

COST-VOLUME-PROFIT ANALYSIS OF PUBLICATION HOUSE

(Comparative Study of the Nepal News Network International & Nepal Republic Media)

A Thesis

Submitted by:

Ganesh Prasad Acharya

Nepal Commerce Campus

TU Regd. No.: 7-1-22-679-2000

Campus Roll No.: 995/2063/64

Exam Roll No.: 252586

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The thesis entitled "**COST- VOLUME- PROFIT ANALYSIS OF PUBLICATION HOUSE**" (**Comparative study of the Nepal News Network International and Nepal Republic Media**) submitted to the office of Dean, Faculty of Management, Tribhuvan University. The main objectives of the study is " To compare the cost and profit scenario between the Nepal News Network International and Nepal Republic Media" and special objectives are analyze of existing position, breakeven point, profit volume ratio and margin of safety ratio of the companies.

I would like to express my sincere graduate to people who helped me in carrying out this study. First, I am very much grateful to **Mr. Chandra Deep Lamichane**, Lecture, Nepal Commerce Campus and **Mr.Keshav Pandey**, Lecture, Nepal Commerce Campus who supervised me throughout the study for their inspiration, supervision, regular guidance and generous help for the preparation of this thesis.

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Ganesh Prasad Acharya

Date:.....

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

Ganesh Prasad Acharya

Entitled

COST VOLUME PROFIT ANALYSIS OF PUBLICATION HOUSE

(Comparative study of The Nepal News Network International & Nepal Republic Media)

Has been prepared as approved by the Research Department in the prescribed format of faculty of management. This thesis is forward for examination.

Dr Susil Bhakta Mathema

(Head of Research Department)

Ms Jyoti Pandey

(Campus Chief)

Mr. Keshav Pandey

(Supervisor)

Mr. Chandra Deep Lamichane

(Supervisor)

VIVA- VOICE SHEET

We have conducted the viva voce examination of the thesis presented by

Ganesh Prasad Acharya

Entitled

COST VOLUME PROFIT ANALYSIS OF PUBLICATION HOUSE

(Comparative study of The Nepal News Network International & Nepal Republic Media)

and found the thesis to be the original work of the student written according to the prescribed format. We recommended the thesis to be accepted as partial fulfillment of the requirement for the Master's Degree in Business Studies (MBS.)

Viva- Voce Committee:

Head of Research Committee

Member (Thesis supervisor)

Member (Thesis supervisor)

Member (External Expert)

DECLARATION

This thesis **COST VOLUME PROFIT ANALYSIS OF PUBLICATION HOUSE (Comparative study of The Nepal News Network International & Nepal Republic Media)** submitted to the office of Dean, Faculty of Management, Tribhuvan University is my original research work. Wherever contributions of others are involved, every effort is made to indicate this clearly, with due reference to the literature, and acknowledgement of collaborative research and discussions.

The work was done under the guidance of Lectur Mr. Chandra Deep Lamichane and Keshav Pandey, at the Nepal Commerce Campus Trivhuvan Unirversity.

.....

Ganesh Prasad Acharya

(Researcher)

T.U. Regd. No: 7-1-22-679-2000

Campus Roll No.: 995/2063/64

Date:

TABLE OF CONTENTS

RECOMMENDATION.....	
VIVA- VOCE SHEET	
DECLARATION	
ACKNOWLEDGEMENTS.....	
ABBREVIATIONS USED.....	
CHAPTER –I.....	1
INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.2 Meaning of Media.....	1
1.2.1 History of Nepali Print Media.....	2
1.2.2 Profile of the Concerned Organization.....	2
1.3 Statement of the Problem.....	3
1.4 Objective of the Study.....	4
1.5 Significance of the Study.....	5
1.6 Limitation of the Study.....	5
1.7 Organization of the Study.....	5
CHAPTER – II.....	7
RIVIEW OF LITERATURE.....	7
2.1 Conceptual Framework	7
2.2 Historical Background of Print Media.....	7
2.3 Introduction of Profit Planning.....	13
2.3.1 Profit.....	13
2.3.2 Planning.....	14
2.3.3 Profit Planning.....	15
2.4 Cost Volume Profit Analysis.....	15
2.4.1 General Assumption in Cost- Volume- Profit Analysis.....	16
2.4.2 Application of Cost- Volume- Profit Analysis.....	18
2.4.3 Importance of CVP Analysis.....	18
2.4.4 Limitation of CVP Analysis.....	19
2.5 Cost Classification.....	19
2.5.1 Cost Classification for product costing.....	19

2.5.2 Functional Classification of costs.....	21
2.5.3 Cost Classification for Profit Maximization Decision.....	22
2.5.4 Cost Classification for Control.....	24
2.5.5 Cost Classification for Financial Reporting.....	24
2.5.6 Cost Classification on the Basic of Cost Behavior.....	25
2.6 Absorption Costing and Variable Costing.....	30
2.7 Contribution Margin Analysis.....	31
2.7.1 Contribution Margin Ratio (C/M Ratio).....	32
2.8 Break Even Analysis.....	33
2.8.1 Approaches to Break-Even Analysis.....	33
2.8.2 Application of Break Even Analysis.....	37
2.8.3 Assumption of Break Even Analysis.....	37
2.8.4 Limitation of Break Even Analysis.....	38
2.9 Margin of Safety.....	38
2.10 Economic Characteristics of Cost Volume Profit Analysis.....	40
2.10.1 Cost Volume Profit Analysis for Multi Product Firms.....	41
2.10.2 CVP Analysis with a Single Constraint.....	42
2.10.3 Cost Volume Profit Analysis and Limiting Factors.....	42
2.10.4 CVP Analysis under Condition of Uncertainty.....	42
2.10.5 CVP Analysis with Multiple Constraints.....	43
2.10.6 Special Problems in CVP Analysis.....	43
2.11 Sensitivity Analysis.....	44
2.11.1 Risk Measurement: The Operating Leverage and Breakeven Point.....	45
2.11.2 Impact of Changes on Profit.....	46
2.12 Review of Previous Studies.....	47
2.13 Research Gap.....	50
CHAPTER – III.....	52
RESEARCH METHODOLOGY.....	52

3.1 Introduction.....	52
3.2 Research Design.....	52
3.3 Research Population and Sample.....	53
3.4 Source and Type of Data.....	53
3.5 Variables of Studies.....	53
3.6 Method of Analysis and Presentation.....	54
3.6.1 Descriptive Technique.....	54
3.6.2 Quantitative Techniques.....	55
3.6.2.1 CVP Analysis Tools.....	55
3.6.2.2 Statistical Tools.....	56
CHAPTER – IV.....	58
PRESENTATION AND DATA ANALYSIS.....	58
4.1 Introduction.....	58
4.2.1 Sales Value Analysis of the Nepal News Network Int. p. Ltd.....	59
4.2.2 Contribution Margin.....	62
4.2.3 Break Even Point.....	62
4.2.4 Margin of Safety.....	63
4.3 Cost of the NNNI and NRM.....	63
4.4 Variable Costs of NRM and NNNI.....	64
4.5 Fixed Cost of NNNI AND NRM.....	65
4.6 Sensitivity Analysis.....	69
4.7 Assessing the Impact When sales revenue or Operating Income Change....	69
4.8 Assessing the impact when Variable cost is change.....	70
4.9 Net Profit of the NNNI & NRM.....	74
4.10 Major Finding.....	75
CHAPTER – V.....	77

SUMMARY,CONCLUSION AND RECOMMENDATIONS.....	77
5.1 Summary.....	77
5.2 Conclusion.....	78
BIBLOGRAPGY.....	80

ABBREVIATIONS USED

BPE	:	Break Even Point
CM	:	Contribution Margin
CMPU	:	Contribution Margin Per Unit
CV	:	Coefficient of Variation
CVP	:	Cost Volume Profit
CVPA	:	Cost Volume Profit Analysis
DOL	:	Degree of Operating Leverage
DPAT	:	Desire Profit After Tax
e.g.	:	Example
etc	:	Etceteras
FC	:	Fixed cost
FY	:	Fiscal Year
i.e.	:	This is
Ltd	:	Limited
MBS	:	Masters of Business Studies
MOS	:	Margin of safety
NG	:	Nepal Government
NNNI	:	Nepal News Network International
NRM	:	Nepal Republic Media
PPC	:	Profit Planning and control
PVR	:	Profit Volume Ratio
Pvt.	:	Private
SD	:	Standard Deviation
VC	:	Variable Cost
VCPU	:	Variable cost per unit

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Cost Volume Profit analysis the variable costing approaches to analyze the build in relationship between cost volume and profit. It makes up use of principles of marginal costing. The systematic relationship between cost, volume and profit is known as CVP analysis. It is an analytical tool for analyzing the relationship among cost, price, profit, sales and production volume for a relevant range of an activity within a particular time frame. It is analysis of three variables viz, cost, sales or production volume and profit which explore the relationship existing cost revenue, activity levels and resulting profit. All these three terms are interrelated and depended on each other for instance, profit per unit of product depend on its selling price and its cost.

Cost-volume-profit Analysis examines the behavior of total revenues total cost and operation income as changes occur in the output level, the selling price, the variables cost per unit and or fixed cost or fixed cost of a product. [*Horngren Datar and Foster, 2003:15*]

Most of the business fails after a few years sometimes months of starting because they tend to do anything for volume without thinking how it's going affect the bottom line. CVP Analysis is a management accounting tool to show the relationship between the elements of profit planning. Profit planning is a functional of the selling price of product demands, variables costs, fixed costs, taxes etc. the whole picture of profit planning is associated with cost volume profit interrelationships. [*Bajracharya, Ojha, Goet, and Sharma 2005:225*]

1.2. Meaning of Media

The term media refers to those responsible for the periodic creation of information and content of its dissemination over which there is editorial responsibility, irrespective of the means and technology use for delivery which are intended on a significant proportion of general public. This could *interalia* include print media (newspaper, periodicals) and media disseminated over electric communication networks, such as broadcast media (radio, television and other linear audio visual media service).

On line news service (such as online edition of newspaper and newsletter) and non linear audio video media such as on demand television.

1.2.1 History of Nepali Print Media

Thirty years after the royal takeover of 1960 represented a repressive press system. During this time, press enjoyed limited rights and lobbied to a multiparty democracy that could not guarantee the press freedom.

The institutional history of Nepali press could be traced back to 1851 when Rana Prime Minister Jung Bahadur Rana installed a printing press (The Giddhe Press), or in 1901 when the state-owned newspaper, the Gorkhapatra, was launched, its practical history begins in the 1950s, after the fall of Ranas, when several pioneering journalists took to publishing newspapers in a transitional democracy.

After the Restoration of democracy in 1990 a drastic change came in the Nepali media particularly in the private sector. Liberal provision and guarantee of press freedom enshrined in the constitution opened up avenues for the private sector to involve in the media sector. The 1990's democracy yielded by the people's Movement also established rights and freedom of the press. The constitution of the kingdom of Nepal (1990) formally guaranteed the freedom of press and publication.

"No news/ articles shall be censored, provided that nothing shall prevent the making of laws to impose reasonable restrictions on any act which may undermine the sovereignty and integrity of the kingdom, or which may jeopardize the harmonious relations subsisting among the peoples of various castes, tribes or communities; or on any act of sedition, defamation, contempt of court or incitement to an offence; or on any act which may be contrary to decent public behavior or morality". **Constitution of Nepal, 1990**

1.2.2 Profile of the Concerned Organization

Nepal Republic Media Pvt. Ltd.

The *República and Nagrik News* is a national daily newspaper published by Nepal Republic Media Pvt. Ltd. in [Kathmandu, Nepal](#). The newspaper began its online edition on January 1, 2009 and print edition on April 24, 2009. Ameet Dhakal was the founding editor-in-chief of the newspaper but he resigned in April, 2012 and Kosmos Biswakarma took over the editorship.

Since 2009 Sukrabar was printed on every Thursday. For making the publication well, organized branch offices were established at Biratnagar, Nepaljung and Kathmandu. The process of distribution and advertisement are well maintained through these offices. At the same time, capable and experienced journalists are kept in the regional offices for the better coverage of the regions. From twelve pages, Nagarik Daily increased to the page up to 16, but it fluctuates according to time. Due to popularity of Saptahik, the 16 pages were increased to 24 pages but it fluctuates accordingly. Publications another progress in "Ripublica" a daily news paper for English Print published from 2009 Apr. 24.

Nepal News Network International Pvt. LTD.

International Media Network Nepal (Pvt) Ltd found its beginning in 2001 with its flagship newspaper, Annapurna National Daily, The Himalayan Times. We have grown today to become Nepal's largest selling English Daily.

Produced by an editorial team, led by editor Ajaya Bhadra Khanal, known for its quality, innovation and integrity, The Himalayan Times enjoy strong brand recognition among readers as well as advertisers. APCA Nepal (Pvt) Ltd is the marketer of Nepal's No.1 English Daily The Himalayan Times.

To usher in the Nepali New Year 2066, the website of the nation's number one English daily [The Himalayan Times](#) has re-launched in its brand new avatar. Taking full advantage of the vast resources and high ideals that have gone into making The Himalayan Times the numero uno English daily in Nepal, its web version seeks to ascend the heights of cyber excellence.

For making the publication well, organized branch offices were established at Butwal, Itahari and Kathmandu. The process of distribution and advertisement are well maintained through these offices

1.3 Statement of the Problem

Nepal is in infancy period of industrialization. The manufacturing sector is very small. In recent years the growth rate is relatively more satisfactory. The manufacturing sector has to face numerous problems which have acted as constraints in the growth of manufacturing industries. Mainly such problems are caused by the land locked situation of the country, undeveloped situation of the country, undeveloped situation of physical human, financial and administrative infrastructure and energy at reasonable rates, non-availability of trained and skilled manpower, shortage of capital, small size of market, unawareness of the industrial potential, higher cost of production, low productivity of inputs, manpower and technology, instabilities in government policy etc.

Industrialization is an effective means of achieving economic development. It is the major hope, which can raise the living standards and provide better quality of life in the country. In the absence of industrialization, Nepal's problem like poverty, insecurity and overpopulation cannot be solved (*pradhan, 1984:14*).

The central problem of economic development of the background countries is industrialization. It is one of the major tools with the aid of which the vicious circle of background and poverty can be broken (*Cuker, 1974:9*).

It's also a major instrument of progress, modernization and social change in developing countries (*UNDP, 1974:1*).

The industrialization process in Nepal is being developed very slowly. In spite of various attractive policies of the government in respect of industrialization, new investment made on industrial sector is not satisfactory. The financial performance of established manufacturing industries is also not good. Most of the industries are operating in losses and such condition of the established industries discourages the new investment both in manufacturing and non-manufacturing sector. There may be various and different reason for the poor performance of manufacturing industries. Such reason should be investigated and should be taken corrective measure for the improvement for their performance.

How the business is being operated largely depends on how the business operation is planned? The key motive of every business enterprise is to make and maximize profit. Profit just doesn't happen by chance, it is to be managed. Cost-volume-profit analysis is a supplementary tool of profit planning. CVP analysis is hugely helpful for developing alternative strategies in sales planning and cost estimation.

Nepalese firms are still being run with primitive management. They lack modern management culture; there are a lot of differences between the theory and practice in the business form. In Nepal, the practice of using CVP analysis tools for different management decision is rare.

CVP analysis provides the technique of profit planning framework. Based on annual published annual report, performance of the Nepalese industry is not satisfactory. Poor performance is the outcomes of poor planning controlling, decision making. The question has risen whether Nepalese managers are enough competent? Do they use CVP analysis tools and technique to carryout planning, decision making and controlling function? The research question focused mainly in this study will be following:

- 1 What are the major difficulties in application of CVP analysis?
- 2 Why are the Nepalese companies suffering from loss?
- 3 Which part (i.e. CM, BEP, and MOS etc.) of CVP analysis is mostly practice and which are not practice till now to avoid losses?
- 4 What sales volume is needed to achieve break even?
- 5 What are the different types of cost involved in practicing CVP?
- 6 What should be the sale volume to earn a desired profit?
- 7 What will be the profit or loss to the specified level of sales?
- 8 What will be the relationship between cost, volume and profit?

1.4 Objective of the Study

The study is divided into main objective and specified objective.

Main objective

- To compare the cost and profit scenario between the Nepal News Network International and Nepal Republic Media

Specific objectives

- To study and analyze existing position of cost volume and profit of print media houses.
- To evaluate and analyze the breakeven point of print media houses for avoiding losses.
- To analyze profit volume ratio, breakeven point, margin of safety and volume of both enterprises comparatively.
- To examine the cost components as per their behaviors.

1.5 Significance of the Study

This study will be significance in the following ways:-

- This study will be useful for potential managers, accountant, policy maker and planners.
- This study provides necessary recommendation to the related department of the company.
- It examines the application of CVP analysis in the company.
- It provides information of the application of the tools under profit planning in difference circumstance.
- It will also provide the literature to the researcher, who wants to carry on further research in this field.

1.6 Limitations of the Study

Each and every research has some limitations. Basically, not availability of required data and information would be the major limitations of the study. The study is confined only to CVP analysis as a tool of profit planning and control.

- The study will cover the data of five years only from Nepal News International and Nepal Republic Media.(i.e.2065/66 to2069/2070)
- The study will be base in the secondary data mostly, if there is necessary of primary data researcher will be collect and included.
- The accuracy of this study will depend upon the true response and the data available from the management.
- This study would only concern with fulfilling in the partial requirement in Master in Business studies (MBS).

1.7 Organization of the Study

The entire study has been divided into the following five chapters:-

Chapter 1:- Introduction

The chapter is introduction framework that includes background of the study, profile of the concern company, statement of the problem, objective of the study, significance of the study, limitation of the study and review of previous related studies.

Chapter 2:- Review of the Literature

The chapter concerned with review of literature. It focuses on the theoretical part of the study including conceptual review of previous related studies.

Chapter 3:- Research Methodology

This is the most important and most extensive chapter as it includes the main theme of the study. This chapter deals with the presentation and analysis of collected data information. For this purpose various analytical tools will be used.

Chapters 4- Research and Data Analysis

This is the most important and most extensive chapter as it includes the main theme of the study. This chapter deals with the presentation and analysis of collected data and information. For this propose various analytical tools will be used.

Chapter 5:- Summery, Conclusion and Recommendation

This chapter is the final chapter of the study which includes summery of the study, major finding, conclusion and recommendation.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Conceptual Framework

Main propose of literature review is to find out the past works done in the subject on the areas of research. It is a process of extensive survey of available literature both published and unpublished works on the chosen area of research primarily aiming at developing theoretical framework of the study. In order to make a research on the subject some other literature should also be reviewed. Review of the literature supports to revise the eminent literature related to the study. Some possible study and conceptual prospective available in this respect is also reviewed. Various books, articles, journals, bulletins, report, news statement, research study published by various institutions and some thesis etc. are the bases for preparing it.

2.2. Historical Background of Print Media

The history of Nepali media has been immensely influenced by the Nepalese political history. History of media goes parallel with the political history of any country. We can also witness similar situation in Nepalese context. The political history of Nepalese journalism can be divided into seven phases:

1. Traditional communication System
2. Rana Sasan Period
3. Period after the establishment of democracy
4. Panchayat period
5. Period after the restoration of democracy
6. Period during King's regime
7. Period following the success of People's Movement-2063BS onwards

Traditional Communication System- Before 1903 BS

During the period, there were no any aids of print and audio-visual media. This period of traditional communication system is non-recorded history of Nepali Media. Bengal Gazettee, as the first Newspaper of the South Asia, was published from Kolkata, India in 1837 BS(1780 AD). Katuwal Karaune, Jhyali Pint, Sankha Phukne, Damaha Thataune, Karnal Phukne, etc. were in the from of media practice for public information and mass communication during this period in Nepal.

Rana Period:

This period is considered as the initial phase or beginning of the development of journalism of Nepal. In 1908 BS, then prime Minister Junga Bahadur Rana(JBR) imported a hand press instruments in Nepal from Europe in course of his visit there. Although it was used for publication purpose only after 58 years of its entry into Nepal, it was said to be the first press machine here. It was kept at JBR's then place at Thapathali, Kathmandu. Due to the trademark of an eagle pasted in the machine, it was often called Giddhe Press. But its official name was Type Printing Press.

Newspaper Publication During Rana Period:

1. Sudha Sagar
2. Gorkhapatrat
3. Sharada: Monthly Newspaper started publishing in 1991 Falgun, Eiditor: Riddi Bahadur Malla,
4. Udhyog: Fortnightly magazine published first l'ppn 1992 BS, Eiditor: Surya Bhakta Joshi
5. Sahitya Short: 2004 BS, Baishak Monthly literary Magizine, Eiditor: Hridayachandra Shing Pradhan

Similarly, Gharelu Ilam Patrika,Shikshya, Kathmandu Municipal Patrika,etc. Juddha S. JBR was positbive to develop media industry in the country. So, this newspaper was published as a journal to import industrial information. But it was converted to the literary magazine after two years. It got published having various poems of great poet Laxmi Prasad Devkota.

Radio Broadcasting:

Prime Minister Padma S.JBR returned those radio set to respective owners in 2003 BS. Indian and other foreign radio programs were likely to listen in Nepal during the rule of Judda S. Rana there were only few sets of radio with well-off families of Nepal and they brought the sets from India. But all radio sets were seized by Juddha S. JBR during the second world war due to German Propaganda . First test broadcasting was carried out from Bijuli Adda, Kathmandu in 2003 Magh 14 from 1:00 to 1:30 PM. Electrical Engineer Kashi Raj Pandey was the main person to carry out this test broadcasting. It was not exactly the radio frequency but the only radio sounds.

Ramayan and other religious hymns were played in during the occasion of religious days through loud speakears in and around Tundikhel. Narad Muni Thulung ,Jayandra Bdr. Thapalia and their friends made efforts to broadcast radio programme from Bhojpur. It was the practice of mobilizing people against Rana oligarchy in Nepal. In Mangshir, 2007, they started the radio frequency for the first time in history of Nepalese radio. Later on, under the leadership of tarini Prasad Koirala 'Prajatantra Radio'broadcasting was initiated in 2007 from the premises of Raghupati Jute Mills, Biratnagar. It was also a part of anti-Rana revolution. After establishment

of democracy, the same transmitter was brought to Kathmandu and started Nepal Radio as a state run broadcasting service from 2007 chaitra 20th, again under the leadership of Mr.T.P.Koirala. In this way, a few but important steps were taken in the establishment of radio in Nepal after toppling down of 104 year-Rana regime.

Period after the establishment of democracy

This period is taken as the initial stage of the Nepalese journalism. Within 24 hrs of the proclamation of democracy, 'Awaj' the firstly daily news paper of Nepal was published in Falgun 8 2007 from Kathmandu. Various sectors such as education, economics, politics journalism etc were immoderately benefited following the establishment of democracy. Political parties enjoyed open environment and democratic institution were established and strengthened. Siddi Charan Shrestha was the editor of the News paper. It presented banner headline news on Royal proclamation of Democracy establishment, along with photograph of King Tribhuvan in its first issue. Unfortunately, 'Awaj' sustained just for two years.

In Bhadra 24, 2011 BS, 'Samaj', the second daily newspaper was brought out from Kathmandu, Editor of the newspaper was Pashupati Dev Pandey, later Mani Raj Upedhyaya gave editor leadership to the Newspaper. Many weeklies, half weeklies and dailies got published during the period. Women also took initiatives to publish the newspaper. In 2008 jetha 'Mahila', a monthly magazine was published having Editors namely Shadhana Pradhan and Kamakanchi Devi (first female journalist of Nepal). Journalism was started in various language like English, Nepali, Hindi, Newari in Nepal. Nepal Guardian, is the first English monthly magazine was printed in Kalkata, Editor- Barun Samser JBR.

'Jai Nepali', the first Hindi Daily, was published in , Shrawan from Kathmandu. Editor was Indra Chandra Jain. The publication took place out of Kathmandu valley. 'Sewa', was the first monthly newspaper published from out of Kathmandu valley (Birganj) in 'The Commoner', the first English daily newspaper of Nepal, published from Kathmandu in 2012 (1956 July 15), Editor – Gopal Das Shrestha. Other Newspapers published in English Language include, daily Mirror, Everest News, The motherland etc. In Kartick 2009, Pasa, a fortnightly newspaper was published in Newari Language. Editor of the newspaper was Asaram Shakya. 'Nepal Bhasa Patrika', the first Newari daily newspaper was published from Kathmandu in 2012 Ashoj 16.

Fatte Bdr. Singh was the editor of the newspaper. Tarang Weekly, the first Hindi newspaper got published from Kathmandu in 2008 Shrawan, Editor – Bhoj Bdr Shingh. It was printed in Banaras of which Editor was Shyam Prasad Sharma. The regular broadcasting of Radio Nepal started under the leadership of Tarani Prasad Koirala in 2007, Chaitra 20 from Shingha Durbar, using the same transmitter of Prajatantra Radio. News agency- Nepal Sambat Samiti, the first news agency of Nepal established in 2016, paush 1 from private sector. Sagarmatha Sambad Samiti (second news agency) was incepted in 2017, Baisakh 30.

Mainly political parties were enthusiastic to publish the newspaper as a means of political awareness at the moment. Around 35 political publications took place during the period. Some main political party publications were Nepal Pukar and Nawa Nepal published by Nepali Congress, Nepal Sandes and Jana Bani by Rastriya Praja Parishad, Nawa You by Communist Party of Nepal, Masal, Naya Bato by Nepali Rastriya Congress, Samukta Prayas by Samukta Prajatantrik Party, Karmabir by Karmabir Mahamandal etc. Most of them were weeklies.

Parliamentary reporting (2016/17) was also started at that time. Bhogya Prasad Shah and Prakash Man Shigh were first parliamentary reporters. They were associated to Radio Nepal and used to provide news to the parliamentary secretariat.

Publications of the period can be divided into five categories:

- A) News oriented- dailies
- B) Views oriented- weeklies, half weeklies and fortnightlies.
- C) Language and literature oriented- monthlies and bimonthlies.
- D) House Journals- publication of parties and other institutions.
- E) Government publication

Journalism of this period can be named as 'Initial stage of modern journalism in Nepal'.

Panchayat Period (2017 to 2046 BS)

For the first time in the history of Nepal, the mission journalism was introduced during the period. Panchayat period is taken as the period marking the beginning of mission journalism. Journalism during the period was divided into two missions: Pro – Panchayat and anti Panchayat system where as anti- panchayat newspaper came to front to advocate for democracy. Press freedom was not more in parties and much action took place against press. There were two phases of Journalism: Before Referendum (2017 to 2036 BS) and After Referendum (2036 to 2046 BS).

Ministry of communication was given autonomy. Views oriented weekly news papers were more popular at that time. Although there was no guarantee of civil right and press freedom during the period, development of infrastructure was sped up in various sectors of press. Earlier, other Ministers looked after the portfolio related to information and communication. News Agency was established as a government media and at the same time press Council was founded on the initiative of government. The Tribhuvan University began teaching journalism education and press publication and media development took a professional turn. Nepal enters into the Television era and radio was expanded outside Kathmandu.

Gorkhapatra became daily from 2017 Falgun 7 (after 59 years of its publication). Gopal Prasad Bhattarai was first editor of daily Gorkhapatra. The Rising Nepal national daily published in 2022

paush 1, Editor Barun S. JBR. Other dailies, Hamro Desh, Naya Nepal, Nabin Khabar, Naya Samaj, Nirman (Biratnagar), Jana Jeevan(Birganj), Dainik Nirnaya(Pokhara/Bhairahawa)

Some leading weeklies: Samikchha, Matribhumi, Naya Sandesh, Saptahik manch, Jana Sambad, Yug Sambad, Jana Jyoti, Jana Jagriti, Deshantar, Drishti, Punarjagaran,Saptahik Bimarsha,Rastra Pukar, Chalpahal, Pratibadha, Gatibidi, Tarka, Arati, Arpan, Panchayat Bato, Anchal,Sandesh(Janakpur), Lumbani Sandesh, Bheri Sandesh, Gandaki Sandesh, Himalayan Guardian, Nepal Riview, The Nepalese Perspective etc.

After restoration of Democracy (2047 to Magh 2059)

After the success of people's movement, new constitution (Nepal's constitution 2047) has guaranteed the press freedom and right to information to people. This period is regarded as the phase of modern and professional journalism in the history of Nepali journalism. It was widely praised. Wide impact of this provision has been seen to the media sector. Political and other sectors have also been benefited by this freedom. This provision encouraged the media sector luring huge investment in media. Media became professional and it was accepted as the industry of the country. Political parties became free and political activities speed up. Before this man cannot imagine television run by private sector. Television and radio in private sector started and are going on. Offset press came into use and due to the accessibility of computer media became too advanced. So there was a favorable environment to develop professional journalism in Nepal. The door has been open for huge investment and from private sector Kantipur Publication established with ambitious investment of more than Rs.30 million(3 corer). Kantipur and The Kathmandu post, the first broad sheet national dailies from private sector were published in 2049 Falgun 7th. Due to the popularity in the short time many other broadsheet dailies came out. Some of them Sustained and some went out from the sight. During this period online journalism also came out and because of the computer it was possible to read the newspaper and to hear the radio in computer.

Shree Sagarmatha, Everest Herald(English Daily) Lokpatra, Space Time, Space Today, Shree Deurali, Naya Sadak stopped their publication not because of government but by their own problem. Simultaneous publication also started to get published. Nepal Samacharpatra started to published from Biratnagar Since2058, Baishak. Annapurana Daily and The Himalayan Times Published form Kathmandu since 2001.Kantipur started since 2061 Ashar from Bharatpur. Newspaper publications were also started from outside the country. For example Nepal Samacharpatra initiated its publishing from Doha Qatar since Ashad 2062. Although it could not sustain for a long time. Now Kantipur and Rajhadhani dailies have their weekly publication from Doha but not simultaneous. Newspaper publication in different languages was started and going on. Significant changes have occurred in radio broadcasting after 2047 and Radio Nepal has started to broadcast the news service in 20 different languages. New wave of FM broadcasting from non government and private sector has become significant initiative in south Asia. Private channels in television came into the light. Channel Nepal, Kantipur TV, Image

started their service. New debate on foreign Investment in media and multi media ownership is on. The FM expansion is significant in this period and it is going on in a new height. There seemed the very gloomy picture in Nepalese media during the Maoist Conflict, state of Emergency and during the period of direct rule by the King Gyanendra. Some 18 innocent media person killed, more then 100 but put behind the bars, several cases of arrested, kidnapped and tortured from both sides i.e. state and Maoist insurgents. Nepal was characterized as the world's biggest prison for the journalist.

Period of King's Regime:

Militarization over the news and media was started at the king's regime. Presence of military official in media house and even news rooms was normal. Confiscation of radio equipment from FM studios and unfair distribution of government advertisement was in use. The radios of country played the vital role against the King's regime and to establish democracy.

After Success of People Movement-2 (2063 Baishak Onwards):

Nepali Press plaid an important role against King's regime. It fought for the freedom of press and democracy. It also New print media and other media started the own Publications. Due to its contribution to the democracy Nepali press is admire among the society and government itself also created the atmosphere to exercise press freedom. No any restriction or pressure from the state and rebels after the democracy.

Current Situation of Print Media

Nagarik Daily and Republica Print Media published since 2009. After restoration into Federal Republic, Democratic Nepal the area and role of media become wide and played important role in different subject matter not only in political aspects but also economic, socio- cultural, technical, public awareness to people. Till 31st Ashad 2069 there more than 6000 journal are registered to department of information of Nepal some of them are passive but much of them are active and provide service from different geographical regions of the country.

The regional figure continuously leading regions are 2296 from mid region, 506 from Eastern region, 291 from western region, 163 from Mid western region and 152 from far western region. It holds 67.37, 14.85, 8.54, 4.78, and 4.46 percent of journal publication simultaneously. (Annual report 2069-070 Nepal press council)

In general Nepal press council record at present 3408 journals in four groups. They are daily, Half weekly and half monthly in which 542 daily, 28 half weekly, 2466 weekly 372 half monthly. In total of 1527 journals 188 daily, 7 half weekly, 1105 weekly and 227 half monthly are published form Kathmandu valley,(Kathmandu, Lalitpur and Bhaktapur) Which holds 44.80% of total journals publication of the country and rest from outside the valley.

2.3 Introduction to Profit Planning:

Profit planning function of management rests upon some fundamental views that are the conviction that a management can plan the long range destiny of a manufacturing enterprise by making a continuous stream of well conceived decisions. Profit planning is the key point of management. Without proper planning, profit will not be achieved in the expected extent. Therefore, every enterprise should plan for profit in a systematic way. Various functional budgets are the basic tools for proper planning of profit and control. (Welsch, 1992:31)

The thrust of the comprehensive profit planning concept goes to the very heart of management that is the decision making process especially for long range success. The stream of managerial decisions must generate plans and actions that provide the essential inflows that are necessary to support the plant outflow of the enterprises. So that, realistic profits and return on investment are earned. Continuing generation of profits by managerial manipulation of the inflow and outflow provides the substance of profit planning (Welch, 1992:31)

2.3.1 Profit:

The word "Profit" implies a comparison of the operation of the business between two specific dates which is usually separated by an interval of one year. An organization is established to achieve some goals. It has its own objectives. To achieve the goal of organization, objectives should be clearly mentioned. In this competitive globalized business age, an organization whether it is public or private, profit is essential. Profit isn't change; it is result of successful management. The basic objectives of running any business organization are to earn profit. Profit serves as a yardstick for judging the competence and efficiency of the management. (Maheshwari, 2000:171)

In order to optimize those corporate sources of wealth in which national prosperity depends on those corporate financial objectives of the company is to maximize within socially acceptable limits profit from the use of funds employed by them. The maximization of profit within socially acceptable limits implies that a proper regard to public interest has been paid. No company can survive long without profit, Profit is the ultimate measure of its effectiveness and in a capitalized society. There is no future for a private enterprise which always increased losses. The survival measure of the effective performance of a business is a profit which really is a measure of how well a business performs economically. Profit is a signal for the allocation of resources and a yardstick for judging managerial efficiency. Profit is a primary objective of a business in view of the heavy investment which is necessary for the success of most enterprises. Profit in the accounting sense tends to become a long time objective which measures not only the success of product but also the development of market of it. (Kulkarni, 1985:245)

2.3.2 Planning

Planning means deciding in advance, what is to be done in future? Planning starts from forecasting and pre-determination of future events. Planning is the first essence of management and all other function is performed within the framework of planning. Planning is the whole concept of any business organization. No firm can achieved its pre-determined goals and objectives in the absence of proper plan. Hence, it is life blood of any organization which makes efficiently run towards the competitive environment.

Define the planning is simplest term as determination of anything in advance of action. Planning means a assessing the future making provision for it and assuring that establishing goal can be met with acceptable home frame. It is essentially a decision making process that provides a basic for economical and effective action in the future. Effective planning sets the stage for integrated action to take place, reduce the number of enforceable crisis, promote to use of more efficient methods and provides the basic for the managerial function of control. (Filppo, sixth edition: 49) in operational terms, planning process involves four stages: (welsch, Hilton and Gordon, 1992: 75)

Objectives:

- The first stage in the planning and control system is setting the objectives which are designed as the broad and long range desired state or position in the future. They are motivational or directional in nature and expressed in qualitative terms.

Goals:

- The second stage in the planning process is specifying the goals. The term goals as an element in planning represent targets, specified in quantitative terms to be achieved in a specific period of time

Strategies:

- The next step involves laying down the strategies. Strategies denote specific methods or course of action to achieve the goals. Strategies are the basic thrusts ways and tactics that will be used to attain planned objectives and goals. A particular strategy may be short term and long term strategies focus.

Budgets/ plans:

- The final step is the preparation of budgets/ plans. Basically budgeting is the periodic planning to implement the alternative during a particular fiscal period, usually one year. It converts goals and strategies into annual operating plan.

2.3.3 Profit planning

Profit planning measures the success of any organization. Profit planning is the primary function of management in any organization. A company always wants to earn maximum profit through the optimum utilization of available resources. Various budgets are major elements of profit planning. It is a key which helps to predict the future, minimizes risks, estimates output from the scarce resources and helps for various managerial decision making process.

The management determines the profits goals and prepares budgets that will lead them to the realization of these goals. Profit planning is, therefore a fundamental part of overall management functions and is a vital part of the total budgeting process. Profit planning can be done only when the management has the information about the cost of the products both fixed and variables and the selling price at which it will be in a position to sell the products of the company. (Maheshwari, 2000:171)

2.4 Cost Volume Profit Analysis:

Cost- Volume- Profit Analysis is popular analysis tool of management. Basically, CVP Analysis involves finding the most favorable combination of variable cost, fixed cost, selling price, sales volume and mixed of products sold. CVP Analysis provides the managers with a powerful tool for identifying that course of the action that will improve profitability.

Cost volume profit analysis seeks to estimate the profit of loss at different activity level. The aim of cost- volume- profit analysis is to have a fair estimate of (a) Total costs (b) Total revenues, and (c) profit at various sales volumes.

Cost- Volume- Profit Analysis is a systematic method of examining the relationship between changes in activity (i.e. output) and changes in total sales revenue, expenses and net profit. As a model of their relationship, CVP Analysis simplifies the real word conditions that a firm will face like most models which are abstractions form reality. CVP Analysis is subject to number of underlying assumptions and limitations. Nevertheless it is powerful tool for decision making in certain situations.(Drury, 2000:112)

A popular technique to study CVP relationship is Break- Even Analysis. Break – Even Analysis is concern with the study of revenues and cost in relation to sales at which the firm's revenues and total cost will be exactly equal or the net income will zero. It is no profit no loss sales. This point is cornerstone of profit planning. It is very useful in profit planning and control, management decision, cost control, budgeting etc.

The key motive of business enterprises is to make and maximize profit. Profit does not happen by chance. It is to be managed. Cost- Volume –Profit Analysis is supplementary tool of planning for profit. CVP Analysis is immensely helpful for developing alternative strategic in sales planning and cost estimation. Cost – Volume – Profit Analysis is an accounting technique

showing the relationship between variables. It is equally applicable for nonprofit organization to allocate scarce economic resources most effectively among the competing alternative. Allocation of scarce resource among the various demanding sectors is the most important part of national planning.

2.4.1 General Assumptions in Cost- Volume- Profit Analysis

Cost- Volume- Profit Analysis is a vital technique that provides supplementary information for profit planning. Every business starts with the target of break even and then it aims to earn profit over its life. But the business firm passes through many ups and downs. CVP Analysis helps to plan for every set of goals in the short-run. But the CVP Analysis encompasses the following assumptions. [Ojha and Gautam, 2008:315]

a.) Classification of all costs as variable and fixed:

While developing and applying cost- volume- profit analysis including the break- even analysis, we have assumed that all costs can be classified into fixed and variable components. In fact, it is extremely difficult to identify each and every cost element as fixed and variable ones. Even we are required to classify the costs as fixed and variable component. If one fails to identify the costs as fixed and variable, the application of Cost- Volume- Profit Analysis becomes almost impossible.

b.) Linear Behavior of Cost within the Relevant Range:

CVP Analysis assumes that the total fixed costs do not change in the short- run within the relevant range. Total variable costs are exactly proportionate to sales volume. But in reality cost behavior may not remain constant. With the change in the volume of output we change the production setup. With more or less purchase, material costs per unit change due to quantity discounts. Cost change over time owing to inflation. Discretionary fixed costs are not certain in terms of what amount will be spent. Therefore, our BEP units or any other variable of profit functions do not remain constant over time. And it's useless to compute the BEP and other variables at every moment for the changed situation.

c.) Treatment of step fixed Costs:

The relevant range for many costs is very short. In that case it becomes very difficult to compute the required volume. Because we cannot say this is the relevant range for our needed volume.

d.) Constant Selling Price for any volume in the Short- Run

Indeed, most often we offer a quantity discount for different lots of production. This makes it difficult to determine the CM/PU and C/M ratio.

e.) No effect of the size of inventory on net income:

The application of CVP analysis is possible only under the situations of either following variable costing for inventorial product cost or all production volume be sold within the same period. CVP Analysis does not work under the full costing methods where inventory change occurs.

f.) Single Product or Constant sales Mix;

Cost- Volume – Profit Analysis assumes that either a single product is sold or, if more products are sold, the ratio of each product on total sales will be in accordance with a predetermined sales mix. It is possible only under the assumption that the company will sell in the same proportion as it sold in the previous year. But in real situations, sales mix does not remain constant. This makes the application of CVP Analysis impossible in case of multi- product company.

g.) Short- Term time Horizon;

CVP Analysis is a short- term planning tool, because nothing remains stable in the long-run. In the condition of changing variables all equations of cost volume profit analysis become impossible.

Certain underlying assumptions place definite limitations on the use of Cost- Volume – Profit Analysis. Therefore it is essential that anyone preparing Cost- Volume- Profit information is aware of the underlying assumption on which the information has been prepared. If these assumptions are not recognized, serious errors may result and incorrect conclusions may be drawn from the analysis.

2.4.2 Application of Cost- Volume- Profit Analysis;

Cost volume –Profit Analysis is applied specially for Break- Even Analysis and profit planning. Profit planning is fundamental aspect of overall management function. Profit planning can be done only when the management has the information about the fixed and variable cost of product and selling price of the product. The most important factors that affect the planning for profit are costs fixed and variable costs and volume of sales. CVP Analysis can be applied in the following respects.[Dangol, 2004;120]

- It helps in fixation of selling price.
- It is helpful in cost control.
- It also assists the management in understanding the behavior of cost and helps in budgeting control.
- It helps in determining the level of output where all the cost can be met.
- It assists the management in profit planning. It also assist the management in performance evaluation for the purpose of management control.
- It helps very much in making managerial decisions such as make or buy a part, drop or continue a department or product line, accept of reject a special order, selection of profitable product mix etc.

2.4.3 Importance of CVP Analysis:

Planning controlling and decision making are the essential management functions. CVP Analysis helps the manager to plan for profit to control cost make decision, it helps:

- To determine the breakeven point in terms of unit or sales value.
- To ascertain the margin of safety.
- To estimate profit or losses at various level of output.
- To assess the likely effect of management decisions such as an increase or decrease in selling price adoption of new methods of production to reduce direct labor cost and increase output.
- To helps management to find the most profitable combination of cost and volume.
- To determine the optimum selling price.
- To determine the sales volume at which the profit goal of the firm will be achieved.
- To determine the maximum sales volume to avoid losses.
- To determine most profitable and least profitable product.
- To determine new breakeven point for changes on fixed or variable cost. [Muna kumara, 2003:401-402]

2.4.4 Limitation of CVP Analysis:

Assumption limits the utility and general applicability of the CVP Analysis. Therefore the analysis should recognize these limitation and adjust data, wherever possible, to get meaningful results. The CVP Analysis suffers from the following limitations;

- It is difficult to separate cost into fixed and variable components.
- It is not correct to assume that total fixed cost would remain unchanged over the entire range of volume.
- The assumption of constant selling price and unit variable cost are not valid.
- It is difficult to use the break even analysis for a multi product firms.
- The break even analysis is a break run concept and has a limited use in long range planning.
- The break even analysis is a statistical tool. (Pandey, 1999:214)

2.5 Cost Classification:

Classification of cost depends on the propose, methods, nature and so on. Classification of an item is to define it as a certain kind. In other words, classification means to put an item or thing under a certain category. Same elements of cost can be varied in category depending upon nature the purpose. Manager of profit planning department should have an in-depth knowledge regarding the nature of costs that on which category does it lie. Otherwise planning and control of cost is impossible.

2.5.1 Cost classification for product costing:

a) Prime cost:

The direct material, direct labor and direct expenses are prime costs. These cost are known as prime costs because these can be directly known with each cost object. The elements of prime cost are as follows:

Direct Material:

Direct material is the cost of material, which is directly and conveniently identifiable or traceable to each unit of product. Direct material, also known as row material, is the main ingredient of the finished product. Finished products are the refine or value- added forms of the direct material. A tangible product is almost impossible without the direct material. It includes crude materials, components or parts, WIP inventory and primary packaging materials like cardboard boxes. Cost of materials includes not only the price paid to a supplies, it also includes the freight-in, import duties, cost of receiving and cost of storing the materials.

Direct Labor:

Direct labor cost can be directly traced to each unit of product without any apportionment basis. Direct labor is, therefore, defined as the employment of those workers who are physically engaged in the production of the output. The labors that are paid with each piece of marginal product are direct labors. It includes the wages of operatives who assemble parts into finished products such as the sewing labor in a garment factory that is paid per piece of time spent to make shirts, pants and trousers.

Direct Expenses:

Direct expenses are the expenses other than the direct material cost and direct labor cost which are directly incurred on a particular product. Direct expenses can be directly identified with each unit of a product. It includes cost of product designing, product model, handling from one process to the next process, cost of patent and royalties and so on.

b) Overhead Costs/ Indirect Costs;

The costs that are not directly attached into any particular department product of units are indirect cost. Indirect cost is the common cost e.g. salary of the manager, which is a common cost for all the departments. Such a cost should be allocated to different units, sub-units, departments and products as per the activity (cost driver). The expenses that cannot be directly known with each unit of product are overhead costs which include indirect materials, indirect labors and other overheads. Overhead cost are those expenses, which cannot be directly traced or identified with each unit of the product. In fact, overhead costs are indirect costs, which cannot be directly charged to a particular unit of product without allocation of these on the basis of some appropriate methods. The term "Overhead" is used interchangeably with the terms such as "indirect costs" and "burden". Key elements of overhead costs are:

Indirect Materials:

Indirect material costs can not be identified with any one product. For example, materials used for the repair of machinery that is manufacturing different kinds of products are classified as indirect materials. Indirect materials are used for the benefits of all products rather than for any one particular product.

Indirect Labor:

Indirect labor cost is the remuneration of all those employees who do not work on the product itself but who assist in the manufacturing operation. Salaries of a factory supervisor or salary paid to a purchasing manager are example of indirect labor cost. Indirect costs can not be directly charged to a particular unit of product.

Indirect Expenses:

Indirect expenses are the expenses other than the above-mentioned indirect costs. It can not be conveniently traced to each unit of product. For example, rent, stationery, heat, light, power etc.

2.5.2 Functional Classification of Costs:

An organization performs various functions. All of these functions require costs. Functional classification of costs refers to how and where cost was used.

a) Manufacturing Costs;

Manufacturing costs are all production costs incurred to manufacture the products and to bring them to saleable condition, including the direct material, direct labor and factory overheads. It includes all indirect manufacturing labor and material costs plus indirect manufacturing expenses. It is also known as factory expenses, factory overhead and factory burden or work overheads.

b) Administrative costs:

Expenses relating to the overall management of enterprises are administrative costs. It includes executive salary, corporate administration, general accounting, public relation, internal audit, rent and depreciation of office properties, and also so on.

c) Marketing and Selling Costs:

Expenses needed for sales promotion, actual sales activities and post sales services are included in marketing or selling costs. These would include all costs necessary to receive customer order and to get the finished product or service into the hands of the customers. For example, selling cost include- advertising, salesmanship training, carries outwards, assets when incurred in the course of production and expensed, when the outputs are sold. Direct material cost, direct labor cost and manufacturing overheads are included in product cost.

d) Period costs:

Those expenses, which do not matter for the volume of production but are incurred in the passage of time or volume of sales, are period costs. All period costs are expensed at the time of occurrence. Period costs are expensed when they are incurred. Office administrative and selling / distribution costs are period costs. Period costs are not charged to inventory values, rather they are directly deducted from the sales revenues (gross margin) of the same period. Period costs are costs, which vary with the passage of

time and nor the volume of productions. Rent, insurance, salary type expenses vary only with time period. It includes salaries, depreciation, stationeries, rent, entertainment, audit, etc related to office, administrative, selling and distribution. Rent, insurance, salaries type expenses vary only with time period.

e) Joint Products and Further Processing Cost:

Joint product costs are the costs of a single process of a series of processes that simultaneously produce two or more products of significant sales value. Such costs are not attributable to different individual products until after a certain stage of production non as the split off point. Separable costs can be attributed exclusively and wholly to a particular product, process, division or department.

2.5.3 Cost Classification for Profit Maximization Decision

Profit planning is quite closely related with decision- making. Planning deals with the future. Future cost is a relevant cost in profit planning. "Different cost for different purpose" has been the core concept of cost classification in management and cost accounting. Decision making is one most crucial function of management. Decision- making is a process of selecting the best alternative among various courses of action available.

a) Relevant Costs:

A cost, which is influenced by a decision, is a relevant cost and hence is important for decision makers. Relevant cost in true sense is an incremental cost. Relevant costs are those costs, which differ from on alternative to the next. Since relevant cost change as per the alternatives, these are most pertinent to our profit maximization decision. It is because to maximize the profit, either one has to get more revenue with the same costs or has to incur fewer costs for the same revenue. Relevant costs have two fundamental characteristics: one is, relevant costs are future cost and another is, it is to be relevant for decision making.

b) Irrelevant Costs:

Cost, which is not affected by a decision, is irrelevant cost. Such a cost is of no relevance to decision makers. These costs should be ignored while making decisions. Committed fixed cost is irrelevant while the additional fixed costs are of relevance. All costs other then the relevant costs are irrelevant for decision making. For example, all past cost are irrelevant.

c) Avoidable and Unavoidable Costs:

Sometimes the term 'avoidable' and 'unavoidable costs ' are used instead of relevant and irrelevant costs. Avoidable cost saves the cost but unavoidable cost cannot save the cost in the course of dropping a department or a product or alternative.

d) Explicit Costs:

Explicit costs are those accounting expenses, which can be proved for external reporting purpose such as for tax purpose. Most of the explicit costs are out of pockets costs, which need to be paid cash to suppliers, employers, etc. But some of the explicit costs are non-cash payments toward future service potential assets. Raw material consumed, direct labor, indirect labor, salaries, heat, lights are the example of explicit cost.

e) Implicit/ Imputed Costs:

Implicit costs are those expenses, which cannot be proved for external reporting. These are not allowable for the tax propose. Implicit cost are implied in nature, which can just be understood, but may not need to be paid in cash at present or in future, for example, interest on owners capital.

f) Out- of- Pocket Costs:

Out- of- Pockets costs mean the cash incurred in an activity. Since, out of pocket costs involve a cash outlay it is very important for external reporting, and internal planning and decision making both. Like, raw material, labor, salary rent etc. are out- of – Pocket costs. Cost, which requires current or future cash expenditure as a result of a decision, is labeled as an Out- Of- Pocket cost.

g) Marginal of Differential Costs:

Any cost that is present under one alternative but is absent in whole or in part under another alternative is known as differential cost. Differential cost is also known as incremental cost. Any cost which increase between the alternatives is incremental cost while the one that decreases is decremented cost. Both incremental and decremented costs are relevant in decision making purpose.

h) Opportunity Cost:

An opportunity cost can be defined as the potential benefit that is lost or sacrificed when the choice of one course of action requires the giving up off and alternative course of action. Opportunity cost is not usually entered on the books of organization but it is a cost that most be expertly considered in every decision that a manager makes.

i) Sunk costs:

Those costs that have already been incurred in the past and will not require any current cash, expenditures are sunk costs. Sunk cost is the result of a past commitment. They should ignore while making decision while out of pocket cost is relevant for decision making propose. Mostly sunk cost deserves fixed behavior while out of pockets cost deserves variable behavior. But in the same situation, sometimes sunk cost might be variable while out of pocket cost bear to be fixed.

2.5.4 Cost Classification for Control:

a) Controllable cost:

A cost is considered to be controllable if that can be managed or changed within the related responsibility center and within the given period of time. For example, Hospitality expense would be controllable by a sales manager if he/ she had the power to authorize the amount and type of entertainment for customers. But, controllability of costs fully depends on levels of management and time horizon.

b) Non Controllable costs:

Any cost that is not subject to change within the related responsibility center and within the short time span is called non controllable costs. For example, depreciation of warehouse facilities would not be controllable by the sales manager, since he/ she would have no power to authorize warehouse construction.

2.5.5 Cost Classification for Financial Reporting:

a) Absorbed and UN Absorbed Cost:

Fixed costs help create value in the product. The benefit of fixed costs will lapse with the passage of time and must be absorbed by the revenues of that period. The part of fixed cost, which is absorbed during the revenue of the particular period, is known as absorbed cost. Absorbed costs are those costs that have been charged to production. Cost, which remains unchanged is known as unabsorbed cost.

b) Expired and Un-expired costs:

An expired cost is one, which has no future service potentiality. In contrast, unexpired cost is one which can contribute to the production of future revenue e.g. unexpired cost is inventory which can be sold in subsequent years and will influence total revenues. Expired part of the prepaid expenses and business costs are expensed in income statement whereas the unexpired portion remain in asset side of the balance sheet.

c) **Capital Expenditures and Revenue Expenses:**

Capital expenditures are those expenditures, which cannot be used and generate income for an income year. For example, cost of machinery, cost of building etc. Revenue expenses are those expenses which can use and generate income revenue for an income year and also the portion of capital expenditures, which is expensed an amortized this year. For example, cost of materials, labor cost, salaries, depreciation, etc.

2.5.6 Cost Classifications on the Basic of Cost Behavior:

All costs do not show the same behavior throughout the operation. There exists a relationship between costs and the volume of activity, cost behavior implies the relationship between cost and activity. In most of the organizations, cost can be classified as variable, fixed cost mixed as these behave in relation to activity volume.

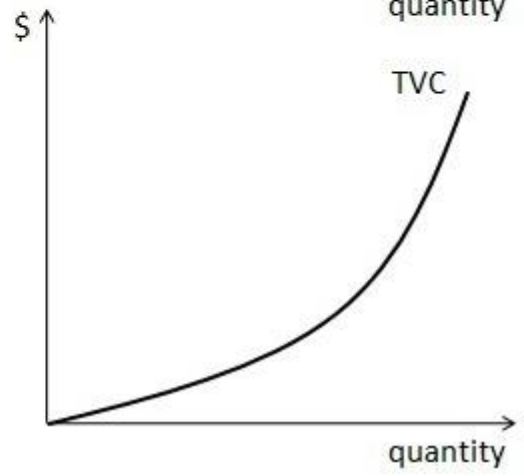
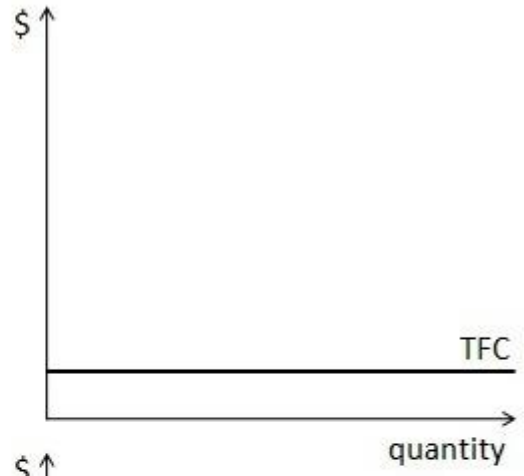
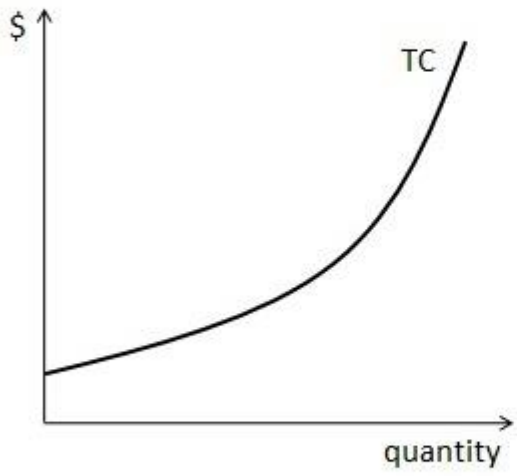
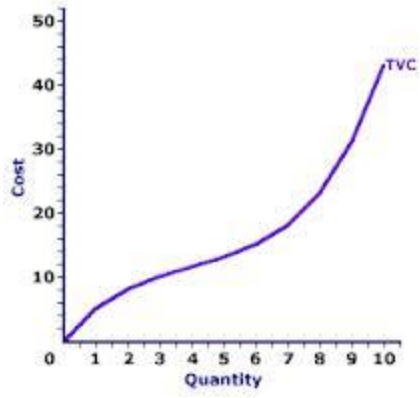
a) Variable Costs:

Variable costs change in direct proportion to and in the same direction as the changes in activity levels or outputs. Variable costs are the costs that tend to vary indirect proportion and same direction to changes in production activity, sales activity or some other measures of volume or cost driver. The costs of these inputs increase/ decrease in proportion to increase/ decrease in volume or cost driver. Variable expenses are activity based because they are incurred as a directly unit of output, activity or work done. If the output doubles, variable costs will also double and vice versa. If a shop remains closed during a time there would be no variable costs. Variable costs show the following characteristics:

- Total variable costs are proportionately related to operate activity levels.
- Variable cost per unit is fixed.
- Variable costs can regulate and controlled in the same responsibility in the short-run as will.
- Cost that changes proportionately in total but remains fixed per unit is variable.

b) Step Variable Costs

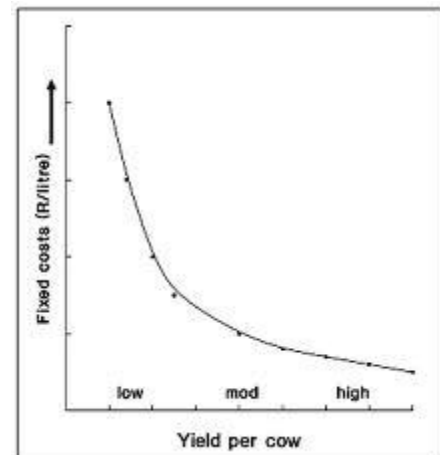
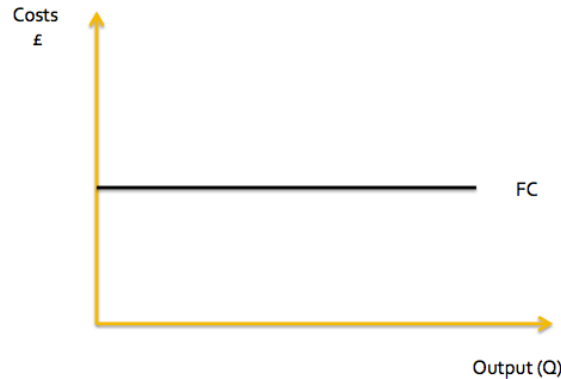
A cost that is obtainable only ion large chunks and that increases or decreases only in response to fairly wide changes in the activity level are known as a step variable cost.



c) Fixed Costs

Fixed costs are costs associated with those inputs, which do not vary with changes in the volume of output of activity within a specified range of activity of output. Fixed costs thus remain constant whether the activity increases or decreases within a relevant range. It is unaffected by volume changes. Fixed costs show the following characteristics:

- Total fixed costs are constant.
- Fixed costs per unit are variable.
- Fixed costs are either capacity cost or the time costs or the committed costs.
- Fixed costs are regulated and controllable under top management.
- Fixed costs cannot be controlled in a short term period and by the lower level responsibility center.



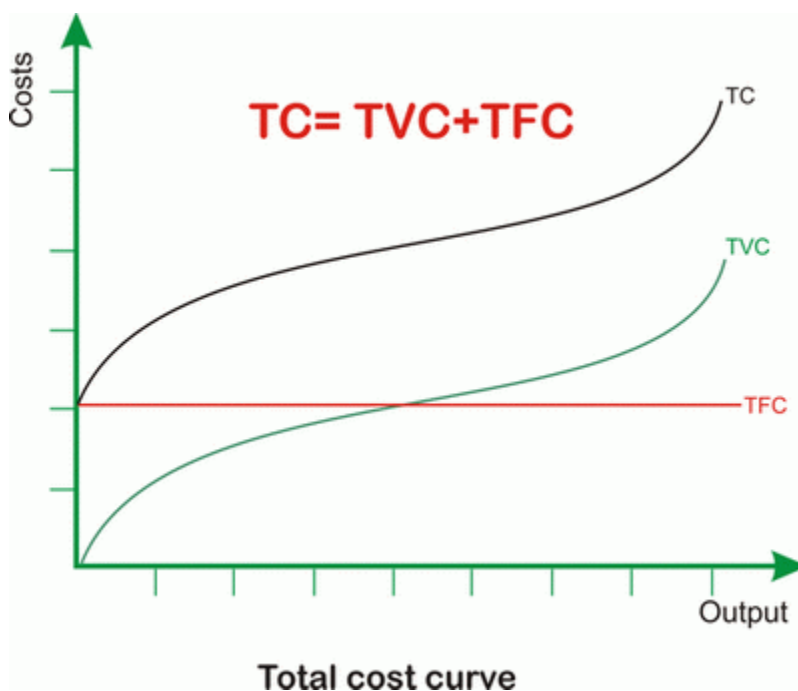
Fixed costs may be the following types:

- **Committed fixed costs:** committed fixed costs are those that relate to the investment in plant, equipment and the basic organizational structures of a firm. Examples of such costs include depreciation, property taxes, insurances, etc. The two key factors of committed fixed costs are that 1) they are long-term in nature and 2) they cannot be reduced to zero in short-term.
- **Discretionary Fixed Costs:** Discretionary fixed costs arise from annual decision by management to spend in certain areas. Example of discretionary fixed costs would include advertising, hospitalities, employees training, research, and management development programs. Key features of discretionary fixed costs are 1) planning horizon for a discretionary fixed cost is fairly short term and 2) under the critical circumstance it may be possible to cut certain discretionary fixed costs back for short period of time with minimum damage to the long-term goals of the organization.

- **Step Fixed Costs:** Step fixed costs remain constant over a wide range of activities by jump to a different amount for activity levels outside that range. Step fixed costs change abruptly at intervals of activity within the relevant range because the resources and their cost are only available in individual chunks. Step fixed costs are fixed for a short range of activities. Beyond the relevant range of activity all fixed costs jump upward. Therefore, step fixed costs are different from the normal fixed cost only in the sense that these move within the normal plant capacity. Relevant range of step fixed cost is narrow. The narrower the relevant range, the sooner the cost jumps from one amount to the next.

Semi Variable Costs:

All costs, other than, fully variable and fixed, which are neither perfectly variable nor absolutely fixed in relation to volume changes, are semi variable costs. It is also known as semi fixed or mixed cost as they consist both of fixed and variable costs. The variability of semi variable expenses is cost by the combined effect of 1) passage of time 2) activity or output 3) discretionary management decision. Semi variable costs remain fixed to a certain extent and thereafter these vary with the increase in output or activity levels.



Segregation of Semi Variable Cost;

There are various type of method to break mixed cost into variable and fixed. But in practice high-low method and least-square method are mostly used.

a) High Low Method:

In the high- low point method the semi variable cost is segregate into fixed and the variable components using exactly two data points. The two points consists of selecting

the periods of highest and lowest activity levels comprising the change in cost that result from the two levels.

Variable Cost per Unit (VCPU)= $\frac{\text{High Cost}- \text{Low Cost}}$

$$\frac{\text{High Activity}- \text{Low Activity}}{\text{Change in cost}}$$
$$\text{Change in activity}$$

Fixed Cost Per Unit= Total Cost- VCPU*Activity Volume

b) Least- Square Regression Method

The Term least square means that the sum of the square of the deviations from the plotted points to the regression line is smaller, that would be obtain from any other line fitted to the data. So that in trend line analysis drawn from the relationship between the independent and dependent variables. The least square straight-line trend gives more reliable estimate than any other methods. In cost estimation in relation to activity levels, activity volumes are defined as independent variable (X) and the mixed cost relating to that activity as dependent variable (Y). Then the amount of dependent variable cost (Y) for any level of independent variable or production (X) can be explained through following least square straight line:

Least square straight line Y on X

$$Y=a + bX$$

Where,

a = Fixed Cost per unit

b = variable cost per unit

n = Number of observations

X = Activity measures (unit or hours)

Y = Total mixed cost observed

Value of 'a' and 'b' can be directly estimated using simple mathematical formula.

$$b = \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2} \quad \text{and, } a = \frac{\sum Y}{n} - b \frac{\sum X}{n}$$

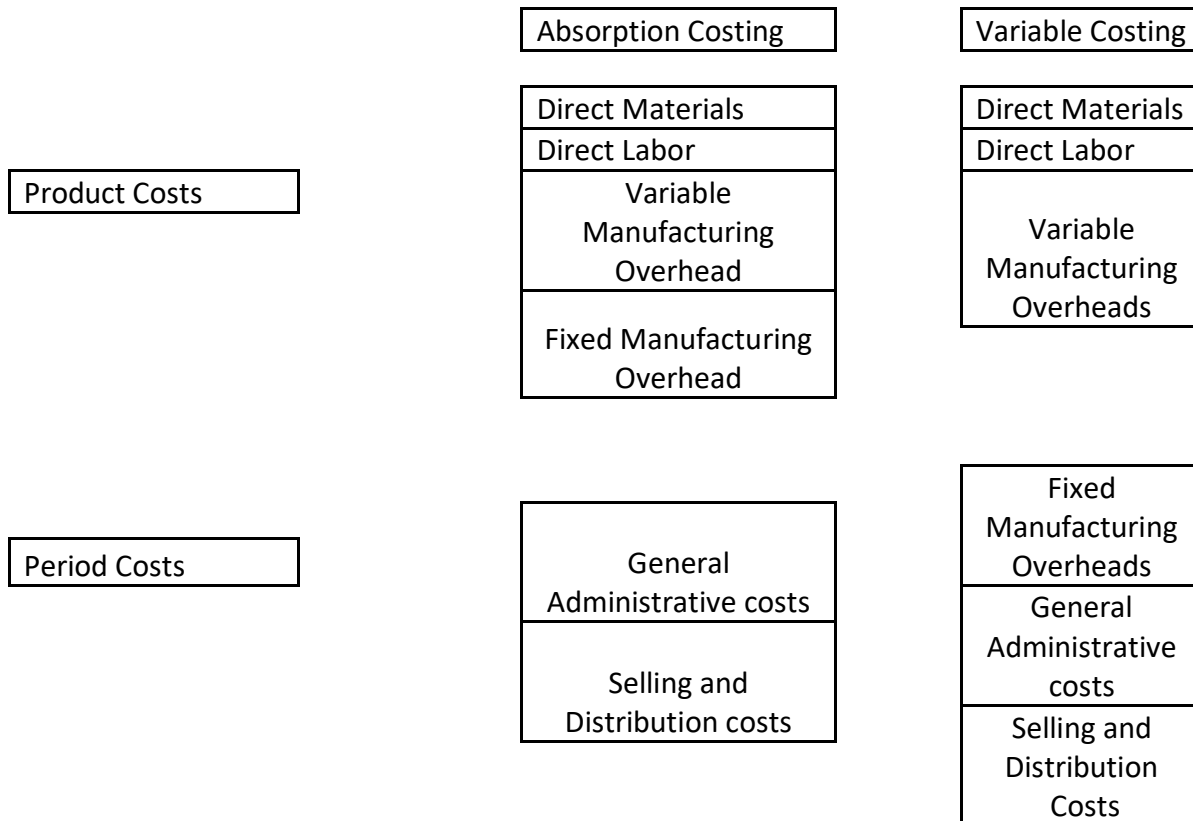
2.6 Absorption Costing and Variable Costing

a) Absorption Costing:

Absorption costing is also termed as 'conventional costing' or 'full costing'. Absorption costing is that method of inventory costing in which all variable manufacturing costs and all fixed manufacturing costs are included as inventorial costs. That is, inventory 'absorbs' all manufacturing costs. Fixed manufacturing overhead costs are included in costs of goods sold on these absorption costing income statements. The only period expenses are the selling and the administrative expenses.

b) Variable Costing

Variable costing is that method of inventory costing in which all variable manufacturing costs are included as inventorial costs. All fixed manufacturing costs are excluded from inventorial costs. They are instead treated as costs of period in which they are incurred. Variable costing is a method of recording and reporting costs, which regards as product costs only those manufacturing costs, which tend to vary directly with the volume of activity. Variable costing is also termed as 'Direct Costing' or 'Marginal Costing':



Difference

	Absorption Costing	Variable Costing
Fixed Manufacturing Overhead _____	Product cost	Period Cost

Figure 2-5 : Fundamental Concept of Absorption costing and Variable Costing

Absorption costing is more widely used than variable costing. However, the growing use of the contribution approach in performance measurement and cost analysis has led to an increasing use of variable costing for internal reporting purposes. The beauty of variable costing is to build up the cost-volume-profit analysis. Variable costing clearly distinguishes the costs into variable and fixed ones. Variable costs, which really vary with the volume of sales, are taken as product costs and all fixed overheads are taken as period costs. Once the cost-volume-profit relationships are built, it becomes straight to develop the profit plans. Variable costing has contributed to develop the following Cost-Volume-Profit Analysis relationship equation:

$$Q \cdot P = FC + Q \cdot UVC + \text{Profit}$$

Where,

Q= Sales Volume

P= Selling Price Per Unit

FC= Total Fixed Overheads

UVC= Per unit variable cost

2.7 Contribution Margin Analysis

Contribution Margin is the excess of sales revenue over variable costs, so contribution margin means how much is left from sales revenue after converting variable expenses that are contributed towards profit for the period. Contribution margin is used to first cover the fixed

expenses and then whatever remains, after the fixed expenses are covered, goes towards profit. If the contribution margin is not sufficient to cover the fixed expenses then a loss occurs for the period. Basically contribution margin indicates why operating income changes as the volume of sales changes. It can be expressed as:

Contribution margin = Sales – Variable Cost

Or, Contribution Margin = Fixed cost+ Profit

Contribution Margin = Selling Price – Variable Cost Per Unit

Or, MCPU = $\frac{\text{Contribution Margin}}{\text{Sales Unit}}$

2.7.1 Contribution Margin Ratio (C/M Ratio)

Contribution Margin Ratio (C/M Ratio) is also known as profit volume ratio (P/V Ratio). C/M Ratio is equal to contribution margin divided by sales revenue. The analysis of relationship between profit and volume is known as profit volume analysis. Profit volume ratio (p/v Ratio) or C/M ratio establishes a relationship between the contribution and sales value. Percentage of contribution margin to total sales is referred to as the C/M ratio. C/M ratio can be calculated by using either per unit or total revenue minus total variable cost.

CM Ratio = $\frac{\text{CM}}{\text{Sales revenue}}$ or, $\frac{\text{CMPU}}{\text{Sales Revenue}}$ or, $1 - \frac{\text{VC}}{\text{sales revenue}}$

Or, 1- VCPU/SPPU or, 1- Cost Volume Ratio

Or, $\frac{\text{Difference in Profit i.e. Contribution Margin}}{\text{Difference in Sales Revenue}}$

Difference in Sales Revenue

2.8 Break Even Analysis

Break Even Analysis, more precisely the breakeven point, tells the quantity sales sold at which total sales revenue equal total cost. In other words, breakeven point is that quantity of output sold at which the operation income is zero. Cost volume profit analysis is sometimes referred to simply as a break even analysis. This may be misleading because break even analysis is just one aspect if the entire CVP concept. It is always taken as an important aspect of profit planning as it gives the planner many insights into the data with which he or she is working. Profit planning of each firm begins from break even analysis. Profit begins from the breakeven point. It is survival point where all firms must at least remain to sustain or continue the business. [Bajracharya, Ojha, Goet and Sharma, 2005:230]

2.8.1 Approaches to Break- Even Analysis

The Breakeven point can be identified through different approaches. Mainly, the breakeven point and other required cost volume profit relationship can be explained through contribution margin approaches or graphic approach or equation/ formula approach. A contribution margins statement is a variable costing income statement where philosophy is that all fixed costs are period cost which should be deducted from the contribution margin of the same period. Most often, the equations approach can be used identify break even sales instated of the graph or the income statement.

a) Contribution Margin Approach:

The Contribution margin approach to CVP Analysis allows the preparation of Performa statement from the available information. BEP and other required CVP relationship can be explained through a contribution margin statement. A contribution margin statement is the variable costing income statement whose philosophy is that all fixed costs are period costs that should be deducted from the contribution margin of the same period. Only the variable costs vary proportionately with the level of output or sales.

Sales Revenue	xxx (BE Sales Rs)
Less: Variable Cost	xxx
Contribution Margin	xxx
Less: Fixed Cost	xxx
Profit	Nil

b) Formula Approach/ Algebraic Equation Approach

The most popular practiced approach to the break-even point and Cost- Volume-Profit Analysis is the formula, also known as the equation. It is particularly because the equation provides the most general and the easiest to remember approach to any cost-volume- Profit situation. The formula approach uses an algebraic equation to calculate the breakeven point. The answer provides by solving the equation may, sometimes, need to be rounded to whole numbers of units or lot size. The rounding of breakeven point units is always done upward because this will provide a small profit rather than the small loss that would be shown from rounding downward. [Rainbom, Barfield and Kinney, 1993:124]

The calculation in the equation approach is similar to that of the contribution margin statement approach. The equation is merely a resettlement of expenses and contribution margin. The equation is merely a restatement of the other.

Table 2-1: Cost Volume Profit Equation

Contribution Margin Income Statement	Symbol of Equation
Sales Volume (units)	Q
Selling Price per unit	P
Sales revenue (Rs)	Q x P
Less: Variable Costs	Q x VCPU
Contribution Margin	Q x P – Q x VCPU
Less: Fixed Costs	Fixed Cost
Net Profit	Q x P – Q x VCPU – Fixed Cost

[Bajracharya, ojha, Goet and Sharma, 2005:233]

Sales – Variable expenses – fixed expenses = Net Profit

Or, Sales = Variable Expenses + Fixed Cost + Net Profit

Or, Q x P = Q x VCPU + Fixed Cost + Profit

Sales volume for breakeven point (BEP):

BEP (in Units) = $\frac{\text{Fixed Cost}}{\text{C/M Ratio}}$, and BEP in Rs = $\frac{\text{Fixed Cost}}{\text{C/M Ratio}} \times P$

CMPU

C/M Ratio

BEP Sales in Rs = Variable Cost - Fixed Cost = 0

Sales Volume of desire Profit:

$$\text{Require Sales (In Units)} = \frac{\text{Fixed cost} + \text{target Profit}}{\text{CMPU}}$$

$$\text{Require Sales (in Rs)} = \frac{\text{Fixed Cost} + \text{Target Profit}}{\text{C/M Ratio}}$$

$$\text{Sales Volume for desired profit after tax} = \frac{\text{Fixed cost} + \text{DPAT}}{\text{C/M Ratio} \times (1 - \text{Tax Rate})}$$

The contribution margin and equation approaches are two equivalent technique for finding the BEP. Both methods provide the same conclusion, so, personal preference decides which approach should be used. Yet it is especially useful in situation in which unit price and unit variable costs are not clearly identifiable.

c)The Graphic Approach

The BEP can also be computed graphically. A break – even chart portrays a pictorial view of the relationship between costs, volume, and profit. The BEP indicates in the chart will be one at which the total cost line and total sales line intersect.

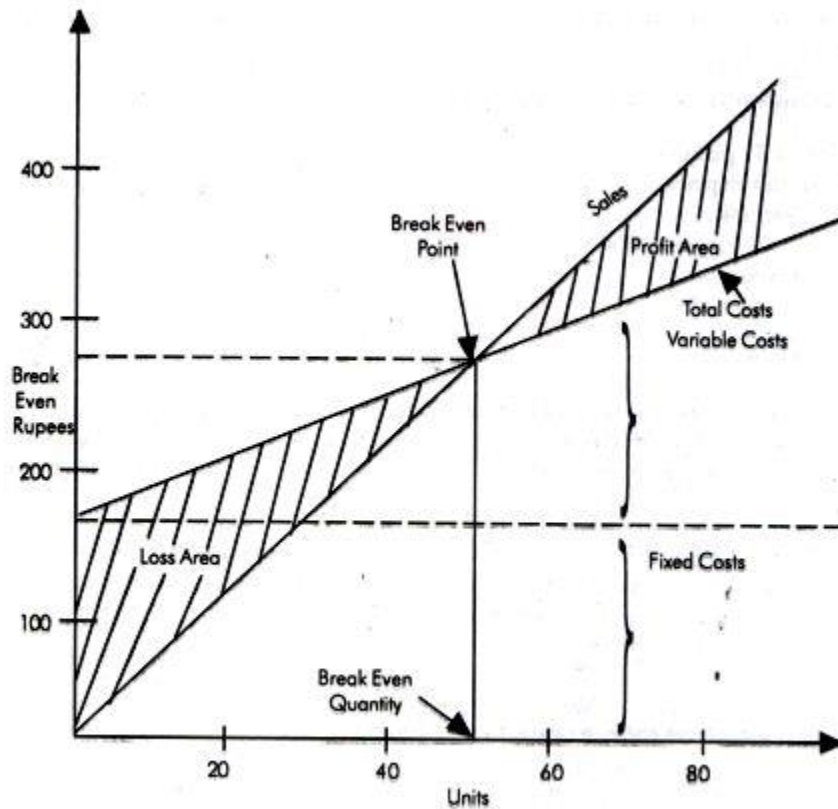


Figure: Bruce's Break-Even Point Graph

The point of intersection between sales and total cost line is the BEP. The angle formed by the intersection of sales and total costs lines is known as the angle of incidence. Larger this angle, lower the BEP and vice-versa. The area to the left of the BEP is the loss area and represents the uncovered fixed cost which to the right of it, there is the profit area. The variable cost is the gap between the total cost and the fixed cost. BEP can be computed by contribution approach as:

- Break - Even Line: the break even line, parallel to the horizontal axis can be drawn through the zero contribution point.
- Fixed Cost" The fixed are located in the negative vertical line.
- Contribution Line: it is drawn from the fixed cost point and forwarded by intersecting BE line where BEP lies.

Cash Break- Even Point

Break – even point tells what volume of sales is required to cover all operating expenses. But, fixed costs include certain non cash expenses like depreciation and amortization, for which no cash is needed in the short run. Therefore, the company can pay its cash bills even if it does not

generate sales equal to BEP in the short run. If only the cash costs are included in fixed costs we can get cash BEP.

Cash BEP (in units) = $\frac{\text{fixed cost} - \text{non cash expenses}}{\text{SPPU} - \text{VCPU or CMPU}}$

Cash BEP (in Rs) = $\frac{\text{Fixed cost} - \text{Non cash Expenses}}{\text{C/M Ratio}}$

Step or Jumping Fixed cost and Multiple BEP

Break- even point is determined by dividing the fixed cost by the contribution margin per unit. If the fixed cost is jumping like a ladder (i.e. step fixed) then it is required to consider a different amount of fixed cost corresponding to each step. As such, BEP is computed for each level of fixed cost. Some of these computed BEP may not be feasible because they may violate the limits imposed by the relevant range corresponding to the level of fixed costs considered in their computation. As a result real or actual BEP is determined through Trial and Error approach. [Munakarmi, 2003: 136]

2.8.2 Application of Break Even Analysis

Break Even concept can be used to formulate different policies in a business enterprise. Some of the applications are:

- Determination of profit at different level of sales and margin of safety.
- To find the level of output to get the desired profit.
- Effect of price reduction on sales volume and changes in sales mix.
- Effect of fixed cost or variable cost changes on sales volume.
- Selection of most profitable alternative, make or buy decision and drop and or add decisions. [Maheshwari, 2000:182]

2.8.3 Assumption of Break Even Analysis

Contribution analysis and break even analysis are based on a specific set of assumptions that should be clearly understood. These underlying assumptions are:

- All cost can be classified into two parts, fixed cost and variable cost; these are no costs other than fixed and variable.

- There is a relevant range of validity (activity) for using the result of the analysis and sales change.
- There is only one product or in case of multi products, the sales mix among the products remains constant.
- Basic management policy about operation will not change materially in short run.
- The general price level (inflation deflation) will remain essentially stable in the short run.
- Sales and production levels are synchronized, that is inventory remains essentially constant or zero.
- Efficiency and productivity per person will remain essentially unchanged in the short run. [Maheshwari, 2000:182]

If any of the above assumption were changed, revised budget would be needed for a new analysis.

2.8.4 Limitation of Break-Even Analysis

Break-even Analysis in many business situations can be used for effective decision making but there are many short coming or limitation in its analysis and interpretations. Some of these can be listed as:

- The assumptions of producer's market phenomenon not hold goods for all types of commodities.
- The fixed cost may remain constant as well as the variable costs may not vary and fixed proportions at different levels of output.
- With variation in the prices of the items or services which also depend on the factors affecting the demand and supply will certainly affect the demand of the commodity. This phenomenon is not covered in even analysis.
- Identification of fixed and variable costs involved in production process is very complicated. A shift in product mix may change the break- even point.

Customers may be given certain discount on purchase to promote sales. This revenue may not be perfectly variable with level of sales output. [Maheshwori, 2000:183]

2.9 Margin of Safety

The margin of safety is the excess of budget or actual sales over the breakeven sales volume. It states the amount by which sales can drop before losses begin to be incurred in an organization. The higher the margin of safety, the suffer is the business. For, example if the ratio of the margin of safety to the project sales is 40%, the firm will be cover its fixed cost

burden at 60% of the project sales. The firm will earn profit equal to the contribution margin of 40% of the expected sales. The margin of safety can be expressed as units, value or a percentage. Formula are:

Margin of safety = Actual sales – BE Sale (units and value)

Margin of safety (in units) = $\frac{\text{Profit}}{\text{CMPU}}$

CMPU

Margin of safety (in Rs) = $\frac{\text{Profit}}{\text{P/V Ratio}}$

P/V Ratio

Margin of safety ratio = $\frac{\text{Actual sales} - \text{BE Sales}}{\text{Actual sales}}$

Actual sales

Margin of Safety Ratio = $\frac{\text{Margin of Safety}}{\text{Actual Sales}} \times 100$

Actual Sales

The larger of the safety margin the greater the chance for the company to earn profit i.e. larger the margin of safety safer the company. A high margin of safety is particularly significant in times of depression when the demand for the company's or firm's product is falling. Low margin of safety may result of firm which has low contribution ratio. When both the margin of safety may result of firm which has low contribution ratio are low, management should think the possibilities of increasing the selling price it does not adversely affect the sales volume or reducing variables costs by bringing improvement in manufacturing process. [Munakarmi, 2003:407]

The following steps are needed to rectify margin of safety:

- With increasing selling price.
- With increasing sales volume, if the capacity of fixed cost is not fully utilized.
- With reducing fixed cost if possible.
- With reducing variable cost (with reducing the cost of raw materials, wedges and other direct cost).
- With substituting product like by more profitable one.

2.10 Economic Characteristics of Cost- Volume- Profit Analysis

Where volume profit analysis cost is reasonable accurate, they can help management decision making. Essentially, CVP Analysis offer greater insight In to the economic characteristic of a company and may be used to determine the approximate effect of various alternatives. CVP Analysis is based on estimates, however, the alternatives. CVP Analysis is based on estimates, however the arithmetical manipulations generally involves averages, and hence the result should never be interpreted as precise. Rather, the analysis may be used to develop and test with a minimum of effort, the approximate effect on costs and profits or several types of management decisions. [Whelsch, 1979:467]

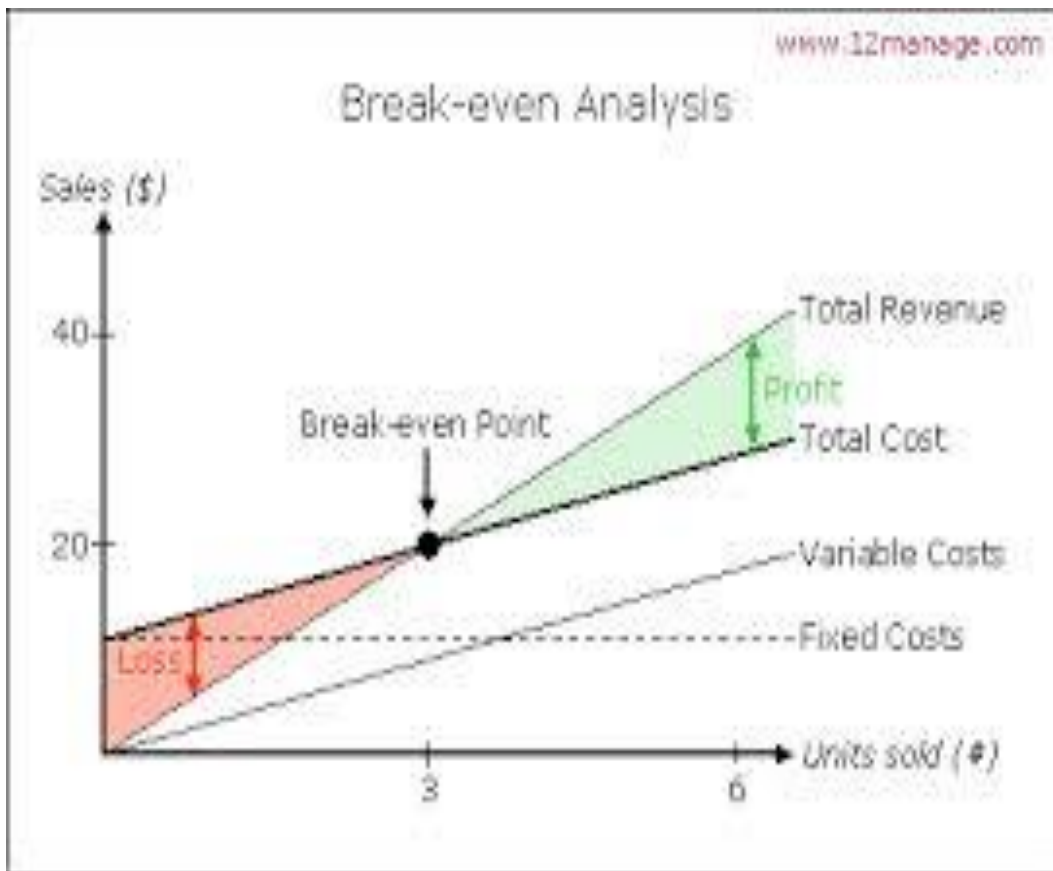


Figure 2-7: Break-Even Chart (Source: Welsh, 1979)

Above breakeven chart with economic characteristic indicate few of the economic characteristics of a business, which are:

- Fixed cost, variable costs and total costs at varying volumes.

- The profit and loss potential before and after income tax at varying volumes.
- The margin of safety is the relationship of budget volume to break even volume.
- The preferred dividend or danger point the point below which preferred dividends are not earned.
- The deal point, the point where management earns only the 'going' rate in the investment.
- The common dividend or unhealthy points below earnings are insufficient to pay the preferred dividend and the expected dividend on the common stock. [Whelsch, 1979:468]

All these points and as other can be completed if data are developed for cost volume profit purpose.

2.10.1 Cost- Volume- Profit Analysis for Multi Product Firms

Sales mix can be defined as the relative combination of two or more product represented in total. It is not only the sales revenue that makes profit. The proportion of sales contributed by different product greatly changes the amount of profit. Managers try to achieve that combination or mix that will yield the greatest amount of profit. If a company sales more than one product, these may not be equally profitable. So, the company's profit will depend upon the ratio of each product sales to total sales revenues. Profit will be greater if high margin item make up a relatively large proportion of total sales than if sales consist mostly of low margin items. Changes in sales mix can cause the total profit to decrease even though total sales increase on the contrary, a shift in the sales mix from low margin items to high margin item can use the reserve effect total profit may increase even though total sales decrease. [Bajracharya, Ojha, Goet and Sharma, 2005:260]

To calculate BEP for sales mix or multi products:

- Calculate contribution margin or profit volume ratio for each product.
- Calculate production of sales mix in units or values are as follows:

$$\text{Sales Mix} = \frac{\text{Total of all Products' sales units or values}}{\text{Individual products sales units or values}}$$

- Calculate weight average for all products as follows:

$$\text{Weight average CMPU} = \text{Sigma units sales mix} \times \text{CMPU}$$

$$\text{Weight average C/M Ratio} = \text{Sigma values sales mix} \times \text{P/V ratio}$$

- Calculate of break- even point (BEP):

$$\text{Break-even point (in units)} = \frac{\text{Total Fixed Cost}}{\text{Weighted average CM\%}}$$

$$\text{Break- even point (in Rs)} = \frac{\text{Total Fixed Cost}}{\text{Weighted average C/M Ratio}}$$

2.10.2 CVP Analysis with a Single Constraint

Scarce resources should be efficiently allocated in order to maximize the contribution margin. A particular simple and instructive situation arises when there is only one constraining resource. This occurs if the firm's products are all produced on a single machine and output is limited by hours available on this machine. In the same way, single resource constraint for a scarce resource to have alternative uses then the available capacity for such scarce resource should be allocated to the alternative uses on this basis of contribution per scarce resource. [Munakarmi, 2003:146]

2.10.3 Cost Volume Profit Analysis and Limiting Factors

Because of some critical factors like, raw material or labor or finishing machine the firm can not produce any numbers of output of its choices. So profit planning and decision making of the firm will be affected while CVP Analysis is done.

2.10.4 CVP Analysis under Condition of Uncertainty

CVP Analysis can be used for various purposes such as choosing between machine and products, planning of profit and most significant fixing up of selling price. Management uses this as a convenient tool of profit planning with giving consideration of risk and uncertainty involved in it.

Although, margin of safety ratio explains the degree of sensitivity of the project and product in general but it fails to explain certainty of the product and also between the alternatives. To overcome such a difficulty risk and uncertainty analysis like in any other management decision making can also be used in CVP Analysis. The objective in CVP Analysis under condition of uncertainty is to assess the probability distribution of the profit volume under given distribution of one or more factors, sales price of products. Profitability distribution approach is a simple statistical tool which may be used to measure the risk and uncertainty involved in CVP Analysis. A probability distribution theory normally suggests for postulation of various possibilities of happening of the event in consideration. This may be done either taking into consideration of

the experience in the part or may be done by considering the personal intuition of the persons doing so. In business different of past experience are hardly available not a person is likely to behave in the same manner in the similar situation in different time. Therefore, personal judgments plays significant role in the management decision making. The condition thus postulated are assigned probability (i.e. ones judgments towards like lines of happening of the condition forecasted). It must be understood that probability assigned here is a subjective probability based in personal judgment of the man making such as analysis [Pandey, 2003:17]

2.10.5 CVP Analysis with Multiple Constraints

When more the one scarce resource exists, the optimum production program can not easily be established by the simple process applied in single resource constant. Under the circumstance simple allocation of resource or the basic of contribution margin per unit is neither feasible nor desirable. Contribution margin per unit of scarce resource may be different for different ranking of product, because production processes are affected by many constraints factors rather than single constraint. In such situation. Linear programming technique may used to optimize product mix. The linear programming formulation is required to determine a production plan which maximizes contribution from the product mix linear programming is mathematical technique which shows how to arrive the optimum results, allocation available resources in a meaningful manner. It is basically concerned with the problem of allocating limited resources among competitive activities in an optimum manner. It is a technique to optimize the allocation of scarce resources in product mix problems which provide a valuable extension to cost-volume-profit analysis. [Munakarmi, 2003:148]

2.10.6 Special Problems in CVP Analysis

Cost- Volume- Profit Analysis is applied to individual products or parts of a business and all the product or activities combined. In latter case, there are three special problems may be encountered.

- a) Selection of suitable activity base
- b) Inventory changes
- c) Non- operating income and expenditures

a) Activity base

When two or more products or activities are combined for break even analysis the activity base must be in additive units using a common denominator of volume or output in multiple products. Therefore for the company as a whole, net sales amount

are usually the only satisfactory common denominator because manufacturing, selling and administrative activities are expressed in combination.

b) Inventory Changes

Usually the budgeted changes in inventories (i.e. finished goods and work in progress) are in material in amount and thus may be disregarded in cost volume profit analysis. On the other hand, when the change in budgeted inventory is significant, it should be included in the analysis. Including the effect of inventory changes in CVP Analysis require subjective judgment about what management might do (about making inventory changes) at different volume, levels and the conceptual precision that is desired. Management considers two practical approaches or policies in inventory changes of used a) disregard and inventory changes, and b) include the inventory changes.

c) Non- Operating income and expenses

Non- Operating incomes (gains) and expenses (losses), and extraordinary gains and losses, if material in amount, cause another problem in Cost- Volume- Profit Analysis. The basic issue is whether they should be included or excluded. Extraordinary gains and losses are non recurring and unusual, therefore, they should be excluded. Non-operating incomes and expenses are recurring, but they are not related to ongoing operations. For example, interest income and expenses, and gains and losses on the sale of operational (fixed) assets, are viewed as non- operational items. Usually they are excluded from Cost- Volume- Profit Analysis. However, if they are included, it is preferable to include the net or other income and other expenses. If the excess is expenses, it should be added to fixed expenses, whereas if the excess is income, it should be deducted from the fixed expenses.

2.11 Sensitivity Analysis

Sensitivity analysis is the measurement of elasticity of the change in CVP factors in break- even point or given profit. The strategist should focus more on the factors, which is more sensitive or responsive for profit. To measure the sensitivity of CVP factors one can see the impact of certain percentage or amount change in volume, prices, or cost factors on net profit. In other words, sensitivity analysis is the measurement of responsiveness in outcome with the changes in determinant variables. We know that the goal of a business enterprise is to maximize profit. Profit is the excess of revenue over the total costs.

Net Profit = Total Sales revenue – Total Costs

Net Profit = Sales Units x SPPU - Sales Units x VCPU - fixed cost - taxes

So that,

Profit = f (sales volume, selling price, VC, FC, Taxes, etc.)

Means, profit is the function of volume, price, VC, FC, Taxes and so on.

But none of the factors remain unchanged. Sometimes the manager can intentionally change the price and cost factors as a part of strategic decision. But the strategy should focus more on the factor, which is the more sensitive or responsive for profit. So, to measure the sensitivity of CVP factors, we can see the impact of certain percentage or amount change in volume, price or cost factors on net profit. [Bajracharya, Ojha, Goet and Sharma, 2005:245]

2.11.1 Risk Measurement: The Operating Leverage and Breakeven Point

Operating leverage can be measured in terms of the "Degree of Operating leverage (DOL)". A DOL shows the times of percentage change in net operating income of the given percentage change in sales. DOL may be defined as the percentage change in net operating income (NOI) or EBIT associated with a given percentage change in sales.

Operating leverage tells us how profit change with the change in sales. It is evident that profit changes more rapidly than sales. Why do profit change more rapidly than the sales? It is because some costs do not change. Say if sales decline, variable cost also decline in the same ratio so that contribution margin also decline proportionately. But fixed costs do not decline. So the net operating income decline more rapidly. The something applies in the case of increase well. Sales revenues changes but some parts of costs, known as fixed costs, remain unchanged. That is why net operating income changes more rapidly. This change is called the operating leverage.

$$\text{DOL} = \frac{\% \text{ Change in net operating income or EBIT}}{\% \text{ change in sales}}$$

Alternatively,

$$\text{DOL} = \frac{\text{Contribution margin}}{\text{Net Operating Income}}$$

$$\text{DOL} = \frac{Q (SP - \text{VCPU})}{Q(\text{SP}-\text{VCPU}) - \text{Fixed Costs}}$$

Where, Q = Total demand in units

SP = Selling Price per Unit

VCPU= Variable cost per unit

As we Know,

$$\text{BEP (in Units) } = \frac{\text{Fixed cost}}{\text{SP} - \text{VCPU}}$$

Leverage decision is meant to substitute variable cost by the fixed costs. To create a degree of operating leverage means the employment of higher amount of fixed cost, which eventually increase the breakeven point also. No DOL is to be said when the DOL occur " 1" and in this situation BEP comes to "Zero".

Higher fixed costs increase the DOL and they also increase the breakeven point, so there is close relationship between the degree of operating leverage and breakeven point. A high DOL and high BEP both are the indicators of higher risk. [Bajracharya, Ojha, Goet, Sharma, 2005:248]

2.11.2 Impact of Changes on Profit

Profit is the functions of variety of factors, it is affected by changes in volume, costs and price. Profit may be affected by the changes in the following factors:

Effect of Price Changes:

An increase in the selling price will increase the P/V ratio and, as a result, will lower the breakeven point. On the contrary, a decrease in selling price will reduce the P/V ratio and therefore, result in the higher breakeven point.

Effect on Volume Changes:

Changes in volume, not accompanied with the changes in the selling price and or costs, will not affect P/V ratio. As a result, the breakeven point remains unchanged. Profit will increase with an increase in volume and will reduce with a decrease in volume.

Effect of Price and Volume Changes:

A change in price invariably affects volume. A price reduction may increase demand of the product and consequently, may result in increased volume. On the other hand, increase in price may adversely affect the demand and thus, reduce volume. The impact on profits under these circumstances is not obvious. Profit may increase with a price reduction if volume increases substantially. Similarly a price rise may reduce profits if there is material fall in volume.

Effect of change in Variable Costs:

The effect of change in variable costs on profit is straight forward if it does not cause any change in selling price and or volume. An increase in variable costs will lower the P/V ratio, push up the BEP and reduce profits. On the other hand, if the variable costs decline, P/V ratio will increase, BEP will be lowered and profit would rise.

Effect of Change in Fixed Costs:

A change in fixed cost does not influence P/V ratio. Other factors remaining unchanged, a fall in the fixed cost will, however lower the BEP and raise profits. An increase in fixed cost caused either due to some external factors or due to some changes in the management policy, will raise the BEP. Increase in factory rent or insurance and taxes are example of external factors, while increase in depreciation or salaries of managers may be the result of management decisions.

Effect of Changes in a Combination of Factors:

The financial manager or the management accountant, evaluating the profit plans or budgets, must realize that a change in one factors leads to a change in another factors. Therefore, all such changes should be carefully visualized and their net impact on profit must be seen. {Pandey, 1999:203}

2.12 Review of Previous Studies

Review of literature is an essential part of all studies. It is way discover what other research in the area of our problem has uncovered. It is also a way to avoid investigating problems that have already been definitely answered. Review of literature provides the foundation for developing a comprehensive theoretical frame work. It also minimizes the risk of pursuing the dead ends in any research. As profit planning and control and management accounting covers major of the aspects of cost-volume- profit analysis, researchers made on these areas are taken into consideration for the sake of review to examine how profit planning and control and management accounting practices in Nepalese companies. Many of the researches have been made on manufacturing concerns and except of few most of them are not profound. An

attempt is made here to review some of the researchers, which have been submitted on CVP Analysis as a tools of profit planning and control and management accounting in the contest of Nepalese public enterprises.

Guragain,(2010), had conducted a research entitled ,"**A study on cost volume profit Analysis(A case study on Kantipur Publication Ltd)**" this was submitted to faculty of management Trivuvan University in the partial fulfillment of degree of Master of business studies in the year 2010. This study concerned to Cost Volume Profit Analysis of Kantipur Pvt. Ltd. In this study the mostly used secondary data from the FY 2061/62 -65/66 and finding from the study are follows,

- Sales of company is in increasing every year in fluctuating rate, the company forecast sales for F/Y 2067-068 is Rs 62636877.00
- Total variable cost ratio was not constant because higher portion of variable cost includes cost of materials which covers nearly 80% of average sales.
- Fixed cost did not remain constant if different fiscal year.
- There is no proper coordination among production, administration, distribution, store and sales department.
- Profit of the company is fluctuated in every year. Though sales decrease in the same year. Profit increase due to decrease on fixed cost.
- Contribution margin and profit volume ratio were in increasing trend. It is vary low due to huge amount of variable cost.

Gurung, 2008, had conducted a research entitled "**Cost- Volume- Profit- Analysis of Public Enterprises of Nepal**(a comparative analysis between Nepal Telecom and Nepal Electricity Authority)". This was submitted to faculty of management, Trivuvan University in the partial fulfillment of Degree of Master in Business Studies. The findings from the study are as follows.

- Segregation of fixed and variable cost is ignored by both enterprises. Cost- Volume- Profit- Analysis is not plasticizing by this enterprises no any method had been adapted to segregate cost in to fixed or variable.
- Actual operating income of the NTC is increasing in fluctuation of trade.
- Variable cost of NTC is very less compare to its fixed cost and contribution margin ratio of NTC is very high. But NEA has variable cost and its contribution margin ratio is less.
- NTC is running in profit but NEA is suffering from less. No any systematic plans have been implemented for preventing the loss and improve profit of these enterprises.
- Fixed cost of NTC is high in the comparison to variable cost. Employee cost and administration expenses are high. In NEA fixed cost like interest and depreciation are high. Long term lone in NEA are the main cause in increasing interest.

- High P/V ratio of NTC reduce the break even level of the company where as NEA has less PV ratio and BEP sales are more. As a result NTC is earning profit but NEA is suffering loss.
- MOS of NTC is in good position where as NEA is in negative.

Adhikari, 2008, has conducted a research entitled " **A Study on Cost- Volume- Profit- Analysis as a Managerial Tools to Plan Profit of Bottlers Nepal Limited.**" Mr. Adhikari had concerned his study to examine the use and effectiveness of CVP Analysis as a managerial tools in Nepalese manufacturing companies. This was submitted to Shankar Dev Campus, Tribhuvan University in the partial fulfillment of Degree of Master in the year 2008. The study covered a five year period from fiscal year 2002-2003 to 2006-07. The main remarkable findings as follows:

- BNL has only sales and production plan.
- Sales and production targets are not achieving because there is not an effective forecasting system.
- The profit trend of the company was not satisfactory. As compared to profit proportion was very low with fluctuated trend.
- There is no any effective plan for cost deduction and control.
- The profit trend of the company is not satisfactory. As compared to profit, proportion is very low with fluctuation trend.
- The company has no detailed and systematic expenses plan. The fixed, variable and mixed expenses plan is the necessary elements for profit planning and control.
- In the company, there is no effective inventory policy. The inventory management, raw material handing and controlling system are not efficient and effective.
- BNL has not proper practice or segregating the costs into fixed and variable or controllable and non controllable.
- There are no any proper criteria for performance evaluation for financial tools.
- Decision making powers were centralized.

Sharma, 2002, has conducted a research entitled " **Management Accounting Practices in listed Companies of Nepal**". He has focused his study to examine and study the practice of management accounting tools in the listed companies of Nepal. Mr. Sharma's research study is based only on primary data. Stratified random sampling with proportionate allocation of percentage is followed to draw the sample. In his study, he has pointed out various finding and recommendations which are as follows:

- Different types of management accounting tools which are thought in the colleges are not found applied by the listed companies of Nepal.

- Management accounting is to help managers in overall managerial activities.
- By providing information and helping in planning, controlling and decision making.
- Nepalese listed companies are in infant stage in practicing of management accounting tools such as capital budgeting, annual budgeting, cash flows, ratio analysis, zero based budgeting, activity costing, target costing and value engineering.
- Lack of information and extra cost burden are the main reasons behind not practicing such tools.

Shrestha, 2009, had conducted a research entitled "**Cost Volume Profit Analysis of Nepal Aushadhi Limited**". Submitted to Faculty of Management Tribhuvan University in the partial fulfillment of degree of master in the year 2009. This study was to examine the use of CVP Analysis to plan the profit in NAL. The findings from the study are as follows.

- Sales plan of NAL is not properly maintained. The industry did not use significant method of sales planning.
- There is significant difference between budgeted sales and actual sales of the industry.
- NAL did not practice the significant and appropriate cost classification technique. Cost were classified into fixed and variable as per the decision of the top level management.
- Break- Even sales were more than actual sales. The industry was suffering from huge loss every year.
- Contribution margin of NAL is very low.
- MOS of NAL is negative in every year, the industry might be bearing the high risk.
- The profitability of NAL is very poor. Every year the NAL is suffering losses.
- NAL is utilizing only 40% capacity.
- Top level managers set the goal but these goals and objectives are not clearly communicated to the lower level management.
- The industry is facing problems of poor communication among production, administration, technical, marketing and finance department.
- As the degree of operating leverage is negative in every year. It suffers huge amount of loss even if the sales revenue decrease slightly.
- The industry is facing the problem of raw material dependency and the fluctuations international price. Some times it also faces the problem of raw materials scarcity as well and very tough competition market.

2.13 Research Gap

There is a significant gap between present research work and the previous research works. There are hundreds of researches which are conducted mainly on profit planning and control and management accounting of public enterprises. In most of the researchers, profit planning tools are analyzed in one way or the other but their impacts are rarely explained

comparatively. CVP Analysis and the sensitivity of their variable in modern business is a current issue but these facts are rarely studied by the previous researches. To fill this gap, the researcher is entitled whole heartedly to conduct this research. For this propose the researcher will examine the current practice of CVP Analysis in the Annapurna Post and Nagarik Daily comparatively, probability, it is the first thesis which deeply studies the CVP Analysis of Private Company Limited.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 INTRODUCTION

The research that involves the discovery of new techniques, a modification of old concepts or a knocking off an existing theories, concepts and techniques. It may develop a hypothesis and test it by establishing relationship between different variables and identify the means for problem solving. Research is the process of a systematic and in-depth study or search of any particular topic, subject or area of investigation backed by the collection, complication, presentation and interpretation of the relevant details or data. It is careful search or inquiry into any subject matter, which is an endeavourer to discover or find out valuable facts, which will be use full for further application or utilization. Research methodology is a systematic way to solve the research problem. In other words research methodology describes the method and process applied in the entire aspects of the study. It may be understand as a science of studying how research is done scientifically. It helps to analyze, examine and interpret various aspects of research works such as sales, cost and other aspects of CVP analysis, related to effective tools of profit planning. The objective of this study will be to analyze the CVP analysis of AP and ND and thereby forward some measure to improve the situation. The major contents of research methodology followed in course of this study are;

3.2 Research Design

Research design means defining procedures and techniques which guide to study and propound ways for research work. It is an analytical as well as descriptive approach to archive the objectives. It is the arrangement of condition for collection and analysis of data relevance to the study purpose with economy in procedure. In order to make type of research, this fulfills the objectives of the study.

The research design is an organized approach and not a collection of loose unrelated parts. It is an integrated system that guides the researcher in formatting, implementing and controlling the study. Useful research design can product the answer to the proposed research questions. The research design is thus an integrated frame that guides the researcher in planning and executing the research works.

Data and information are the lifeblood or major portion of any study. This study would be attempted to show the relation relationship among cost, volume, profit and various functional budgets for solving the problems that has accrued in Annapurna post and Nagarik publication

are presented and analyzed by descriptive research design and analytical method. A study design is the arrangement of the condition for collection and analyze of data in manner that aims to combine relevance to the study purpose with the economy in producer. These studies will an intensive based on analysis of the post financial performance. To fulfill the objective of the study primary as well as secondary data will be used and study design will be descriptive as well as analytical.

3.3 Research population and sample

The large group about which the generalization is made is called the population under study, or the universe and small portion on which the study is made is called the sample of the study.

The researcher presents the current scenario of journal present in chapter to about daily, half weekly, they have same similar as well as differential features are found to these studies. The size and manpower of both houses are nearly equal comparative to other and the main differential feature the house is the Nepal News Network International is operated from private sector of out of Nepalese and Indian partners and the Nepal Republic Medias only Nepalese partner. The researcher select the those house consider the most popular and Annapurna level.

All publication of Nepal about (50/more) are taken as population. One Annapurna post and Nagrik Daily will be taken for the research propose. Among them two publication i.e. Annapurna post and Nagarik Daily are taken as sample because these two publication are considered as the most popular and categorize in Annapurna level.

3.4 Source and Type of Data:

Data and information are the foundation of any study. Data may be obtained from several sources, it is not easy to list them in detail. Each research project has its data needs and data sources. Secondary data have been taken mainly from annual reports, auditors reports, balance sheet. P/L Account, cost detail sheet, previous thesis and other relevant published and unpublished documents related to Annapurna Post and Nagrik Daily. For further information informal interviews were conducted with the concern authority.

3.5 Variables of Studies:

Variable are characteristics of person, things, groups, objects etc. a variable is thus a symbol to which numerals or values are assigned. In other words, a variable can taken on many values. The researcher had used two type of variables, independent variable and dependent variables, which are presented as bellow:

a) Independent variables

A variable is called independent variable if it is not influenced by any other variable under study. The independent variables are those, which are the basic of prediction like sales in units. Cost of goods sold.

b) Dependent Variable:

A variable is called dependent variable if its values depend upon the other variables. The investigator purpose is to study analyze and predict the variability in the dependent variable. The dependent variable is the variable that is being predicted like sales in(Rs.), cost (variable and fixed cost), profit etc.

There are three factors (i.e. cost, volume and profit) of CVP Analysis, which are interconnected and dependent on one another. So these factors are depending variables. But, testing relationship between these variable following criteria is assumed:

S.N.	Independent Variable	S.N.	Dependent Variable
1	Sales Unit	1.	Sales Rs
		2.	Cost (Variable and Fixed)
		3.	Profit

Figure 3-1 Classification of Variables

3.6. Method of Analysis and Presentation

Analysis and presentation of the data is the core of each and every research work. In order to get the concrete results from this result, data are analyzed by using different types of tools. Basically, following two techniques are used to explained the collected data.

3.6.1 Descriptive technique, is a fact-findings operation searching for adequate information. It is a type of study, which is generally conducted to assess the opinion, behaviors or characteristics of a given population and to describe the situation and events occurring at present. Description technique is a process of accumulating facts. It does not necessary seek to explain relationships, test hypothesis, make predictions, or get at meanings and implications of a study.

3.6.2 Quantitative Techniques

Descriptive techniques would not be enough to prepare excellent research report. To fulfill the gap, or make the research report attractive and for better understanding the following profit planning

and statistical tools were used:

3.6.2.1 CVP Analysis Tools

C-V-P Analysis was included the following techniques:

Contribution Margin (CM) = Sales – Variable Cost

Contribution Margin Ratio = $\frac{1- \text{Variable Cost}}{\text{Sales}}$

Break Even Point in Units = $\frac{\text{Fixed Cost}}{1- \text{Variable Cost per unit}}$

Break Even Point in Rs = $\frac{\text{Total Fixed Cost}}{\text{Contribution Margin Ratio}}$
1- $\frac{\text{Fixed cost - non cash outlay}}$

Cash in BEP in Rs = $\frac{\text{Variable cost}}{\text{Sales- Non cash Outlay}}$

Required sales for desired = $\frac{\text{fixed cost} + \text{desired profit}}{\text{contribution margin per unit}}$

Profit (in units)

Required sales for desired = $\frac{\text{fixed cost} + \text{Desired profit}}{\text{contribution margin ratio}}$

Profit (in Rs)

Required sales in units = $\frac{\text{fixed cost} + \frac{\text{Desired profit after tax}}{1- \text{tax}}}{\text{Contribution Margin Per Unit}}$

Required sales in rupees for = $\text{fixed cost} + \frac{\text{desired profit after tax}}{\text{Contribution Margin Per Unit}}$

$$\frac{\text{Desired profit after tax} \times \frac{1}{1 - \text{tax rate}}}{\text{Contribution margin ratio}}$$

Safety margin (in units) = Actual sales units - BEP in units.

Safety margin (in Rs) = Actual sales in Rs - BEP in Rs

$$\text{Margin of Safety Ratio} = \frac{\text{Actual} / \text{Budget sales} - \text{Breakeven Sales}}{\text{Actual Budget Sales}}$$

3.6.2.2 Statistical Tools:

The relationship between two or more variables can be measured by using statistical tools. In this study

the following statistical tools are used.

Bar Diagram:

Bar diagrams are one of the easiest and the most commonly used methods of presenting the numerical data. They present the data by means of bars, or rectangles of equal width. The length of bars represents the given figures and the width may be of any size.

Mean:

The sum of all the observations divided by the number of observations is called Mean. In such cases all the items are equally important. It is usually denoted by \bar{X} . It is defined by the following formula:

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

Where,

$\sum X$ = the sum of observations

N = no of observation

Standard Deviation (S.D.):

The standard deviation is defined as the positive root of the mean of the squared deviations from their mean of a set of values. It is also known as Root Mean square Deviation. It is usually denoted by the Greek letter σ (small sigma)

The SD is calculated by the following formula.

$$SD = \sqrt{\frac{\sum(X - \bar{X})^2}{N - 1}}$$

Coefficient of Variation (CV)

The relative measure of dispersion based on SD is called coefficient of SD. Thus,

$$\text{Coefficient of } SD = \frac{\sigma}{\bar{x}}$$

100 times coefficient of SD is called coefficient of variation. It is denoted by C.V. thus,

$$CV = \frac{\sigma}{\bar{x}} \times 100$$

Correlation Analysis:

The degree of relationship between two variables at a time is called correlation. In other words, two variables are correlated in such way that if one variable changes then other variables also changes subsequently.

It can be calculated by using following formula:

$$\text{coefficient of correlation}(r) = \frac{\sum(x - \bar{x})(y - \bar{y})}{\sqrt{\sum(x - \bar{x})^2 \sum(y - \bar{y})^2}}$$

The correlation coefficient measures the degree of correlation between y on X. it should be between +1 and -1. If not there is no correlation between two variables.

CHAPTER –IV

PRESENTATION AND DATA ANALYSIS

4.1 Introduction:

Major finding of the research depends on the data presentation and analysis. Data presentation and analysis is the important part of the research work. It is known as heart of research. Here, the researcher has tried to present and interpret the collected data in a systematic manner and meaningful ways.

CVP Analysis is important and very popular tool to measure the financial statement of the organization. Mainly, to fulfill the objectives of the study required factors about CVP analysis are presented and analyzed. It is also important tool used for profit planning in any organization. It shows which volume or level of activities is necessary to breakeven point or to gain a certain amount of profit. It helps to determine to the volume of operation designed to maintain the corporations profit. It shows the relationship among the variables. Cost Volume Profit Analysis of these enterprises (Nepal News Network International P. Ltd and Nepal Republic Media P. Ltd.) is comparatively presented. For that propose sales revenue, profit, contribution margin and sensitivity test are done. Because these are the major variables of cost volume profit analysis.

The main objectives of this study are to examine the existing position of Cost Volume Profit Analysis of Nepal News Network International P. Ltd and Nepal Republic Media P. Ltd. On the basic of the analysis and diagnosis of the collected data and to provide the suggestion and recommendation for the improvement of CVP Analysis of these publications. In this chapter collected data from the publishing house are analyzed according to deterministic as well as probabilities model or techniques as per the requirements of this study so as to know the real situation of CVP Analysis of publishing house. The study covers the period of five years from 2065-066 to 2069/2070.

Sales Plan of the Nepal News Network International P. Ltd and Nepal Republic Media P. Ltd.

Sales are the major sources of revenue and profit. The sales plan should be as realistic as possible. If the sales plans are unrealistic then all other elements of profit plans will be out of reality.

Nepal News Network International P. Ltd and Nepal Republic Media P. Ltd. Only fix the sales target for the coming year. Nepal News Network International P. Ltd and Nepal Republic Media P. Ltd. Have no practice of preparing the long term sales plan. Only sales target for the upcoming year to each sectors is fixed. There is no exercise of preparing sales plan by lines and services. Nepal News Network International P. Ltd and Nepal Republic Media P. Ltd. Have not the problems of selling its services but problems of providing services in the demanding time.

4.2.1 Sales Value Analysis of the Nepal News Network International P, Ltd.

Sales value means the total monetary value of units sold of publication (i.e. Annapurna Post Himalayan) with in the period of last five years or an annual basic of Nepal News Network International p. Ltd.

Table 4-1 Annual sales of Nepal News Network International P. Ltd and Nepal Republic Media P. Ltd.

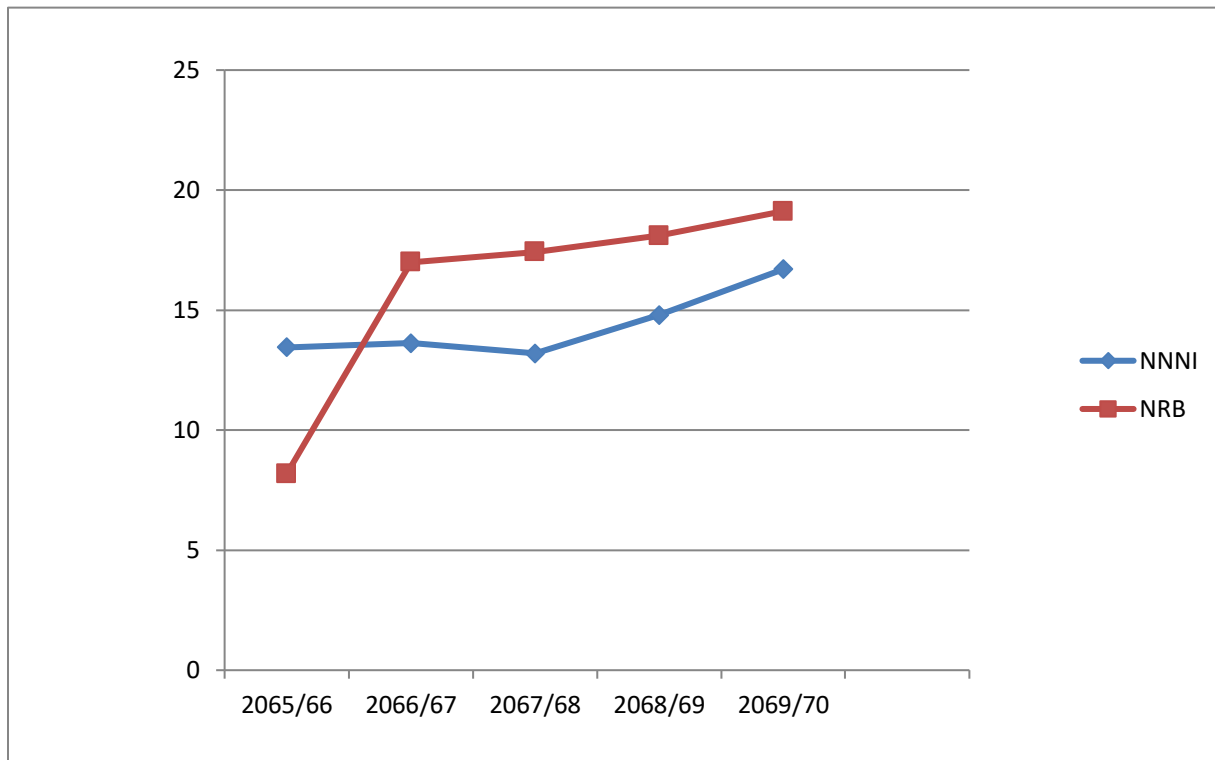
Annual Sales of Nepal News Network International P. Ltd and Nepal Republic Media P. Ltd.					
periods	Nepal News Network International P. Ltd			Nepal Republic Media P. Ltd.	
	Sales (ruppes)	% Changes		Sales (ruppes)	% Changes
2065/066	134567475.2	-		81821714.9	0
2066/067	136321702.5	0.013036	1.303604	170090818	107.8798
2067/068	132072718.9	-0.03117	-3.11688	174372980	2.517574
2068/069	148073980.4	0.121155	12.11549	181011512.6	3.807088
2069/070	167068318.2	0.128276	12.8276	192368290.3	6.274064
(Annual report published by: NNNI & NRM From 2065-2070)					

Above table no 4.1 shows the annual sales revenue of NNNI and NRB for five years from F/Y 2065-066 to F/Y 2069-070.

Sales revenue of NNNI is in the year 2065-066 is Rs 134567475.20 and Rs 136321702.50 in F/Y 2066-067 this shows increase on sales 1.30 % of NNNI. For F/ Y 2067-068 Rs 132072718.90 and decrease in 3.11%. Similarly for NRM in the year F/ Y 2065-066 Rs 81821714.90 and F/Y 2066-067 Rs 170090818.00 and 2067-068 Rs 174372980. In the F/Y 2065-066, 2067-068 increase by 107.87% and 2.51% respectively.

In the FY 2068-069 and 2069-070 for NNNI IS increase by 12.11% and 12.82% respectively and NRM is 3.80% and 6.27% increase by beginning year.

From the above calculation it can be concluded that the revenue of NNNI ratio is highly fluctuated in the last five years. During this five years period the annual sales revenue of NNNI in F/Y 2066-067 growth is positive trend and it gives no risk to the company. And for the income year 2066/66 its growth is negative trend. It gives high risk to the company. So stabilization of income is necessary.



Annual Sales of NNNI and NRM shows in line chart

Figure: 4-1: Graphical Presentation of the total operating income figure will be more effective by following.

Table 4-2: Computation of Various Ratios of NNNI (In Rs)

S.N.	Particulars	2065-066	2066/067	2067/068	2068/069	2069/070
1	Sales	134567475.20	136321702.50	132072718.90	148073980.40	167068318.20
2	Contribution Margin	30867633.4	29407165.6	24099843.81	28165611.3	39456022.06
3	Contribution Ratio	0.23	0.22	0.18	0.19	0.24
4	Fixed Cost	23174103.30	23393489.05	23829061.25	23422129.06	25300957.81
5	Break Even Point	101027523.9	108444326	130588767.9	123136254.5	107131643

6	Break Even % on Sales	0.75	0.80	0.99	0.83	0.64
7	Margin of Safety	33539951.3	27877376.47	1483951.048	24937725.95	59936675.2
8	Margin of Safety on Sales	0.25	0.20	0.01	0.17	0.36

Break Even Point (Rs) considering other income and expenses

9	Other Income	16148097.02	16358604.30	15848726.27	17768877.65	20048198.18
10	Fixed Cost	2132017.504	2152200.992	2192273.635	2154835.874	2327688.118
11	Break Even Point(Rs)	92945321.99	99768779.95	120141666.4	113285354.1	98561111.56
12	MOS	41622153.21	36552922.55	11931052.48	34788626.30	68507206.64
13	MOS on Sale (%)	0.31	0.27	0.09	0.23	0.41

(Budgets Reports of NNNI from 2065-070)

Table 4-3: Computation of Various Ratios of NRM (In Rs)

S.N.	Particulars	2065-066	2065/066	2066/067	2067/068	2068/069
1	Sales	81821714.9	170090818	174372980	181011512.6	192368290
2	Contribution Margin	(6943565.80)	32730398.3	35865979.72	44398341.99	41979800.85
3	Contribution Ratio	(0.08)	0.19	0.21	0.25	0.22
4	Fixed Cost	17053809.3	21460310.01	25078136.41	25354065.44	23566117.69
5	Break Even Point	213172612.0	111523289.5	121924715.6	103368223.4	107989406.1
6	Break Even % on Sales	2.60	0.66	0.70	0.57	0.56
7	Margin of Safety	131350898.0	58567528.54	52448264.36	77643289.16	84378883.88
8	Margin of Safety on Sales	(1.60)	0.34	0.30	0.43	0.44

Break Even Point (Rs) considering other income and expenses

9	Other Income	16870525	19401103.75	21088156.25	19232398.5	19738514.25
10	Fixed Cost	2347565.693	2060189.761	2407501.095	2433990.282	2262347.299
11	Margin of Safety	137359394.7	107062357.9	117047727	99233494.5	103669829.9
12	MOS % on Sales	0.85	0.63	0.67	0.55	0.54

(Budgets Reports of NRM from 2065-2070)

Above the table shows the contribution margin, C/M or P/V ratio, Break even sales, margin of safety and its percentage as well as BEP. And margin of safety is calculated again considering other income of Nepal News Network International Pvt. Ltd. And Nepal Republic Media Pvt. Ltd.

4.2.2 Contribution Margin

Above table no 4.2 and 4.3 show that the calculations of contribution margin of NNNI and NRM from fiscal year 2065-066 to 2069-070. Contribution margin for the five years show fluctuating trend. Contribution margin for the fiscal year from 2065-066 to 2069-070 are 30867633.40, 29407165.60, 24099843.81, 28165611.30 and 39456022.06 respectively. Contribution margin ratio of NNNI is 0.23, 0.22, 0.18, 0.19 and 0.24 in fiscal year 2065-066 to 2069-070 respectively.

In other hand contribution margin of NRM is as follows from the last five fiscal year 2065-066 to 2069-070 are (6943565.80), 32730398.30, 35865979.72, 44398341.99 and 41979800.85 and contribution margin ratios are (0.08), 0.19, 0.25, 0.21 and 0.22 respectively.

High contribution margin is the signal of high profit. Above table clearly shows that the condition of NNNI is better than NRM from contribution margin approach.

4.2.3 Break Even Point

Above table no 4.2 and 4.3 shows that the calculations of Break Even Point of Nepal News Network International and Nepal Republic Media for the five fiscal years 2065-066 to 2069-070.

The breakeven point of NNNI is Rs 101027523.90, 108444326, 130588767.90, 123136254.50 and 107131643.00 respectively for the years 2065-066 to 2069-070. Break Even Point amount for the F/Y 2067-068 and 2069-070 are low but breakeven point amount for these beginning years 2065-066 is high comparatively within the five years breakeven point amount. Percentage of BEP on sales is 75%, 80%, 99%, 83% and 64% from year 2065-066 to 2069-070 respectively. The above table shows that the percentage of BEP on sales is fluctuating from 64% to 99% from year 2065-066 to 2069-070. The fluctuating percentage of BEP on sales indicates the fluctuating trend of profit.

In other hand, above table no4.3 show that the calculation of BEP of NRM for the five fiscal years 2065-066 to 2069-070. The BEP of NRM is Rs 213172612.00, 111523289.50, 121924715.60, 103368223.40 and 107989406.10 for the years 2065-066 to 2069-070 respectively. Break Even Point amount for 2068-069 is low but BEP for the year 2065-066 is high comparatively within the five years BEP amount. Percentage of BEP on sales is 226%, 66%, 70%, 57% and 56% from year 2065-066 to 2069-070 respectively.

Break Even sales is higher than actual sales of NRM 2065-066, 2066-067 and 2069-070 which shows that it is necessary to increase in sales to recover loss and management should plan for its cost control. Contribution margin of NRM is very low. It increases BEP.

4.2.4 Margin of Safety

Nepal News Network International has Rs 33539951.30 safety margin is 2065-066 which is 25% of actual sales. The margin of safety is 20%, 1%, 17% and 36% in remaining four years. In fiscal year 2067-068 NNNI BEP Sales is nearly Actual sales. Which means there is minimum profit. And safety margin is positive. In F/Y 2067-068 percentage of BEP IS 99% and margin of safety percentage is 1% whose shows the poor financial condition of NNNI. Again for the year 2068-069 is better then fiscal year 2067-068 for NNNI. Contribution margin of NRM is nearly low of NNNI and fixed cost also low, it decrease BEP and margin of safety become positive. Other income which is non operating income of NNNI and NRM , is included in fixed cost and computed BEP and margin of safety. It has reduced the greater amount of indirect income then indirect expenses, reduce the BEP level and increase margin of safety. The graphical percentage of BEP, CM, and MOS are shown in appendix.

4.3 Cost of the NNNI and NRM

Cost of NNNI and NRM are generally categorized into three groups:

1. Cost of sales
2. Administrative cost
3. Distribution cost

Cost of sales is a part of production cost which are related with raw material, lab chemicals, production salary, wages, electricity cost, water cost, lunch cost, provident fund and subsidies factor land and building repair and rent, repairs of machinery, miscellaneous cot etc.

Administrative costs are a part of management costs. It is not directly traceable to specific products and jobs. It is related with administrative salary and wages, employee bonus, operating allowance and incentives, fuel and moving costs, launch costs, provident fund, employee's subsidies, donation, depreciation, interest, technical and computer fees and other administrative related costs.

Distribution costs affect the potential profit of companies. It is a significant portion of total costs. Distribution expenditure includes all costs related to selling, distribution and delivery of products to final customers. Distribution costs are not allocated to special products.

4.4 Variable Costs of NRM and NNNI

Based on the nature of the cost assumption, various types of cost of both enterprises are segregated into fixed and variables costs of NRM and NNNI are as follow

Table 4-4 Variable Cost of NNNI in Different Years

Particulars	2065-066	2066-067	2067-068	2068-069	2069-070
Sales unit	13456748	13632170	13207272	14807398	16706832
Raw Material	12236456.80	64165786.96	64941600.06	73434592.07	78721882.70
Printing material	8080115.00	18640598.57	18640598.57	20131846.45	21178702.47
Lab Chemical	657802.00	678193.86	684975.80	739773.86	778242.11
Salary Wages	6124720.00	6314586.32	6396675.94	6908410.02	7267647.34
Fuel and oil	678890.00	699935.59	716034.11	773316.84	813529.31
Electricity Cost	4437930.00	4575505.83	4680742.46	5055201.86	5318072.36
Water Cost	72720.00	74974.32	76698.73	82834.63	87142.03
Launch Cost	1196211.00	1233293.54	1261659.29	1362592.04	1433446.82
Miscellaneous	90280.00	93078.68	95219.49	102837.05	108184.58
Employee Bonus	202775.00	209061.03	213869.43	230978.98	242989.89
Operating allowances	580200.00	598186.20	611944.48	660900.04	695266.84
Fuel and moving cost	1371240.00	1413748.44	1446264.65	1561965.83	1643188.05
Distribution Cost	2970502.00	8217587.56	8206592.08	8863119.44	9324001.65
Total	103699841.8	106914536.90	107972875.09	119908369.10	127612296.14
Increase/ Decrease	-	3.10	0.99	11.05	6.42

(Budget Report of NNNI 2065-2070)

In Nepal News Network International, variable cost is increased by 3.10%, in the fiscal year 2065-066 and the previous year similarly, 0.99%, 11.5% and 6.42% respectively for the year 2066-067 to 2069-070. It is clear that the variable cost of NNNI in increased continuously. But the percentage change in variable cost is increased in normal trend.

Table 4-5 Variable Cost of NRM in Different Years

Particulars	2065-066	2066-067	2067-068	2068-069	2069-070
Sales unit	8182171	16182171	16182171	16182171	16182171
Raw Material	52981942.40	84641581.25	85487997.06	83778237.12	91318278.46
Printing material	14408155.25	25140399.91	24888995.91	24142326.03	26073712.11
Lab Chemical	920922.80	948550.48	967521.49	986871.92	1134902.71
Salary Wages	4737192.00	6939307.76	7078093.92	7219655.79	8302604.16
Fuel and oil	780723.50	804145.21	820228.11	836632.67	962127.57
Electricity Cost	4881723.00	5028174.69	5128738.18	5231312.95	6016009.89
Water Cost	122720.00	126401.60	128929.63	131508.22	151234.46
Launch Cost	1196211.00	1644097.33	1676979.28	1710518.86	1967096.69
Miscellaneous	140280.00	144488.40	147378.17	150325.73	172874.59
Employee Bonus	253468.75	261072.81	266294.27	271620.15	312363.18
Operating allowances	630200.00	649106.00	662088.12	675329.88	776629.36
Fuel and moving cost	1871240.00	1927377.20	1965924.74	2005243.24	2306029.72
Distribution Cost	5840502.00	9105717.06	9287831.40	9473588.03	10894626.23
Total	88765280.70	137360419.70	138507000.28	136613170.61	150388489.15
Increase/ Decrease		0.55	0.01	-0.01	0.10

(Budget Report of NRM 2065-2070)

In Nepal Republic Media, total variable cost in the year 2065-066 is Rs 88765280.70 it reached to Rs 137360419.70 which is 54% increase then previous year because 066/67 is the second year for full working days in a year. Similarly, 1% in F/Y 2067-068 and decrease 1% in 2068-069 and again increase 10% in F/Y 2069-070. It affects due to fluctuate of above variable cost sheet. From above we can say that variable cost in NRM is fluctuation trend year by year.

4.5 Fixed Cost of Nepal News Network International and Nepal Republic Media

Fixed cost remain constant in total despite the changes in the level of activity within every year. When production cost or service cost are charged but fixed cost remains same. The per unit fixed cost may decrease while the numbers of production units are increased. Though, fixed

cost in total may vary for different fiscal years effected by internal and external environment factors of the companies. The fixed costs of Nepal Republic media and Nepal News Network International presented here are based on the assumption and mature of cost. Fixed cost of Nepal Republic Media and Nepal News Network International presented in the table below.

TABLE 4-6: Fixed cost of NNNI

Particulars	2065-066	2066-067	2067-068	2068-069	2069-070
1. Cost of Sales					
Production salary & wages	2801988.2	2844018.023	2878146.239	3070864.777	3470077.198
land and Building	1490147	1512499.205	1539724.191	1524326.949	1707246.183
Provident Fund and Subsidies	509452	517093.78	524850.1867	519601.6848	545581.7691
Repairs	588190	597012.85	604177.0042	598135.2342	669911.4623
Miscellaneous	111520	113192.8	124285.6944	123042.8375	136577.5496
Total	5501297.2	5583816.658	5671183.315	5835971.482	6529394.161
2. Administrative Costs					
Salary and Wages	3051088	3106007.584	3106007.584	3043887.432	3202169.579
Lunch Cost	697862	710423.516	747365.5388	709997.2619	725617.2017
Provident Fund and Subsidies	553024	562978.432	592253.3105	562640.6449	575018.7391
Employees Quarter	407120	414448.16	418592.6416	460451.9058	470581.8477
Office Repair and Maintenance	11200	11401.6	11994.4832	11394.75904	11645.44374
Printing and Stationery	112420	114443.56	120394.6251	114374.8939	116891.1415
Telephone and wire postage	821520	836307.36	879795.3427	835805.5756	854193.2982
Particulars	2065-066	2066-067	2067-068	2068-069	2069-070
Advertisement on TV & others	157820	160502.94	176553.234	173022.1693	183749.5438
Licence and Insurance Fee	353819	359833.923	395817.3153	387900.969	411950.8291
Hospitality and Pray Cost	708520	720564.84	792621.324	776768.8975	824928.5692
Vehicle repairs cost	147146	149647.482	149647.482	146654.5324	185078.0198
Advisors and Auditing Cost	120520	122568.84	134825.724	132129.2095	140321.2205
Bank commission and Interest	106920	108737.64	119611.404	117219.1759	124486.7648
Training and Dress Cost	147120	149621.04	164583.144	161291.4811	171291.5529
Technical and Computer Cost	1649606.4	1607649.709	1639802.703	1107006.649	575641.0611
Security cost	830754.6	844877.4282	853326.2025	836259.6784	888107.7785
Donation and Membership	162600	165364.2	181900.62	178262.6076	189314.8893
Depreciation	1682993.1	1711603.983	1711603.983	1882764.381	1999495.773

Interest	2257061	2295431.037	2318385.347	2318385.347	2912355.673
Miscellaneous	18668	18985.356	20883.8916	20466.21377	21735.11902
Total	13997782.1	14171398.63	14535965.9	13976683.79	14584574.04
3. Distribution Cost	3675024	3638273.76	3621912.034	3609473.793	4186989.6
Total Fixed Cost (1+2+3)	23174103.3	23393489.05	23829061.25	23422129.06	25300957.81
% Change		0.009	0.019	-0.017	0.080

Annual Budgets Report Published by NNNI From 2065-2070

From above table we can say that, total fixed cost of Nepal News Network International in F/ Y 2065-066 is Rs 23174103.30. it is increase by 0.9% and reached Rs 23393489.05 in F/Y 2066-067 in 2067-068 also increase by 0.19% by previous year and for the year 2068-069 fixed cost decrease by 0.17% and Rs 23422129.06 the for the year 2069-070 also increase by 0.8% it is Rs 25300957.81.

TABLE 4-7: Fixed cost of NRM

Particulars	2065-066	2066-067	2067-068	2068-069	2069-070
1. Cost of Sales					
Production salary & wages	1801988.2	2773968.318	2940406.417	3205042.995	2544790.845
land and Building	1490147.0	1475245.53	1460493.075	1445888.144	1431429.263
Provident Fund and Subsidies	509452.0	499314.2972	529273.1551	576907.739	458062.3521
Repairs	588190.0	617599.5	648479.475	680903.4488	714948.6212
Miscellaneous	111520.0	117096	122950.8	129098.34	135553.257
Total	4501297.2	5483223.645	5701602.922	6037840.666	5284784.338
2. Administrative Costs					
Salary and Wages	1051088.0	3001088	2651088	3301088	2478088
Lunch Cost	697862.0	68390.476	739733.72	104679.3	662968.9
Provident Fund and Subsidies	553024.0	54196.352	586205.44	66362.88	525372.8
Employees Quarter	407120.0	39897.76	431547.2	48854.4	386764
Office Repair and Maintenance	11200.0	10976	11872	1344	10640
Printing and Stationery	112420.0	11017.16	119165.2	13490.4	106799
Telephone and wire postage	821520.0	80508.96	870811.2	98582.4	780444
Particulars	2065-066	2066-067	2067-068	2068-069	2069-070
Advertisement on TV & others	157820	153085.4	168078.3	175180.2	153085.4
Licensee and Insurance Fee	353819	343204.43	376817.235	392739.09	343204.43
Hospitality and Pray Cost	708520	687264.4	754573.8	786457.2	687264.4
Vehicle repairs cost	147146	142731.62	156710.49	163332.06	142731.62
Advisors and Auditing Cost	120520	116904.4	128353.8	133777.2	116904.4
Bank commission and Interest	106920	103712.4	113869.8	118681.2	103712.4
Training and Dress Cost	147120	142706.4	156682.8	163303.2	142706.4
Technical and Computer Cost	1041606.4	2368358.208	2600310.816	3410183.104	2368358.208
Security cost	830754.6	805831.962	884753.649	922137.606	805831.962
Donation and Membership	162600.0	157722	173169	180486	157722
Depreciation	682993.1	1632503.307	1792387.652	1868122.341	1632503.307
Interest	2257061	2189349.17	2403769.965	2505337.71	2189349.17
Miscellaneous	18668	18107.96	19881.42	20721.48	18107.96
Total	10389782.1	12127556.37	15139781.49	14474859.77	13812558.36
3. Distribution Cost	2162730	3849530	4236752	4841365	4468775
Total Fixed Cost (1+2+3)	17053809.3	21460310.01	25078136.41	25354065.44	23566117.69
% Change		-0.258	0.169	0.011	-0.071

Annual Budgets Report Published by NRM From 2065-2070

Form the above table 4.7 it shows that fixed cost of Nepal Republic Media is in fluctuating trend from Fiscal year 2065-066 to 2069-070. In F/Y 2066-067 in fixed cost of NRM being increased by 0.258% in compression of fixed cost of 2065-066. In F/Y 2069-070 fixed cost again decrease by 0.7%.in the year 2067-068 and 2068-069 is increase by 0.16% and 0.01% respectively. This shows that the nature of fixed cost is fin NRM.

4.6 Sensitivity Analysis: Assessing the Impacts of Changing in Cost Volume Profit Variables:

Sensitivity Analysis is another popular technique of testing the cost volume profit variables. It shows the impact on other factor if there is any change in distinct variable. Sensitivity analysis measures the elasticity of the change in CVP factors on breakeven point or given profit. To measure the sensitivity of CVP factors we can see the impact of certain percentage or amount changes in volume, price or cost factors on net profit. For measurement of sensitivity we have various variables but these all are not possible to test. So the main factors like sales, fixed cost and variable cost change impact are shown below for both enterprises.

4.7. Assessing the Impact When Sales Revenue or Operating Income Changed

Breakeven level of enterprises will change when sales per unit is changed. But breakeven level is not changed when the total amount of sales revenue is changed due to change in sales unit. Because change in sales revenue impacts on contribution margin and its ratio too. In the case of increase or decrease in the selling price its effects on contribution margin which is the cause in PV ratio, BEP and margin of safety.

Table no 4-8: Sensitivity Analysis of Nepal News Network International Pvt. Ltd.

Income Statement by 10% Change in Selling Price(F/Y 2069-070)

Particulars	Original	10% increase in Sales	10% decrease in Sales
Sales	167068318.20	183775150	150361486.4
Less: Variable Cost	127612296.14	127612296.14	127612296.14
Contribution Margin	39456022.06	56162853.88	22749190.24
Less: Fixed Cost	25300957.81	25300957.81	25300957.81
Net Income	14155064.26	30861896.08	-2551767.56
Change In Income		16706831.82	-16706831.82
PV Ratio	0.24	0.31	0.15
BEP in Rs	107131643	82789370.47	167227474.1
% change in BEP		-0.23	0.56

When selling price of NNNI is increased by 10%, net income is increased by Rs 16706831.82, profit volume ratio is increased to 0.31 from 0.24. And break even amount is decreased to 82789370.47 which is 0.23 less than actual level. When the selling price is reduced by 10% the income of NNNI is decreased by Rs 16706831.82, PV ratio decreased to 0.15 from 0.24 and BEP is 167227474.10 which is higher than actual.

Table no 4-8: Sensitivity Analysis of Nepal Republic Media Pvt. Ltd.

Income Statement by 10% Change in Selling Price(F/Y 2069-070)

Particulars	Original	10% increase in Sales	10% decrease in Sales
Sales	192368290.00	211605119	173131461
Less: Variable Cost	150388489.15	150388489.15	150388489.15
Contribution Margin	41979800.85	61216629.85	22742971.85
Less: Fixed Cost	23566117.69	23566117.69	23566117.69
Net Income	18413683.15	37650512.15	823145.85
Change In Income		19236829.00	-19236829.00
PV Ratio	0.22	0.29	0.13
BEP in Rs	107989406.10	81460073.05	179397680.00
% change in BEP		-0.25	0.66

One other hand when selling price of NRM is increased by 10%, net income is increased by 19236829.00 profit volume ratio increased to 0.29 from 0.22, and break even amount is decreased to Rs 81460073.05 which is 0.25 less than actual level. When selling price is reduced by 10% the income of NRM is decreased by Rs 19236829.00, PV ratio decreased to 0.13 from 0.22 and BEP is Rs 179397680.00 which is higher than actual.

4.8 Assessing the Impact when Variable Cost is Change:

When the variable cost is change without changing the sales revenue and fixed cost we can find the change result in PV ratio, Profit, BEP and its percentage also. When variable cost increased CM ratio will decreased as a result BEP will high and vice-versa. Changed in the variable cost changes all the variables related with CVP Analysis like contribution margin, PV ratio and BEP.

Table no 4-10: Sensitivity Analysis of Nepal News Network International Pvt. Ltd.

Income Statement by 10% Change in Variable Cost(F/Y 2069-070)

Particulars	Original	10% increase in Variable cost	10% decrease in Variable cost
Sales	167068318.20	167068318.20	167068318.20
Less: Variable Cost	127612296.14	140373525.75	114851066.52
Contribution Margin	39456022.06	26694792.45	52217251.68
Less: Fixed Cost	25300957.81	25300957.81	25300957.81
Net Income	14155064.26	1393834.64	26916293.87
Change In Income		-12761229.61	12761229.61
PV Ratio	0.24	0.16	0.31
BEP in Rs	107131643	158345058.4	80950037.28
% change in BEP		0.48	-0.24

Table no 4-11: Sensitivity Analysis of Nepal Republic Media Pvt. Ltd.

Income Statement by 10% Change in Variable Cost (F/Y 2069-070)

Particulars	Original	10% increase in Variable cost	10% decrease in Variable cost
Sales	192368290.00	192368290.00	192368290.00
Less: Variable Cost	150388489.15	165427338.07	135349640.24
Contribution Margin	41979800.85	26940951.93	57018649.76
Less: Fixed Cost	23566117.69	23566117.69	23566117.69
Net Income	18413683.15	3374834.24	33452532.07
Change In Income		-15038848.92	15038848.92
PV Ratio	0.22	0.14	0.30
BEP in Rs	107989406.1	168270734.2	79506859.28
% change in BEP		0.56	-0.26

Above table shows that when variable cost of Nepal News Network International is increased by 10%, net income of the company is decreased by Rs 12761229.21 PV ratio decreased to 0.16 from 0.24 and BEP increased from Rs 107131643 to Rs 158345058.40 by 56 %. When the variable cost are decreased by 10% net income of the company is increased by 12761229.21 PV ratio is 0.30 and BEP sales becomes Rs 80950037.28 and BEP decreased by 26% on actual level.

In other hand, in above table variable cost of Nepal Republic Media is changed by 10% when variable cost is increased by 10%, net profit of NRM is decreased by Rs 15038848.92 PV ratio is decreased to 0.14 BEP sales is increased to Rs 168270734.20 from 107989406.10 which is 56% more than actual level. When variable cost of NRM is reduce by 10%, net profit is increased by Rs 15038848.92 when PV ratio is increased by 30% from 14% so break even sales reduced to Rs 79506859.28 which is 26% less than actual level.

Table no 4-11: Sensitivity Analysis of Nepal News Network International Pvt. Ltd.

Income Statement by 10% Change in Fixed Cost(F/Y 2069-070)

Particulars	Original	10% increase in Fixed cost	10% decrease in Fixed cost
Sales	167068318.20	167068318.20	167068318.20
Less: Variable Cost	127612296.14	127612296.14	127612296.14
Contribution Margin	39456022.06	39456022.06	39456022.06
Less: Fixed Cost	25300957.81	27831053.59	22770862.03
Net Income	14155064.26	11624968.47	16685160.04
Change In Income		-2530095.78	2530095.78
PV Ratio	0.24	0.24	0.24
BEP in Rs	107131643	117844807.3	96418478.7
% change in BEP		0.10	-0.10

Table no 4-13: Sensitivity Analysis of Nepal Republic Media Pvt. Ltd.

Income Statement by 10% Change in Fixed Cost (F/Y 2069-070)

Particulars	Original	10% increase in Fixed cost	10% decrease in Fixed cost
Sales	192368290.00	192368290.00	192368290.00
Less: Variable Cost	150388489.15	150388489.15	150388489.15
Contribution Margin	41979800.85	41979800.85	41979800.85
Less: Fixed Cost	23566117.69	25922729.46	21209505.93
Net Income	18413683.15	16057071.38	20770294.92
Change In Income		-2356611.77	2356611.77
PV Ratio	0.22	0.22	0.22
BEP in Rs	107989406.1	118788346.7	97190465.51
% change in BEP		0.10	-0.10

Above table shows the effect of change in fixed cost of NNNI. When fixed cost is increased by 10% net profit of NNNI is decreased by Rs 2530095.78, BEP sales is increased up to Rs 117844807.30 from Rs 107131643 Which is 10% more than original BEP sales. But PV ratio is same because there is no any effect on contribution margin while fixed cost is changed. When the fixed cost is reduced by 10% net profit is increased by Rs 2530095.78 PV ratio is not changed but BEP sales became Rs 96418471.70 from Rs117844807.30.

On other hand, when fixed cost of NRM is increased by 10% net income of the company is decreased to Rs 2356611.77, there is no effect on PV ratio while fixed cost is changed. So PV ratio is same, but BEP revenue of the company is increased up to 118788346.70 from 107989406.10 which is 10% more than original BEP sales. The level of BEP increased due to increased in fixed cost because to recover additional amount of fixed cost, it is required to

increase in sales. When the fixed cost of NRM is reduced by 10% net profit is increased by 2356611.77 PV ratios remain constant because variable of PV ratio cannot change due to change in fixed cost. BEP sales reduced to Rs 97190465.51 from Rs 118788346.70 due to decreased in fixed cost.

4.9 Net Profit of the Nepal News Network International and Nepal Republic Media

Profit is primary factor, which can be used to measure the success of the firm. Generally profit can be defined as different between sales revenue and total cost. In real sense profit is the return in investment or the return of labors exercised over a business enterprises. Every organization needs profit. Without profit, organization cannot run smoothly and fail to achieve its goal. Profit earning is compulsory to every company or firm. Here the profit and loss position of Nepal Republic Media and Nepal News Network International is shown in table as follows:

Table 4-14: Profit and Loss of Nepal News Network International and Nepal Republic Media

Periods	Nepal News Network International			Nepal Republic Media		
	Profit/Loss	Change	% change	Profit/ Loss	Change	% Change
2065-066	7693530.10	0.00	0	(23997375.10)		
2066-067	6013676.56	-1679853.54	-0.22	11270088.29	11270088.29	4.60
2067-068	270782.56	-5742894.00	-0.95	10787843.31	-482244.98	-0.04
2068-069	4743482.24	4472699.68	16.52	19044276.55	8256433.24	0.77
2069-070	14155064.26	9411582.02	1.98	18413683.15	-630593.40	-0.03

Above table shows that, profit position of NNNI is increasing fluctuating trend. In fiscal year 2066-067 and 2067-068 decreases by 22% and 95% amount became Rs7693530.10 from Rs 6013676.56 and Rs 6013676.56 from Rs 270782.56 while in fiscal year 2068-069 and 2069-070 increased by 1652% and 198% more than previous year respectively.

Similarly, profit and loss position of Nepal Republic Media is increasing in fluctuating trend. In F/Y 2066-067 it increased 460% while in F/Y profit is decreased by 4% and another F/Y 2068-069 also Increased by 77% and last f/y 2069-070 decreased by 3%.

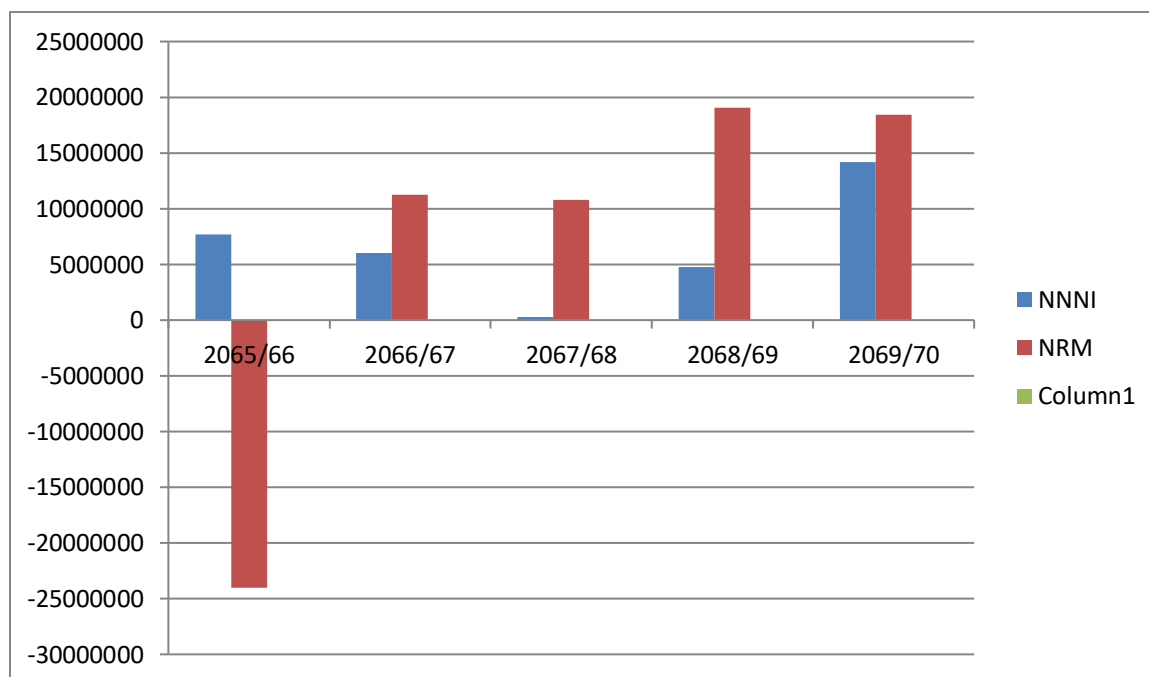


Figure: 4.2: Graphical Presentation of Profit and loss of NNNI and NRM

4.10 Major Findings

Every research work is done to find something new based on the objectives of the study. On the basis of different analysis, observation and formal as well as informal discussion the following major finding have been drawn:

1. Sale of the NNNI is increasing every year in fluctuation rate while sales of NRM have increase in normal fluctuating rate than NNNI. NNNI forecasted sales for FY 2069-070 is Rs167068318.20 and forecasted sales for NRM for FY 2069-070 is Rs 192368290 .00 the sales plan of NNNI and NRM has systematic.
2. For NRM in the year 2065-66 is earning the huge loss. Because of it is initial stage for the out of the company sales.

3. Variable cost of Nepal Republic Media is higher compare to its fixed cost. Contribution margin ratio of Nepal Republic Media is very less while it is satisfied in place of Nepal News Network International.
4. NNNI and NRM is fluctuating profit while NRM has earned more than NNNI for last five years.
5. Fixed cost of the NNNI and NRM is lower than variable cost of its company. In both company variable cost is high due to the high production cost.
6. Profit position of Nepal Republic Media Is best than Nepal News Network International.
7. CVP analysis is very important and popular tools to measure the financial performance of enterprises both company have not used these tools properly.
8. Overhead expenses are not classified systematically and it creates problems to analyzing its expenses properly.
9. Sales volume is NRM is 2065-66 is less than its BEP on sales. So it is earning the loss for the first year. And other all tools of CVP analysis is not satisfaction level.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Profit planning is a management technique and it is a written plan in all aspect of business operation for specific future period. Management effectively achieves organizational objectives through the efficient use of scarce resources in a changing environment. Cost-Volume- Profit Analysis is an analytical technique for studying the relationship between volumes, cost and profit which help them manage future cost and profit. CVP Analysis is a device used to determine the usefulness of profit planning process of the firm.

The main objective of the present research is to examine CVP analysis as a tool to measure effectiveness of profit planning of Nepal Republic Media and Nepal News Network International. As per the nature of the study, the secondary data with descriptive and analytical approach for cost analysis, sales analysis, profit analysis, PV ratio analysis, BEP analysis and Contribution Margin analysis are used. The main objective of the study was highlight the CV analysis the Nepal Republic Media and Nepal News Network International and comparatively studied its sales revenue, safety margin and profit volume ratio of BEP sales etc. As per the objective of the study, various primary and secondary data were collected last five fiscal year of 2065-066 to 2069-070. Sales revenue analysis, sales trend analysis, cost analysis, BEP analysis, P/V ratio analysis, sensitivity analysis, profitability analysis were done with the help of the various financial tools. From analysis of various data collected by the primary and secondary sources, the enterprises show the different results. Nepal News Network International has made the nominal profit, nominal contribution margin and its operating income is increasing and fluctuating trend during the last five years. Variable cost of the company is higher compare its fixed cost, contribution margin ratio of Nepal News International is less while it is satisfactory in place of other company. Also Nepal Republic Media has made the reliable profit, high contribution margin and its operating income is increasing and fluctuating trend during the year. Contribution margin ratio of NRM is very less while it is satisfactory in place of NNNI. NNNI is high fixed cost and variable cost. Nepal News Network International PV ratio is high to Nepal Republic Media. So fixed cost is also greater than NNNI. In last F/Y 2069-070 PV ratio of NNNI IS 24% and NRM is 22%. Margin of safety is in average 0.20 for the company of Nepal News network International and 0.33 for Nepal Republic Media. For lower BEP sales higher margin of safety and vice versa. Both the company has not practiced CVP analysis technique.

5.2 Conclusion:

After analyzing in detail in relation to the Nepal News Network International and Nepal Republic Media, I have made the conclusions stated as follows:

- A) Both companies have the practice of preparing two type of managerial budgeting which is tactical and strategic. Tactical plan prepare for external propose and strategic plan prepare for internal propose like managerial level.
- B) Nepal News Network International is nominal profit due to high cost; variable and fixed both are nearly high. Profit position is little high satisfactory for Nepal Republic Media for last year net profit is high.
- C) There is scientific tools used to segregate the cost in to fixed and variable in both of these companies but it is not properly used. After segregation of cost contribution margin, PV ratio, BEP, margin of safety are computed and analyzed. Above these analyze the Nepal Republic Media is better than Nepal News International for the vies versa of profit earning.
- D) Variable cost of NNNI and NRM is higher than its fixed costs. Contribution margin of Nepal Republic Media is less while it is satisfactory than Nepal News Network International.
- E) Both company have own plan and controlling mechanism.
- F) Nepal Republic Media is running in profit while better then Nepal News Network International in last year.
- G) Sales of both company are increasing in every year in fluctuating rate.
- H) Fixed cost of both company are lower than variable costs of its own but overall my view Nepal Republic media is better than Nepal News International.
- I) PV ratio of Nepal Republic Media is less than Nepal News International and it has high fixed cost which increase the BEP sales.
- J) Nepal news Network International average last five years safety margin ratio is 0.20 and Nepal Republic Media is 0.33 for last five fiscal year due to lower BEP sales.
- K) Profit position is better than Nepal News Network International.
- L) For NRM year 2065/66 is net profit, CM ratio, Contribution margin ratio all are not mach its profit earning goal. Because of it is a initial year for production plan.

5.3 Recommendations:

Most of the beginning conclusion points are seemed to be unfavorable; those should be made correction as soon as possible. I strongly suggest the following to Nepal News Network International and Nepal Republic Media and change unfavorable points into favorable.

1. Both companies are running smoothly by earning profit. But NNNi has a less profit ratio, it should learn the lesson from the Nepal Republic Media management. Both companies have increased the sales volume and deducted their fixed costs.
2. Cost plans of both companies are not systematically maintained. So the cost of every sector should be planned properly. It is necessary to establish cost control programs in these enterprises.
3. Both companies have shown their overhead as administrative expenses, it should be classified separately to make it easy to control.
4. Nepal News Network International and Nepal Republic Media have many expert and skilled manpower but these companies have ignored the practice of CVP analysis properly.
5. Nepal News Network International management performance does not show a satisfactory result about profit, BEP level, and contribution margin. So the management is recommended to perform better.
6. Margin of Safety for Nepal Republic Media is nearly 0.33 of total sales after deducting the variable cost, but Nepal News International has a safety margin of nearly 0.20, which shows that it is necessary to increase current sales and maintain lower fixed and variable costs.
7. Contribution margin ratio of Nepal News Network International is nearly an average of 0.21 for the last five years, while Nepal Republic Media is nearly an average of 20% in the last five financial years. It is suggested that Nepal Republic Media should control variable costs and increase the contribution margin.
8. Actual sales of Nepal Republic Media are high in comparison to BEP sales, the greater difference between actual sales and BEP sales represents a greater amount of profit. Actual sales of Nepal News Network International are only slightly above BEP sales. So Nepal Republic Media is earning profit and Nepal News Network is earning a nominal profit. So Nepal News International should reduce its breakeven sales by reducing variable and fixed costs as well as increasing sales revenue.

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