares a balance sheet to show the asset, liabilities and share capital it possess. Balance sheet shows the strength and weakness of the company and is prepared at the end of accounting period. Below given is the balance sheet of the year 2062/63 of DDC.

Table 5.16: Balance Sheet of Dairy Development Corporation as Year Ending 2063/64

Liabilities	Amount	Assets	Amount
Corporate Fund	127140178.33	Fixed Assets (In use)	259592818.85
Foreign Receipts	331370883.40	Fixed Assets (Unused)	10723578.23
Others Liabilities	92291327.56	Investment	1545264.97
Foreign Grants	1545264.97	Bank & Cash Balance	273990365.19
Long Term Loan	83301488.85	Inventory (Milk Products)	98248772.79
Tax & Int. Payable	44797385.77	Other Inventory	70950805.40
Wages Outstanding	50783117.89	Advance & Debtors	98145315.56
Deposits	11491243.97	Accumulated Loss	26909635.00
Others Provision	289671235.79		
Others Payable	22348564.85		
Provision for Tax	5912710.00		
Total	1060653401.38	Total	1060653401.38

Source: Annual report of DDC

5.17 Findings

Based on the study of DDC the following findings are derived.

- a. DDC has been relying on short term profit plan.
- b. Inconsistency is seen in production and sales. It is neither in increasing nor in decreasing trend.
- c. Positive correlation is seen in both sales & production (budgeted and actual).
- d. DDC lacks expert planner and a separate planning dept.
- e. DDC has been able to achieve more than 100% of the set targets in some years.
- f. Losses are seen in transportation.
- g. Production is not as high as the capital invested.
- h. Profit earning is not consistent, heavy losses is seen.
- i. DDC is highly optimistic in setting target. Sometimes unattainable targets are set.
- j. Profit planning & control system is not adopted seriously by DDC.
- k. Delay in accounting and auditing work is seen.
- l. The present management has not brought program for future to lift the financial position of DDC.
- m. Average % achieved in terms of production is 98.24%
- n. Normal gap is seen between budgeted and actual sales. Actual sales amount to 99.95% of budgeted sales.
- o. Highest achievement in terms of sales and production are 106.20% and 100.16%.
- p. The regression line of production achievement on budget production is $y = 0.74x + 176.94$ and of sales on budgeted sales is $y = 0.56x + 249.85$.

CHAPTER – VI

SUMMARY, CONCLUSION AND RECOMMENDATION

6.1 Summary

Public enterprises has emerged in both developed as well as under developed countries. As a developing country in Nepal we see public enterprises has emerged at a rapid pace. It is considered as an effective carrier of developmental activities. Emergence of public enterprises has played a great role in the process of economic development in Nepal. Industrialization is the fundamental goal of under developed and developing countries, as organization are established to absorb raw material, provide employment and substitute the import by export. But we see most of the public enterprises suffering heavy losses and the reason behind the loss are many, such as unclear-cut and unspecific goals, unnecessary political pressure, lack of skilled man power, lack of communication and lack of quality product. Ineffective planning system and procedure is also one among them.

Dairy Development Corporation is one of the prominent producer and supplier of milk & milk products in Nepal. DDC has been facing tough competition from other dairy enterprise. Because of the quality product it has been able to survive in the market. The most important and unchangeable objective of any enterprise is to earn profit providing quality products to the customers. Profit is the lifeblood of the organization, which not only keeps the business in good condition but also assures future certainly of any organization. For the achievement of the profit, profit planning is considered as an important tool used in the business, as the main objectives of any organization is to better the profit.

Planning is broadly divided into two groups as functional and financial plan. Functional plan includes budget such as production, sales, labour budget. These determine the estimated amount for future period. Financial plan on the other hand includes income statement, cash flow & balance sheet. Planning is only a qualitative expression of plan, it begins with sales budget and culminates in the profit & loss a/c & B/S. Operation is effective can be said only when income exceeds the expenditure. Profit is earned only when there is proper management. Profit planning is only considered as the activities of business. Profit earning is the policy of any enterprises and the use the technique of profit planning helps in analyzing the strength, and weakness, opportunities and threats of business.

Comprehensive profit planning and control assumes the target to better the economic status irrespective of the type, size & nature of organization. Throughout the research period different books, reports, periodicals, article and various thesis are thoroughly studied. A general concept is presented in conceptual framework. Different suggestion and direction as provided by the guide are also included in the research work.

Analytical as well as descriptive research design is followed to carry out this research. Mainly the secondary data as provided by DDC office has been used for purpose of analysis. For the analysis of the collected data various method have been used such as percentage, mean, standard deviation, co-efficient of variation, variance and ratio. For the analysis purpose five years data are taken into account (2059/60 to 2063/64).

The study has been organized in six main chapters i.e. (i) Introduction (ii) conceptual framework (iii) Review of Literature (iv) Research Methodology (v) Data Presentation and Analysis (vi) Summary, Conclusion and Recommendations.

6.2 Conclusions

The conclusion derived from the study of Dairy Development Corporation as one of the leading milk and milk product supplier are as under.

Sales: The systematic and formalized approach has not been applied in terms of setting targets of sales and failing to achieve the set target.

Sales forecasting is done on the basis of the past year sales. Sales targets are set without studying the market. Normal gap is seen in the budgeted and actual sales figure.

Short-term sales plan is practiced. The amount of sales is determined on the sales strategy of the management. Public taste, fashion, price of the substitute goods are also taken into a/c while determining the price of the product as product standardization greatly affects the sale of product. Appropriate sales and advertisement strategy is not adopted. Inconsistent production has lead to inconsistent sales. As several competitor are emerging in the market DDC has not been able to control the whole market this is because of lack of market research and not adopting appropriate selling and advertisement strategy. So sales have not favoured DDC. More expenses is needed in advertisement department.

Production: Sales is largely depended on the quality of the production and it is an important element in any organization and play a great role in analyzing the sales and other expenses. If one makes an indepth study he or she will see that production level of milk and other products is not satisfactory as compared to the demand. It has not been able to produce the needed/demanded quantity by the consumer and in the mean time failing in the process. Instability is seen in production. In an overall

survey it has failed in the production department in comparison to demand.

Profit: Inconsistency is seen in terms of profit. We see DDC is suffering heavy loss in most of the years and hardly managing to earn profit in a year. Lack of proper vision is also considered to be the reason behind the loss. Other reasons of losses are lack of trained manpower, high transportation cost and production expenses, outdated technology, over staffed. DDC has not focused on profit rather it has focused on the quality and health of the consumer. The loss of DDC is mounting day by day.

Planning: Planning is defined as a course of action taken by the organization to meet the desired result. Planning is the act or process of making plans for future. In case of DDC the planning has not run within the objectives. Just in time planning or short term planning is seen in case of DDC. DDC is not practicing long-term plans. Wrong use of DDC's, human resource evaluation of performance of employees, milk collection process and inadequate expenses in advertisement and financial plan is seen so wrong planning has lead to the loss in DDC.

Resource: Resources includes human and others. Resources including human are not utilized to a great extent or upto the maximum limit. Inadequate training and exposure of foreign technical know how is seen. Remuneration and facilities are inadequate as they are not able to give their cent percent and thereby leading to the failure of the corporation. Morale of the employees seems to be very low. Communication gap is also one of the reasons. Maintenance and replacement of machine and material is seen for the smooth operation of the corporation. Need of investment is seen in research and development work. So it should focus an R and D process regarding market, new product, Raw

material, skilled manpower. R and D should be done at micro level as well as macro level.

Accounting: Keeping the up-to-date records accurately and efficiently shows how well the organization is running. Records show the true picture of the organization. The timely preparation of account such as profit and loss account, cash flow, balance sheet and budgets helps in many way to the organization. Internal auditing can be of great help in enhancing its performance by taking action before hand. In terms of accounting system DDC seems poor. Only profit and loss, account and balance sheet are kept on record. Internal auditing is unsatisfactory. DDC has failed mainly because of improper or lack of accounting system. Timely publication of annual report is not seen.

Others:

- a. DDC does not plan for the expansion of the market, research and development and profit margin. It has only planned for production and sales.
- b. Plans are not prepared in realistic ground. DDC has lacked in budgeting experts, skilled planner. Plans are prepared still in traditional basis.
- c. Budgeted and actual figure are not satisfactory.
- d. The comparison of actual sales and production shows that it produce goods in accordance with the sales.
- e. There is no clear-cut policy and planning regarding inventory.
- f. The variance in production and sales (i.e.) actual and budgeted shows adverse.
- g. Over utilization of capacity and high cost of capital is seen.
- h. Liquidity position seems unsatisfactory.

- i. Positive response from customer is seen in terms of quality.
- j. High quality product and increasing demand is the strength of DDC despite loss. High production cost, heavy competition within the country, transportation problem, lack of modern equipment and limited domestic market are the main weakness seen.

6.3 Recommendations

The below given points are recommended to improve the formulation and implementation of profit planning process. It is expected that the recommendation provided will be useful to the management of DDC.

- a. DDC is seen relying only on short-term profit plan. It should also focus on long term profit plan.
- b. DDC should clearly define its long-term objectives. Planning should be done only after analyzing the internal and external factors affecting it.
- c. DDC should look for expert planner and skilled manpower with technical know-how.
- d. Sales budget forecasting should be made only after analyzing all variables that affects the market. Effective program should be introduced to study the market. Sales should be increased.
- e. The pricing policy needs some change. Cost of the production should be considered while setting the price of the products.
- f. Program should be introduced to face competition and improve the quality of the products. Quality should be focused than price.
- g. Proper planning should be for inventory. Storage cost should be reduced.
- h. Proper co-ordination between production and market demand is a must.

- i. Variance as seen should be analyzed and DDC should come out with quick solution. The reason of unfavorable variance should be diagnosed and identified timely.
- j. DDC's profitability condition seems very poor. It should try to better the condition. Proper planning and cost reduction seems to be the only remedy. Cost control program should be introduced.
- k. Special program should be launched to maintain good liquidity position.
- l. DDC should focus on its strength and fight against weakness.
- m. DDC should operate on commercial basis.
- n. The company should fight against problem by launching special program and work toward accomplishing the objectives.
- o. In order to achieve the organizational goal efforts should be made to increase the production of milk and milk product. Collection of raw material should be made systematic.
- p. DDC should work towards removing the loss of milk in production such as storing wastage, distribution wastage and process wastage.
- q. Importance and role of various budgets should be understood by all level manager of DDC.
- r. DDC must try to increase collection by increasing chilling centers and expand collection network. Providing incentive to farmers by DDC is needed.
- s. DDC should come up with long term planning and advertisement strategy.
- t. Decision should be made by consulting all level manager and employees of corporation. Proper communication between lower level and higher-level manager is a must.

- u. DDC should induct trained and skilled manpower. The present man power and staff should be made well-trained and should instill some sense of responsibility in them.
- v. DDC is over staffed. Existing staff should be cut down to a reasonable level thereby avoiding unnecessary expenses.
- w. DDC must take fair and reasonable price of the product. Quality should be focused rather than quantity.
- x. Optimum capacity utilization is not seen in every aspect i.e. resources.
- y. Corporation is facing with the problem of under capitalization by which production is affected. To increase the production capacity and sales financial arrangement should be made.

DDC should focus on the above points and better the financial position. Applying the above concept can definitely contribute towards fulfilling the objectives of the corporation in the mean time improving the health and financial condition of people of Nepal.

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