CHAPTER - I

INTRODUCTION

1.1 General Background

Nepal is one of the least developed countries with poorest economic condition of the world. Situated in northern hemisphere, known as land of Mt. Everest and the birthplace of lord Buddha, Nepal is a predominately landlocked country bordered by two emerging Asian giants, China in the North and India in the East, West and South. Nepal, a small South Asian country remains as one of the 48 least developed countries in the world. It is located between 26 22'to 30 27' north latitude and 80 4' to 88 12' east latitude. Its average length is 885 Km. east to west and average breath is about 193 Km. north to south. It occupies an area of 147181 square kilometers and runs all along 885 kilometers from the east to the west and 145 kilometers to 241 kilometers from the north to south. About 80% of the Nepalese population in primarily engaged in agriculture sector and 86% still residence in rural areas being engaged in agriculture related subsistence economies activities. It has more than 25.40% people living below absolute poverty line and its per capita income is only about **$470 (World Bank Report 2010)**. It is placed among the countries having the lowest per capita income. The economic development of the country, which reflected by the annual GDP growth rate, in FY: 2066/67 is around 4% and it has in fluctuating trend (Economic survey 2009/10).

Even the social indicators such as literacy, life expectancy, access to safe drinking water, health and sanitation are still far below the levels in comparison to other developing countries. The infant mortality is one of the highest and malnutrition and immunization rates are among the worst. The development indicators are very low for the rest majority of the people and are extremely low.

Economic growth of the country has not improved substantially overtime to overtake population growth. The current population growth is 2.25 percent per annum; growing population has over shadowed the gain achieved by development activities. Little over half (58.2%) of the population of working age reported usually economically active in 2001. Population census 2001 reports that 53.1 percent population of age 10 and over is employed and 5.1 percent are unemployed. The economy of Nepal is totally depended on open agriculture however the government invested in agriculture only 3% of the total investment. Contribution of non-agricultural activities is gradually increasing in the GDP. While the total GDP 1182.68 Billion in FY: 2066/67 which share with sector wise Agriculture 33%, Service 52% & industrial 15%.

In the above mentioned context, the only way of economic growth of the nation is to identify the viable sector and develop it. Such sectors, so fare seen here in Nepal are agricultural sector, industrial sector and tourism sector, which can be expected playing vital role in overall development of the country. And it is only possible when there are sufficient opportunities to invest by private sector and foreign investor with proper infrastructure and investment friendly environment. As far as industrialization is concerned, it is an important perquisite for economic development which will transfer the traditional and agrarian economy to modern one. The development in agriculture sector alone is not sufficient in Nepal. Industrialization not only provides goods and services but also creates employment opportunities. Industrialization has a multiplier effect on the economy. Thus, the great challenge for the nation is to meet millennium development goal (MDG) by eliminating massive poverty existing in the country through gradual development of the industrial sector which helps to provide basic needs to the people. Industrialization is universally accepted as a strategy of economic development as well as fundamental goal of most developing countries like Nepal. Nepal is in infancy period of industrialization and just moving towards industrialization with very small and medium size manufacturing sector. Thus, for economically prosperous Nepal, it needs to move ahead towards path of industrialization to compete in the world changing economy of globalization, privatization and liberalization.

1.2 General Concept of Profit Planning

A profit plan has an immense value in management; it helps in planning and coordinating, if used appropriately, but not a replacement for management. Profit planning is a comprehensive and coordinated plan expressed in financial terms for the operations and resources of an enterprise for some specific period in the future. Profit planning is a comprehensive statement of intentions expressed in financial terms for the operation of both short and long period. It is a plan of the firm's expectation and is used as a base for measuring actual performance of managers and their units.

"Profit planning is predetermined detailed plan of action developed and distributed as a guide to current operations and as partial basis for the subsequent evaluation of performance. Thus it can say that profit planning is a tool which may be used by the management in planning the future course of actions and controlling the actual performance" (Gupta, 1997; 141).

Every company or institution is established based on the definite goals and objectives. According to the objectives, the company performance is tasks. Mainly two types of institutions such as profit oriented and service oriented instructions are established, but most of them are profit oriented because profit is the lifeblood of the business which not only keeps it alive but also assures the future and makes it sound. Profit planning is an important tool of the firm to achieve the objectives. "Profit do not just happened profits are managed" (Lynch & Williamson,, 1989; 30).

so to manage the profit. The management should follow various processes for profit planning because the management process and profit planning and control are related each other. Profit planning is the merely a tool of management. It is not an end of management. It facilitates the managers to accomplish managerial goals in a systematic way.

A profit plan is an advance decision of expected achievement based on the most efficient operating standards in effect or prospect of time it is established against which actual accomplishment is regularly compared.

Profit maximization is the basis objective of a firm and to make profit render reliable service to its customers. Profit is a device to measure efficiency of a firm. Without profit a business firm cannot run successfully for a long period. Profit is excess revenue amount over cost of operations. Profit is the contribution of all factors of production. For increasing the chances of making profit, a business firm plans its activities in budget form. The budget is the primary operating planning document.

The term comprehensive profit planning and control it defined as a systematic and formalized approach for performing significant phase of the management planning and control function. Especially it involves:

- The development and application of broad and long-range objectives for the industries.
- The specification of industries goals.
- The development of strategic long rang profit plan in broad terms.
- The specification of tactical short-range profit plan detailed by assigned responsibility (division, products, and projects).

- The establishment of a system of periodic performance reports detailed by assigned responsibility and follow up procedures

In many of the better-managed companies, comprehensive PPC has been identified as a way of managing. It focuses directly up on a rational and systematic approach to management by objectives and realistic flexibility in performing the management process.

1.3 Evolution of Industries in Nepal

In ancient time, Handicraft & Cottage Industries played significant role. During Lichhibi period, industries like weaving, mining, handicraft, metal idols, food products were encouraged. Prithvi Narayan Shah has made policy to protect cottage industries by discouraging imports. At that time, Nepal becomes self dependent in textiles. The development of modern industries was started after 1935 A.D. In 1935 an industrial board named "Udhyog Parishad" was formed with a view to produce goods under medium & large industry. The first company Act. was promulgated in 1936 A.D. & in the same year Biratnagar Jute mill, the first joint stock company was established in Biratnagar. To provide financial assistance to industries & trade, Nepal Bank Ltd. was established in 1994 B.S.

During ten years (1936-1946 A.D.), altogether 63 industries like Morang Sugar Mills, Raghupati Jute Mills, Judha Match Factory, Nepal Plywood & Babbin Company were established. Likewise Paper, Soap, Furniture, Oil, Rice Industries were also established with a total investment of Rs. 7.20 crores. However, most of them went into liquidation due to lack of proper management.

1.4 Profile of Laxmi Plastic Industry

1.4.1 Introduction

Different kind of Plastic products which are the derivative of crude oil are part of modern day life whether in developed rich countries or in poor developing countries like Nepal. Plastic products have become basic consumable items whether those are pipes for different purposes, household utensils or carpets. Nepal being a developing country consumes a lot of plastic products. So, few promoters after elaborate discussions came to the conclusion that plastic industry is variable in the country. So a medium sized industry, Laxmi Plastic Industries Pvt. Ltd. was established in 2050 BS.

At the moment, Laxmi Plastic Industries Pvt. Ltd (will be referred as LPI) is producing high quality high-density polythene pipes (HDPE) but plans to manufacture other plastic items in phased manner. LPI introduced PVC flooring carpet for short span of three years (2002-2005) but closed the PVC flooring unit due to heavy investments and market conditions. However LPI wants the option open once the conditions are improved. So the main item for the production will be HDPE pipes.

The company wants to upgrade the exciting three extruder machines & add two new machines namely 100 mm HDPE Extruder & 75 mm LD Film sheets this year. The market for all these products is domestic, but boarder trade to India is possible, especially agricultural pipe & utensils.

Industrial development is the backbone of every country for progress. How ever it is still at an infant stage in Nepal. The agriculture is still the backbone of economy of the country. However, the fact that the agricultural sector alone can not sustain economic growth and development of the country for a long period of times in this rapidly changing & fast growing world economy. So the importance of the industry cannot be ignored. Hence industrial development with new and innovative concepts needs to be progressed by our country. LPI with the motto “The Quality That lasts” will try to help the industrialization of the country in a small way.

1.4.2 The Major Poducts of the Laxmi Plastic Industry

Laxmi Plastic Industries Pvt. Ltd or LPI is a registered manufacturer of High Density polythene Pipes & other plastic products. The factory is conveniently located at Nepalgunj Industrial Area, Nepalgunj. LPI manufactured broad range of HDPE pipes (16 mm to 315 mm) under NS-40 to meet various needs on high–tech state of the art extruder machines to get high quality products with international standards specifications. The quality is controlled at every stage of productions and tested in well-equipped laboratory under close, regular & supervision of experienced and skilled technical staff.

The industry is licensed to produce following plastic products

a. 500 Metric Tons of Hdpe Pipes
b. 100 Metric Tons of pp sutali
c. 100 Metric Tons of LD mould, sheets
d. 100 Metric Tons of Injection mould products
e. 300000 meters of PVC flooring carpet

In the next few months capacity to produce HDPE pipes will be increased to 500 Tons and PP Sutali & Injection Mould will start productions.

1.4.3 Technical Aspects

Production Process in Brief

a. HDPE Pipes

Fresh HDPE granules are fed into the hopper of an extruder. The pipes are produced as per the die size of the extruder. The pipes are passed through a cooling tray and printers and cut into the desired length. This is a very simple process with only plastic granules, electricity and water required.

b. LD film

Plastic granules with about two percent master batch as per required coloring are fed through the extruder which will produce the plastic sheet in desired length & thickness.

1.4.4 Human Resource

The company have employees about 20-30 persons with various expertise. Additional sales persons and temporary workers are hired when needed. The organization chart is shown in appendix.

1.5 Statement of the Problems

Most of the industries are not performing well. The reason for, which can be attributed to no or ineffective performing planning of revenue sector, which is basis for all other planning. Hence, in this purposed research, this study will explore the problems of Laxmi Plastic industries in achieving target profits. Laxmi Plastic Industry is one of the pipe making industries established in 2050 B.S. at Nepalgunj Industrial Area, Nepalgunj. Although it is facing loss in the beginning fours year, but not getting it’s targeted sales and profit also. Its income statement shows that management is satisfied on its annual average profit and it also indicates that the management is not trying to adopt other available options or opportunities to maximize profit. It seems that management is not taking risk and not using proper tools and technique of profit planning.

This study explored the problems of Laxmi Plastic industries in achieving target profits. The study highlighted the profit planning and control of the Laxmi Plastic industries, Nepalgunj Industrial Area, Nepalgunj. The present study intended to find out answer for the following research questions:

- Is the Laxmi Plastic Industry applying the profit planning & control system?
- Is the Laxmi Plastic Industry earning the planned profit?
- How well has it been using its resources?
- What suggestion can be pointed out to improve its profitability?

1.6 Objectives of the Study

The main objective of the study is to examine and evaluate the profit planning and control system of Laxmi Plastic Industry and recommend for maximization of profit. The sub objectives are as follows:

- To analyze the trend of cost and profit.
- To observe Laxmi Plastic's profit planning on the basis of overall managerial budgets developed by them.
- To examine profitability and growth of the business of Laxmi Plastic Industry over the period.
- To analyze the variance between budgeted allocation and actual achievement of the Laxmi Plastic Industry.
- To identify the strength and weakness of industry.
- To provide suggestions and recommendations for effective implementation of the profit planning and control system.

1.7 Limitations of the Study

In this dynamic world, nothing existing is free from information. This study also is not an exception. The researcher has however tried to eliminate the limitation to the best possible extent, yet it suffers from the following limitations.

- The study is made for partial fulfillment of the requirements of master in business study, in short of time. Therefore, Laxmi Plastic Industries Pvt. Ltd. has been taken for this study.
- Only the profit planning aspect of the Laxmi Plastic Industries Pvt. Ltd. been analyzed, leaving other area uncovered.
- The study covers the related data of Laxmi Plastic Industries Pvt. Ltd. for five years from 2062/2063 to 2066/2067.
- All the data have been used from secondary: there may be the question of accuracy of the data.
- The accuracy of this study is based on the data available from the managements of Laxmi Plastic Industries Pvt. Ltd.

1.8 Chapter Scheme of the Study

The whole thesis will be organized as the following forms:

Chapter -I :- Introduction

This chapter dealt on general historical background of development of industries in Nepal, Overview of Laxmi Plastic Industry, and introduction to profit planning, statement of the problems, and objective of the study & limitation of study.

Chapter -II:- Review of Literature

This chapter dealt with literature review covering of profit planning and control, and also includes brief review preview research works so far.

Chapter -III: Research Methodology

This chapter consisted of the research designed, nature of data collection, period covered, tools used and research variable.

Chapter -IV:- Data Presentation and Analysis

This chapter made presentation & analysis of data collected from various sources by using various financial & statistical tools. This chapter also includes major findings of the analysis.

Chapter -V:- Summary, Conclusions and Recommendations

This chapter consisted with summary, conclusions and recommendations.

CHAPTER - II

REVIEW OF LITERATURE

CONCEPTUAL FRAMEWORK

2.1 Profit

"Profit is the signal for the allocation of resources and yard stick for judging managerial efficiency" (Bhattacharya, and Deardon, 1980:187).

Profit is the amount of revenue earned above the expenses incurred to operate the business. The word profit implies as comparison of the operation of the business between two dates, which are usually separated by an interval of one year. It should be noted that profit are residual income left after the payment of the contractual reward to other factors of production (Joshi, 2057:276).

Hence profit is obtained by subtracting the total cost from total revenue. Profit occurs according to the structure of the market. Such as in the perfect competition market profit is earned with the help of innovation, attraction of goods and selling art of the sales person.

Finally, profit is the primary measure of every business success. Therefore each and every enterprise needs profit in monetary form. For this they need to adopt systematic planning for realizing planned profit.

2.2 Planning

The word "planning" is concerned with thinking and deciding what is to be done in advance. Planning describes what a manager intense to do. Planning means arrangement of doing or using something or considering in advance. It is a determination of action to achieve a desire result. It operates as the brain center of an organization. It includes establishing objectives, developing premises about the environment, selecting course of action, initiating necessary activities and re-planning. Planning is the first phase of the five functions of management and followed by organizing, directing, co-coordinating and controlling. Planning is the foundation of business safety. It is the means by which business enterprises assures tomorrow's solvency.

2.2.1 Types of Planning

2.2.1.1 Strategic or Long Term Planning

It is a planning in board terms. So it is a top level function in which organization's purpose, mission and overall objectives and policies are developed to positions the organization advantageously in its operating environment. It is closely concerned with the concept of the corporation as a long living institution. It usually encompasses three or more years in future. The strategic or long range planning is directly involved with motivation and to provide direction to the employees and make the strateg.

2.2.1.2 Tactical or Short Term Planning

Short term planning is for one year or less. It is prepared to fulfill the short term objective by management. It is done at all levels and involves directing the Organization's activities.

2.2.1.3 Medium Term Planning

Medium term planning is normally prepared for two to three years. Main purpose for using it is to establish interim objective between long term goals for use in the development of annual programmed and budgets. Medium term planning is used mainly to determine the allocation of resources among competing activities to revise long term plans in view of more recent developments. Medium range planning often takes the form of budgeting in which each division department or unit is allocated certain resources during the coming years. In medium term plan more details is involved than long term plans but less than short term plan. In practice this planning is less used in comparison with short and long term planning.

2.3 Forecasting

Forecasting is an integral part of decision making activities of management. An organization establishes goals and objectives seek to predict the environmental factors then selects actions that its hopes will result in attainment of goals and objectives. The need of forecasting is increasing as management attempts to decrease its dependence on chance and become more scientific in dealing with its environment. Since each area of an organization is related to all others, a good or bad forecast can affect the entire organization (Van Horne, 1996:1).

2.3.1 Planning vs. Forecasting

Forecasting predicts the future event in such a way that the planning process can be performed more accurately. “A forecast is not a plan rather it is a statement or quantified assessment of future condition about a particular subject (e.g. sales revenue) based on one or more explicit assumptions. A forecast should always state the assumptions upon which it is based. A forecast should be viewed as only one input in to the development of sales plan. The management of a company may accept modified or reject the forecast” (Welsch, 2000:172).

2.4 Overview of Profit Planning

Profit Planning means looking ahead for future. The budgetary scheduling is communicated to each operating supervisor who is affected. When correctly applied, the budgetary system can be a means of motivating employees to more efficient operations or to improved individual performance (Finny and Miller, 1963:655).

"Profit planning has to resolve a number of conflicting issues before expressing the established directions & decisions made by top management. Conflicting aims should be brought to produce more sales & profit out many investors also increase the investment in working capital & the risk of bad debt"(Pandey, et al., 2005: 03).

Profit planning is a systematic formal means of decision making and attaining organizational objectives & goals at a specific future period of time by the application of diversified managerial tools for utilization of available resources at a reasonable manner.

2.4.1 Processes of Profit Planning

The planning process should periodic consistent and in-depth re-planning so that all aspects of operations are carefully reexamined and reevaluated. These prevent a budget planning approach that involves only justification of increases over the prior period. The concept of reevaluation and necessary of justify all aspects of the plans periodically finds its strongest support in what has been called 'zero base budgeting' (Western and Copeland, 1992:98).

The major processes of profit planning are:

a) Identification and Evaluation of External Variables

The variables identification phase of profit planning process focuses on identifying and evaluating the effects of the external variables. Identification also involves separate consideration of non-controllable and controllable variables. This means that management planning must focus on manipulating the controllable variables and non-controllable variable. Relevant variables mean those that will have a direct and significant impact on the enterprises.

b) Development of the Broad Objectives of the Enterprises

Development of the broad objective of the enterprises is a responsibility of executive management. Based on realistic evaluation of the relevant variables and an assessment of the strength and weakness of the organization, executive management can specify or restate this phase of the profit planning program.

c) Development of Specific Goals

To bring the statement of broad objectives into sharper focus and to move from the realm of general information to more specific planning information is the purpose of specific goals phase of the PPC process. It provides both narrative and quantitative goals that are definite and measurable. These specific goals should be developed by the executive management as the second component of the substantive plan for the upcoming budget year and also should exercise leadership in this planning phase. Moreover, the specific goals provide a basis for performance measurement.

d) Development and Evaluation of Strategies

Strategies are the basic thrusts way and tactics used to attain planned objectives and goals. A particular strategy may be short-term and long- term.

e) Executive Management Planning Instruction

This phase involves communication of the substantive plan to middle and lower management levels. It explains the broad objective enterprises goals, enterprises strategies, and tactical profit plans. It also is called the statement of planning premises or the statement of planning guidelines.

2.5 Profit Planning and Control

Profit planning and control is an important approach, mainly in profit-oriented organizations. Profit planning is merely a tool of management. It is not an end of management. It facilitates the managers to accomplish managerial goals in a systematic way.

2.5.1 Fundamental Concept of Profit Planning and Control

The fundamental concept of PPC includes the underrating activities and tasks that must generally be carried out to attain maximum usefulness form. These fundamentals have never been fully codified. The mechanics of PPC involve such activities as the design of budget schedule, routine and repetitive computations and clerical activities related to PPC program.

As a basis for discussion an outline of the fundamental concepts of PPC are:

- A management process that includes planning, organizing, staffing, leading and controlling.
- A managerial commitment to effective management participation by all levels in the entity.
- An organization structure that clearly specifies an authority and responsibility at all org. level.
- A management planning and control process.
- A continuous and consistent co-ordination of all the management functions.

2.5.2 Components of Profit Planning and Control Program

PPC process necessarily integrates the planning, leading and control functions of management. A PPC program includes more than the traditional idea of periodic or master budget. "Consistent with the PPC process, the typical components of PPC program far a particular is outlined as" (Welsch, Glen A,; Hilton, Ronald W; Gorden, Paul N. 2000: 74).

2.5.3 Advantage of Profit Planning

Although many viewers say that profit planning and control can be applied only in a profit making big organization. But profit planning is applicable in all organizations (profit or non profit, service or manufacturing) regardless of size, special circumstances or conditions.

2.5.4 Purpose of Profit Planning and Control

A comprehensive profit planning and controlling is a systematic and formularized approach for stating and communicating the firm's expectation and accomplishing management in such a way to maximize the use of profit plan and to achieve the maximum benefit from the resources available to an organization over a particular span of time. It serves as a tool for management control. The objective of the profit planning and control is to assist in systemic planning and controlling the operations of an enterprise. So it is the best sources of communication and an important tool in the hand of management.

2.5.5 Limitations of Profit Planning and Control

Profit planning and control is an important tool for management. However, each tool suffers some limitation and its use is fruitful within these limits. Profit planning and control is also not limitless tool, so it is essential that the user of profit planning and control must be having a full knowledge of its limitations. The limitations of budgeting are as under.

- Based on estimates: Profit planning is not an exact science. Its sources depend upon precision of estimates. The success of profit planning and control depends to a large degree on the accuracy with which the basic estimate will be made. Therefore, estimates should be made on the basis of all the facts available. Using correct and modified statistical techniques and management can make the accurate estimates.

2.5.6 Application of Profit Planning and Control

Somebody say that comprehensive profit planning and control is applicable only to large and complex organizations. Also, a not unusual comment is that "Comprehensive budgeting is a fine idea for most business, but ours is different" or "it is impossible to project our revenue and expenses," and so on. Sometime specific industries are viewed as not amenable to profit planning and control.

2.5.7 Budgeting, as Tools of Profit Planning

Budgeting is a tool of profit planning which plays the vital role to manage the profit plan of any enterprise. It is an estimate of future needs calculated for a definite period. It anticipates income for a given period and cost as well as expenses. A business budget is a plan covering all phases of operations for a definite period in future. It is a formal expression of policies, plans, objectives and goals laid down in advance by top management for the undertaking as a whole and every sub division thereof.

2.5.8 Development of Profit Plan

Master budget preparation is major event in any organization. Profit plan and control includes the preparations of various functional budgets, analysis of variance and presentation of projected income statement and balance sheet. Top level management with the help of others involves in the development of profit plan. Developing of profit plan begins with the preparation of master budget following steps are followed to prepare a master budget (Niswonger, Rolloin and Philip, 1983.25).

2.6 Sales Forecasting

Sales forecasting is one of the inputs in sales plan of critical steps in the budgeting process. Sales forecast is not a plan; rather it is a statement and/or quantified assessment of future condition about a particular subject based on one or more explicit assumptions. The forecast always states the assumption upon which it is based. Sales forecast are merely the sales estimates. For the specific future period based upon environmental assessment. The management of the company may accept, modify or reject the forecast.

2.6.1 Sales Plan/Budget

In most cases, profit planning is not only the most difficult to prepare. Sales plan provides basic management decision about marketing and based on these decisions, it is an organized approach for developing as comprehensive sales plan.

Preparation of sales budget is basic of foundational of task. Sales in primary sources of cash and other functional budgets are prepared on the basis of sales budget. The sales plan is key step of other financial plan.

2.6.2 Sales Planning and Forecasting

It is important to make distinction between sales planning and Forecasting because they are often confused. A forecast is not a plan they have different purposes but related. Forecast is a statement of future conditions about particulars subject based on one or more assumptions. It is only one input in to development of sales plan. The management of a company may accept, modify or reject the forecast. But sales plan incorporates management decisions that are based on the forecast, other inputs and managerial judgment about such related items as sales volume, price, production and financing. In this way it can be said that sales plan is formulated by top executives which is not conditional but forecast in conditional, it is also technical staff functions.

2.6.3 Components of Sales Plan

The major components of sales plan are:

- Managerial policies and assumptions.
- Marketing plan.

- Advertising and promotion plan.
- Selling expense or distribution plan.

2.6.4 Strategic and Tactical Sales Plan

According to time range of planning, a comprehensive sales plan includes strategic and tactical sales plan. Both sales plans must be developed in profit plan.

2.6.4.1 Strategic Sales Plan

It is also known as long rang sales plan. Long term sales plans are usually developed as annual amounts for five or ten years. It usually involves in depth analysis of future market potentials, which may be built up from a basis foundation such as population changes, state of economy, industry projections and finally company objectives. It affects long term pricing policy, development of product and innovations of product, direction of marketing effort, expansion of distribution channel and cost patterns.

2.6.4.2 Tactical Sales Plan

It is to be developed for future twelve months detailed by months and quarters. So it is known as short range sales plan. Tactical sales plan are usually subject to review and revision on a quarterly basis. It includes a detailed plan for each main product and for groupings of minor products. Short term sales plans are usually developed in terms of physical units and in sales revenue. It also is structured by marketing responsibility for planning and control purpose.

Components of tactical sales plan are;

- Detailed and specific for the year,
- Detailed; by product, time and responsibility,
- Fixed and variable expenses; by month and by responsibility

2.6.5 Developing the Sales Plan

The following key steps are necessary to develop comprehensive sales plan.

Step-1 Developed management guidelines specific to sales planning including the sales planning process and planning responsibilities.

Step-2 Prepare one or more sales forecast consistent with specified forecasting guidelines including assumptions.

2.7 Inventory Budget

Inventory means closing balance of any materials which are used in production. Inventories may be grouped in to three classes:

a. Raw Materials
b. Work in Process
c. Finished goods

2.8 Production Budget/Plan

After developing the sales budget, manufacturing enterprise needs to develop a production budget. Production should be planned properly because production function consumes maximum percent of cost. The production plan includes the development of policies about efficient production level, use of production facilities and inventory level. A production budget is quantity budget, which lay down the quantity of units to be produced during the budget period. The main purpose of this budget is to maintain optimum balance between sales, production and inventory position of firm; it is based on estimated sales.

2.8.1 Development of Production Budget

The following step should be followed to develop a production budget.

a. To establish policies for inventory level.
b. To plan the total quantity sales of each product during this period.
c. To schedule this production policies produced by production department.

2.8.2 Responsibility for Production Planning

Production function is concerned with production department. So Planning, scheduling and dispatching of the actual production throughout the year are functions of production department. Production manager is responsible for these planning and control functions and he is also responsible for translating the marketing plan in to production program consistent with managerial policies and subject to certain constraints. These managers have firsthand knowledge of the plant and personnel capacities, availability of material and production process. The production manager must plan an optimum coordination between sales, inventory and production levels.

2.8.3 Pre-requisite Required of Production Plan

Pre-requisite required developing the production plans are as follows.

1. Total production requirements (by product) for the budget period.
2. Inventory policies about levels of finished goods, work in progress, and the cost of carrying inventory. Text Box: Sales Plan, Text Box: Finished goods inventory change, Text Box: Production Plan, Text Box: Direct material Budget, Text Box: Direct labour Budget, Text Box: Manufacturing Overhead cost.

2.8.4 Production Policies

There may be three types of production policies which are presented below.

(A) Stable Production Policies VS Unstable Inventory Policy

In this policy, fixed units are to be produced equally in every month or specified period, thereby cause inventory to fluctuate inversely with the seasonal sales pattern.

Therefore the budgeted sale of the period is unequal.

(B) Unstable Production VS Stable Inventory Policies

In this policy, units of inventory are to be stable at the end of each period and the production units are to be fluctuating in budget period. The number of unit produced and budgeted sales are directly related.

(C) Flexible in Both Inventory and Production

In this policy, unit produced and final inventory both are flexible in specific budget period. This policy tries to develop the optimum coordination among sales, inventory and production.

2.9 Material Budgets

Raw material budget is prepared after the planned production. Material means the input of production process. Material budget is co-ordination of required raw material and parts, inventory level of raw material and parts and level of raw material and parts that must be purchased.

1. Material and parts budgets: This budget specifies the planned quantity of each raw material and part required for planned production. It should specify quantities of each raw material and part by time, product and responsibility center.

2.9.1 Objective of Material Budgets

Without the keeping the use of raw material there is no possible of profit planning. So the main objectives of material budget are:

- To provide quantity data for purchase.
- To provide quantity data to compute marginal cost per unit.
- To establish effective inventory policy.
- To prepare effective cash budget.

- To introduce effective control system on material use.

2.9.2 Material and Parts Inventory Policy

The timing of raw material purchase will depend upon finished goods of raw material and raw material inventory policies. Management policy with respect to purchase and inventory should be specified. The two basic timing factors are, how much to purchase at one time and when to purchase of most of material.

Well-known approaches to purchase are follows:

1) Economic order quantity (EOQ): It determines optimum purchasing quantity.

$$EOQ = \quad 2AO/C$$

2) Just in time (JIT)

A recent development in material and parts inventory control is called just in time purchasing and manufacturing. In this approach material and parts are not purchased until need for production, thereby minimizing inventory holding costs.

2.10 Direct Labour Budget

Labour cost, in a broad sense, is composed of all expenditures incurred for employees: top executives, middle management personnel, staff officers, supervisor, foreman, skill workers, and unskilled workers. It is necessary to considered separately the different types of labour costs.

2.10.1 Approaches Used in Developing Direct Labour Budget

Generally, three approaches are used to develop the direct labour budget which is based or depended on the method of wage payment, type of production processes involved, availability of the labour times and adequateness of accounting records relating to direct labor costs. Those approaches are given below.

1. Estimate the direct labour hours required for each unit of each product; then estimate the average wage rates by departments, cost center or operation.

Multiply the standard time per unit of product by the average hourly wage rate, giving the direct labour cost per unit of output for the department, cost center or operation. Multiply the units of out put planned for the department, cost center, or operation by the unit direct labour cost rate to obtain the total direct labour cost by product.

2.10.2 Objectives of Direct Labour Budget

The objectives of direct labour budget are:

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

2.10.3 Components of Direct Labor Budget

Generally, there are three components of direct labour budget:

- Direct labour hour budget: Direct labour hour budget estimates the total direct labour hours required for each product by time and responsibility. It is computed as, total direct laour hours required=Planned production × Standard time required per unit of output.

2.11 Manufacturing Overhead Budgets

Manufacturing overhead is the part of total production cost which can not be directly traced out with the specific product or jobs. It includes different costs with different in nature and elements, such as mainly indirect materials, indirect labours and other miscellaneous factory expenses such as taxes, insurance, depreciation, supplies utilities and repairs. So allocation of these expenses to the products generally causes problems.

2.12 Selling and Distribution Expense Budgets

Selling and distribution expenses include all costs related to selling and distribution and delivery of products to customers. In many companies, this cost is significant percentage of total expenses. Careful planning of such expenses affects the profit potential of the firm.

Selling and distribution expenses include.

1. Home-office expenses.
2. Field expenses.

2.13 Administrative Expense Budget

Administrative expenses include those expenses other than manufacturing and distribution.

Budgeted administrative expenses should be based on specific plans and programs. Past experience, adjusted for anticipated change in management policy and general economic condition is helpful. Because of most administrative expenses are fixed, an analysis of historical record will often provide a sound basis for budgeting.

2.14 Flexible Expenses Budget

It is related to expenses. The budget focuses on both planning and control of expenses (or cost) in the organization. The fundamental concepts of flexible budgets for expenses is that all expenses are incurred because of

- The passes of time
- out put or production activity or
- A combination of time and out put or activity.

- For planning and control purposes, flexible budget formulas must be developed for each expense in each responsibility center.

2.14.1 Purpose or Function of Flexible Expenses Budget

Concept of flexible expenses budget is complimentary to tactical profit plan. The primary purpose of flexible budge is to enhance expenses control. Other purposes or functions are as follows;

- To provide expenses plans for the tactical profit plans and
- To provide expenses plans adjusted to actual output for comparison with actual expenses in periodic performance report.

2.14.2 Use of flexible Expenses Budget

- It is used to control expenses.
- Provide expenses goals for the managers.
- Provide budgeted expenses amounts adjusted to actual activity for comparison in the monthly performance report.

2.14.3 Steps for Preparing Flexible Budget:

- Identification of cost behavior: - for this cost segregation is done to identify whether the cost is fixed or variable.
- Selection of activity based: - there must be selection of an appropriate measure of out put for each responsibility centre.
- Defining relevant range: - we should know the appropriate relevant range.
- Selection of format: - In order to prepare flexible budget, an appropriate format should be selected i.e. Table format, formula format, graphical format.

Methods of Segregation of Costs

For segregation of costs there are mainly two methods;

a) High- Low Point Method

This method considers out put and costs at two different levels i.e. high or low point.

The differences in amount of expenses incurred at these two extreme periods are compared with the different in level of out put. This method segregates semi-variable costs by using exactly two points i.e. high and low point of costs and out put.

b) Least- Square Regression Method

Regression is an equation that expresses the relationship between two variables and estimates the value of the dependent variable Y based on a selected value of the independent variable X. Regression line is an equation that defines the relationship between two variables.

Regression equation is;

$Y= a + b X$

Y= total cost

a= total fixed cost for the period (FC)

b= variable cost per unit (VCPU)

X= any value of the independent variable that is selected.

To calculate the independent value of ‘a’ and ‘b’, the following formulas can be use.

VCPU (b) = $\frac{N \times \sum XY - \sum X \times \sum Y}{N \sum X^2 - \left(\sum X^2\right)}$

FC (a) = ΣY- b $\Sigma x/n$

2.15 Capital Expenditure Budget or Plan

The capital expenditure budget gives an estimate of the amount of capital that may be needed for acquiring the fixed assets required for fulfilling production requirements as specified in the production budget. The budget is prepared after taking into consideration the available productive capacity, probable reallocation of the existing assets and possible improvement in production techniques. Separate budgeting may be prepared for different items of fixed assets such as plant and equipment budget, building budget etc.

2.16 Financial Statement Analysis

Study of financial statement using the mathematical tools is known as ratio analysis. Ratio analysis is the best tool for measure of financial statement.

Relation between two figures is known as ratio. To evaluate the performance of an organization by creating the ratios from the figure of the balance sheet and income statement items. There are so many ratios for calculation. The ratios can be categorized in to the following.

1. Liquidity ratio
2. Capital structure ratio
3. Turnover ratio
4. Profitability ratio
5. Other ratios.

2.17 Cost Volume Profit (CVP) Analysis

CVP analysis applies the variable costing approach to analyze the built in relationship between cost, volume and profit. It analyses the short term static relationship between cost, volume and profit. So CVP analysis is an analysis tool for studying the relation between sales volume, cost price and profit. These variables are interconnected and dependent on each other. Cost volume profit analysis is great helpful to managerial decision-making. It plays vital role in cost control and profit management. Both are possible through effective CVP analysis. It provides management much valuable information such as sales volume to avoid loss or received profit, sales volume and price to get desired profit, effect in sales if changes in price etc. The managers of profit-seeking organizations usually study the effects of output volume on revenue (sales), expenses (costs), and net income (net profit). This study is commonly called cost-volume profit (CVP) analysis. The managers of nonprofit organizations also benefit from the study of CVP relationships. Why? No organization has unlimited resources, and knowledge of how costs fluctuate as volume changes helps mangers to understand how to control costs.

2.17.1 Use of CVP Analysis in Business

CVP analysis is used in profit-seeking companies as well as non profit organizations. The uses of CVP are as follows:

- To determine the break-even point in terms of unit or revenue
- To determine the target net income
- To examine the effects on income of changes in factors such as fixed cost, variable cost, or volume
- To ascertain the margin of safety
- To estimate optimum selling price

2.17.2 Break Even Analysis

The BEP analysis indicates the level of sales at which revenues equal costs. In CVP analysis costs are separated into fixed and variable costs. Variable costs change in direct proportion to change in output but fixed costs remain constant. The different between sales or (selling price per unit) and variable cost or (variable cost per unit) is called contribution margin or contribution margin per unit. A firm should generate sufficient contribution from the sales of its products to recover fixed costs and leave reasonable amount of profit. A company makes neither profit nor loss or contribution will be equal to fixed cost at the breakeven point sales. Breakeven point in units or rupees can be computed as follows:

Under this method, BEP is computed by following formulas:

BEP (in units) = $\frac{\text{Fixed Cost}}{\text{CMPU}}$

Or,

$$\frac{\text{Fixed Cost}}{\text{SPPPU} - \text{VCPU}}$$

BEP (in Rs.) = $\frac{\text{Fixed Cost}}{\text{CM Ratio or P/V Ratio}}$

Where,

CM or P/V Ratio = $\frac{1 - \text{Variable Cost}}{\text{Sales Value}}$

2.17.3 Use and Application of Break Even Analysis

Break even analysis provides additional insights into the economic characteristics of a company. It can be used to assess the approximate effect of various alternatives. Break even analysis is usually based on planned data. The analysis can be characterized appropriately as a "slide-rule" approach that can be used to develop and test, with minimum effort, the approximate effect that several kinds of management decisions have on costs and profit.

2.18 Review of Journal and Articles

Hilton (2000) *"Developing a Profit Plan for Your Business"* Profit planning is simply the development of your operating plan for the coming period. Your plan is summarized in the form of an income statement that serves as your sales and profit objective and your budget for cost. The profit plan is used in the following ways.

- **Evaluating operations.** Each time you prepare an income statement, actual sales and costs are compared with those you projected in your original profit plan. This permits detection of areas of unsatisfactory performance so that corrective action can be taken.
- **Determining the need for additional resources such as facilities or personnel.** For example, the profit plan may show that a sharp increase in expected sales will overload the company's billing personnel. A decision can then be made to add additional invoicing personnel, to retain an EDP service, or to pursue some other alternative.
- **Planning purchasing requirements.** The volume of expected sales may be more than the business' usual suppliers can handle or expected sales may be sufficient to permit taking advantage of quantity discounts. In either case, advance knowledge of purchasing requirements will permit taking advantage of cost savings and ensure that purchased goods are readily available when needed.
- **Anticipating any additional financing needs.** With planning, the search for needed funds can begin as early as possible. In this way, financial crises are avoided and financing can be arranged on more favorable terms.

Mundul (2007) *"Corporate financial sector: Restructuring."* he mentioned the amount of debt and company can sustain – and on which lenders can expect reliable debt service - is determined by the unit's cash flow. Indeed, a company cannot sustain interest payments in excess of its cash flows (i.e. interest coverage < 1:1), let alone make any repayments on the principal. Hence, substantially higher ratios of interest coverage are most desirable. He concluded that the corporate debtors and financial institution creditors will naturally seek to minimize their losses from corporate restructuring. The government has a role to play in balancing a variety of conflict interest (Mundul, 2007: 103).

APICS (2009) *"Sales Plan & It's Important"* sales plan as the function of setting the overall level of manufacturing output (production plan) and other activities to best satisfy the current planned levels of sales (sales plan and/or forecasts), while meeting general business objectives of profitability, productivity, competitive customer lead times, etc., as expressed in the overall business plan. One of its primary purposes is to establish production rates that will achieve management's objective of maintaining, raising, or lowering inventories or backlogs, while usually attempting to keep the workforce relatively stable. It must extend through a planning horizon sufficient to plan the labor, equipment, facilities, material, and finances required to accomplish the production plan. As this plan affects many company functions, it is normally prepared with information from marketing, manufacturing, engineering, finance, materials, etc. Sales and operations planning has also been described as "a set of decision-making processes to balance demand and supply, to integrate financial planning and operational planning, and to link high level strategic plans with day-to-day operations"

Pksal (2011) *"Marginal Costing: A Management Technique for Profit Planning, Cost Control And Decision Making"* Marginal costing is one of the techniques of costing which guides Management in pricing, decision making and assessment of profitability; it differentiates the total cost of production into variable expenses and fixed expenses. Variable expenses increase or decrease with the proportional increase or decrease in output. Thus as the increase in variable expenses is proportional to the increase in production the per unit cost does not change. In case of fixed expenses they remain constant at certain level of production and they go on changing per unit with every increase in output. Thus, Marginal costing by differentiating between the variable cost and fixed cost explains managerial problems on the basis of the difference between Variable Overheads, Fixed Overheads and Sales.

2.19 Brief Review of Previous Research

For any research and study the review of literature is very important. The main purpose of the literature review is to find out what work have been done in the area of the research problem under the study and what has not been done on this fields. There are some studies made on the topic of profit planning & control in Nepalese manufacturing Enterprises.

G.C. (2000) has conducted a research topic on *"Profit Planning in Herb's Production and Processing Company Ltd."*

His Major Objectives:

- To analyze practices of profit planning & control on HPPCL.
- To indicate such variables this affects on profit planning & control system.
- Application of profit planning & control and its impact on overall business of HPPCL.

His Major Findings:

- HPPCL is unable to define duties and responsibilities of their employees properly.
- HPPCL does not give emphasis on pricing policy and marketing promotion strategies.
- Company was suffering from low contribution margin and high fixed costs.
- Company did not identify strength, weaknesses, opportunities and threats.
- Actual sales are very low than budgeted sales.
- Lack of skilled and experienced man power in budgeting section of the company due to this reason company unable to prepare systematic further plan.
- Overheads are not classified in proper way in company; it creates problems to analyze its expenses properly.

His Major Recommendations:

- There is should be proper co-ordination between various responsible departments.
- Specific goals and objectives should be conveyed to lower level of staff; it denotes absence of MBO principle of management.
- Overheads should be classified in proper way.
- HPPCL should define duties and responsibilities of their employees properly.

Jha (2001) has conducted a research topic on *"Application of Profit Planning Tools to Improve the Profitability of Hetauda Cement Industries Limited".*

His Major Objectives:

- To analyze application of profit planning & control tool to meet goals and objectives of industry.
- To find out problems while applying profit planning & control tool.
- Lack of profit planning system and it causes under utilization of available capacity

His Major Findings:

- The industry has a lack of long range plan
- The profit trend of industry is not satisfactory
- Nepalese manufacturing enterprises are unable to fulfill the national demand due to under utilization of their available capacity.
- The industry doesn't apply appropriate and effective sales forecasting.

His Major Recommendations:

- The industry should make long range plan to meet industry goals.
- HCIL should apply proper profit planning tools to fore cast sales and improve profit trend.

- The goals and objectives of an industry should be cleared and communicated to lower level of management.

Sharma (2003) has conducted a research topic on *"Relationship between Sales, Budget and Profit Planning & Control of Dabur Nepal Private Limited.*"

His Major Objectives:

- Application of profit planning system and analysis of its impact.
- To analyze utilization of below capacity level and increasing cost of materials and expenses.
- To examine variance between actual sales and budgeted sales.

His Major Findings:

- Expenses trend of DNPL is in increasing trend year by year. The cost of materials is higher than other expenses. The cost of material is more than 70% of total cost.
- The capacity utilization of DNPL is not satisfactory because it is operating below capacity level. Average capacity utilization is 40.15% only.
- Total assets turnover ratio of the firm is satisfactory and it is in increasing order. This ratio concludes overall performances of the firm. Optimal utilization of the assets (fixed assets, current assets, total assets) automatically increases the profitability of the firm.

His Major Recommendations:

- DNPL should have practice of preparing direct labour cost budget though most of the labours are engaged in producing and progressing.
- DNPL should give high attention on reducing cost by applying profit planning and control system.

Gautam (2005) has conducted a research topic on *"Profit Planning in Manufacturing Public Enterprises in Nepal"*, on two enterprises Royal Drugs and Herbs production and processing co. Ltd (HPPCL). He has examined and analyzed the current practices of profit planning and its effectiveness of in Nepalese public enterprises. His research had the following major findings.

His Main Objectives:

- To analyze current practices of profit planning & control system of Nepalese public enterprises.
- To find out problems while applying profit planning & control system in Nepalese public enterprises.
- Significance of profit planning & control in terms of public enterprises in Nepal.

His Major Findings:

- Delay on decision making and planning process due to lengthy bureaucratic process.
- Lack of Entrepreneurship and commercial concept in overall operation of HPPCL.
- Theoretically, production plan should be based on sales plan, but there is no proper co-ordination between sales, production and inventories.
- Inadequate evaluation of external and internal variables in HPPCL.
- HPPCL does not have any effective programme to increase profitability but has numbers of social objectives.

His Major Recommendations:

- Lengthy bureaucratic process should be improved.
- Plans should be formulated by budgeting experts and skilled man power on modern basis.
- Entrepreneurship and commercial concept should be developed in overall operation.
- Production plan should be based on sales plan.

Poudel (2006) has conducted a research topic on *"A Study on Revenue Planning in Manufacturing Enterprise: A Case Study of Royal Drugs Limited"*.

His Major Objectives:

- To analyze profit planning and control system applied by RDL.
- To examine sales forecast and marketing and business promotion policy.
- To identify Organizational goals and policies are up by the top executive level management.

His Major Findings:

- RDL has fluctuating inventory in respect to sales. Its inventory turnover ratio is also in decreasing trend. It shows no specific inventory planning.
- RDL has started to plan for capital expenditure. It is good signal for managing fixed assets and controlling investment in fixed assets. It has no fund for investment in fixed assets due to heavy losses since last several years.
- It is not using all of its assets optimally. It has investment in non-productive assets because capacity utilization is very low.
- Poor achievement of sales budget over past years has indicated that its planned sales budget is lacking continuous evaluation and monitoring.

His Major Recommendations:

- Organizational goals and policies should be set up by the top executive level management board in accordance with plan and policies of the RDL.
- RDL should strictly follow profit planning system to forecast sales and increase profitability.
- RDL should classify costs into variable and fixed portion with the help of proper profit planning tools to determine actual cost.

Pokhrel (2008) has conducted a research topic on *"Revenue Planning and Management of Dabur Nepal Pvt. Ltd."*

His Major Objectives:

- To analyze use of profit planning & control tool.
- To find out variance between budgeted and actual sales.
- Forecasting system of sales.

His Major Findings:

- Budgeted sales were increased in each fiscal year.
- DNPL sales forecast depends on export demand & sales trend.
- Mean standard deviation of sales achievement was lower than budgeted sales but there was putative correlation between budgeted & actual sales.
- The actual sales of company decreased with decrease in export sales.
- The sales of Real Fruit Juice were increasing trend. It contributes 17.94% at beginning period of study & 49.34% in final year.
- DNPL did not prepare production budget. The company assumed budgeted sales itself.

His Major Recommendations:

- Production budget should be prepared to compare and examine variance with actual production.
- Sales forecast should be done on proper profit planning system.

Karki (2010) has conducted a research topic on "*Profit Planning in Nepal Drugs Limited*".

His Main Objectives:

- To analyze the various functional budgets those are prepared in public enterprise of Royal Drugs Limited.
- To evaluate the variance between budgeted and actual of the enterprise.
- To examine practice and effectiveness of profit planning.

His Major Findings:

- There is a lack of entrepreneurship and business in the operation of the enterprise.
- Authority and responsibilities are not clear among the department management and working managers.
- Internal and external variables providing opportunities threats and strengths and weaknesses are not identified.

His Major Recommendations:

- HMG/N intervention should not be made for functional aspect of enterprise. Management should be given full authority, responsibility and accountability for routine one major both operation.
- RDL should develop specific program to face the competition. Quality aspect of the products should be highlighted rather than price aspects.

- RDL should maintain co-ordination between production and market demand.

2.20 Research Gap

There is no research found of this type of industry before. Therefore it is new area of research in the context of Nepalese manufacturing industry especially for pipes and plastic industries. Most of the researchers had conducted their research work on comprehensive profit planning & control of various Public & Private Organizations. This study is based on profit planning system of their related organization which was born as a private limited company or public limited company.

CHAPTER- III

RESEARCH METHODOLOGY

3.1 Research Design

The design of this study was analytical as well as descriptive approaches, because, this study tried to make comparison and to establish relation between two or more variables. The study was closely related to the various functional budget and other accounting statement and performances.

3.2 Period Covered

The present research work covered a time period of 5 fiscal years 2063/064 to 2067/068. The data and information were taken from Laxmi Plastic Industries Pvt. Ltd. and analysis was basically made on the basis of last five fiscal years data.

3.3 Nature of Data Collection

The secondary sources of data were used in it. The secondary data were taken from the published documents, profiles, books, annual anniversaries books which are available from the account section, administrative section, planning section, store and purchase section of LPI Pvt. Ltd.

3.4 Tools Used for Data Analysis

The different nature of data and information were collected from various sources and their analysis was presented in proper table and formats, such as tables, graphs and diagram. For the data analysis, the financial as well as statistical tools such as ratio analysis, flexible budget, cost volume profit analysis, variance analysis, mean, correlation, regression, standard deviation, co-efficient of variation, bar & line diagrams etc were used.

3.5 Research Variables

The research variables of this study are sales, production, purchase & inventory, manpower, cash flow statement, balance sheet, income statement, capital expenditure, etc relating to long term periods from the fiscal year 2063/064 to 2067/068 & short term period of the fiscal year 2067/068.

CHAPTER- IV

DATA PRESENTATION AND ANALYSIS

4.1 Long Term Sales Plan of Laxmi Plastic Industry

Sale planning is the starting point in the development of comprehensive profit planning and control. Sales plan is the foundation for periodic planning in every firm. Every enterprise intends to maximize its sales because sales are the primary source of cash receipts.

Laxmi Plastic Industry does not have realistic sales plan. The firm has no practice of preparing long-term sales plan. Sales plan preparation is not easy because it is normally affected by political, social, legal & economical factors.

The sales targets and achievements of the last 5 fiscal years of Laxmi Plastic Industry are as follows:

Table: 4.1

Planned Sales & Actual Sales

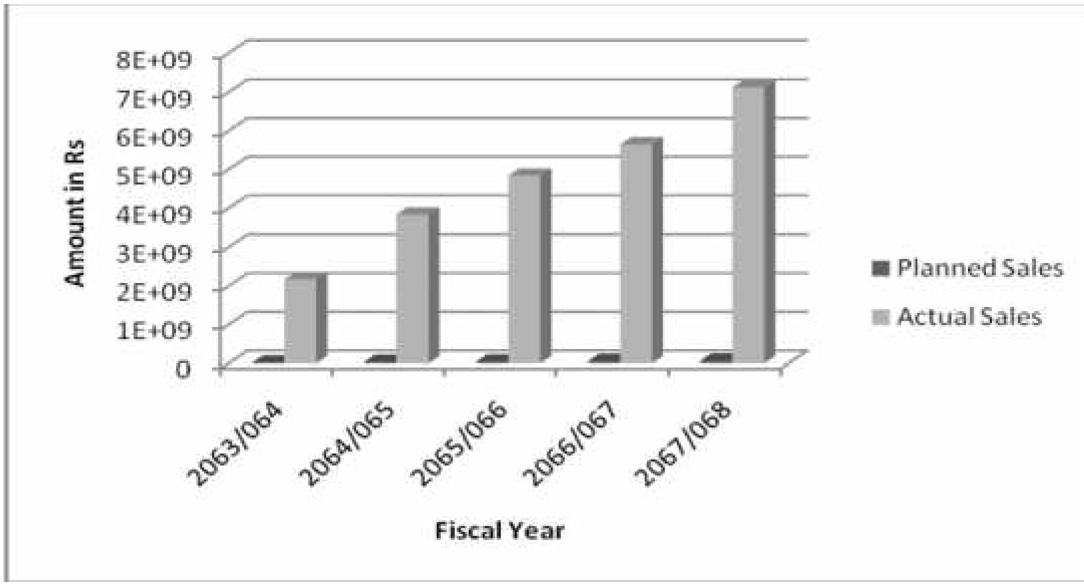
(Amount in Rs)

Fiscal Year	Planned Sales	Actual Sales	% Achieved
2063/064	2,40,00,000	2,16,78,848.44	90.33
2064/065	4,00,00,000	3,83,50,720.37	95.88
2065/066	5,00,00,000	4,84,05,189.71	96.81
2066/067	6,00,00,000	5,65,04,501.24	94.17
2067/068	7,40,00,000	7,12,92,113.98	96.34

Source: Annual Report of Laxmi Plastic Industry FY 2063/064 to 2067/068

Figure: 4.1

Planned Sales and Actual Sales



The above table and figure indicate that there is a gap between sales targets and actual sales achievements. The percentage of sales achievement slightly fluctuated from year to year, which reflected the short coming of management in LPI.

In the fiscal year 2067/068, the sales target is Rs. 7,40,00,000 (i.e. 74%) of installed capacity but actual sales achievement gone up to 96.34% of the sales target which is a recorded remarkable results of sales achievement. A lowest sale achievement is in the FY 2063/064 which is 90.33% of sales target. In comparison with the FY 2066/067, the percentage of sales achievement in the FY 2067/068 increased by 2.17%.

The deviation between sales target and actual sales achievements is the evidence or deficiency of experts & skilled planners. Sales targets are in high expectation in Laxmi Plastic Industries. These are not determined on the basis of historical data of the previous year's sales performance.

In order to find out the nature of variability of sales target (budget) and actual sales achievement of different years, the arithmetic mean, standard deviation, co-efficient of variation, correlation co-efficient between budgeted sales and actual sales achievement are calculated. The detailed calculation of these statistical measures is shown in appendix-1.

Statistical Result

Statistical Tools	**Budgeted Sales (in Rs Lakh 'X')**	**Actual Sales (in Rs Lakh 'Y')**
Mean	472.46	496
Standard deviation (S.d.)	170.36	167.22
Co-efficient of variation (C.V.)	36.06%	33.71%
Correlation co-efficient (r)	**= 0.99**	

The above table states that the actual sales are in fluctuating trend. The coefficient of variation of actual sales as shown in the table is greater than the budgeted sales. So the actual sales are more variable or less stable.

The value of co-efficient of correlation (r) is 0.99 which shows that there is highly positive correction between budgeted sales and actual sales.

A regression line can also be fitted to show the degree of relationship between the budgeted sales and actual sales and to forecast the achievement with the given targets. For this purpose actual achievement is assumed to depend upon dependent variable i.e., sales targets.

Here, the regression line of achievement ‘y’ on target ‘x’ or y on x is as follows:

Statistical Tools	**Targeted Sales ‘x’ (in Rs Lakh)**	**Actual Sales ‘y’ (in Rs Lakh)**
Mean	496	472.40
Standard deviation (S.d.)	170.36	167.22
Co-efficient of variation (C.V.)	34%	35%
Correlation co-efficient (r)	**= 0.99**	

Source: Appendix I

Now the regression line Y on X

$$y - \bar{y} = r\frac{s.d.y\,(x-\bar{x})}{s.d.x}$$

Substituting the values from the above table,

We have,

$$y - 472.40 = \frac{0.99 \times 167.22}{170.36}$$

or y = 473.37

This regression line ascertains the expected sales achievement with the given value of targeted sales (x). From this equation the actual sales 'y' can be calculated by assigning ‘x’ to the budgeted sales.

Another statistical tool called least square method can also be used to analyze the trend of actual sales and to estimate the possible future sales for a given time (years). Time element is an important factor to analyze the trend. So, with the passes of time, actual sales will be changed.

To fit the straight line trend, the time factor is considered as independent variables (x) and actual sales achievement (y) is assumed as dependent upon time (years).

The straight line trend by the least square method for actual sales upon time is expressed by.

$$y = a+bx$$

Where,

Y = actual sales achievement

X = years or time factor

Calculation of straight line trend by least square method is as follows:

Fitting Straight Line Trend

If the past sales trend doesn't change the possible future actual sales it will be in increasing trend.

There is high positive correlation between actual & budgeted sales. There is no consistency in both sales targets and achievement and there is also large gap between them. The actual sales are less stable than the budgeted sales. *(Details see in appendix- IV.)*

4.2 Production Plan of Laxmi Plastic Industry

Production budget is the second step in the development of the profit planning and control. Production budget is based on the capacity of plant and sales budget. Production budget can be presented numerically as under:

Production in (Rs.) = Sales + Closing Stock of Finished Goods – Opening Stock of Finished Goods.

The production plan is based upon sales plan and inventory policy of the enterprise. The production division of LPI is fully responsible for developing production plan.

The following table states the budgeted or planned production and actual production achievement from the FY 2063/064 to 2067/068.

Table: 4.2

Production Target

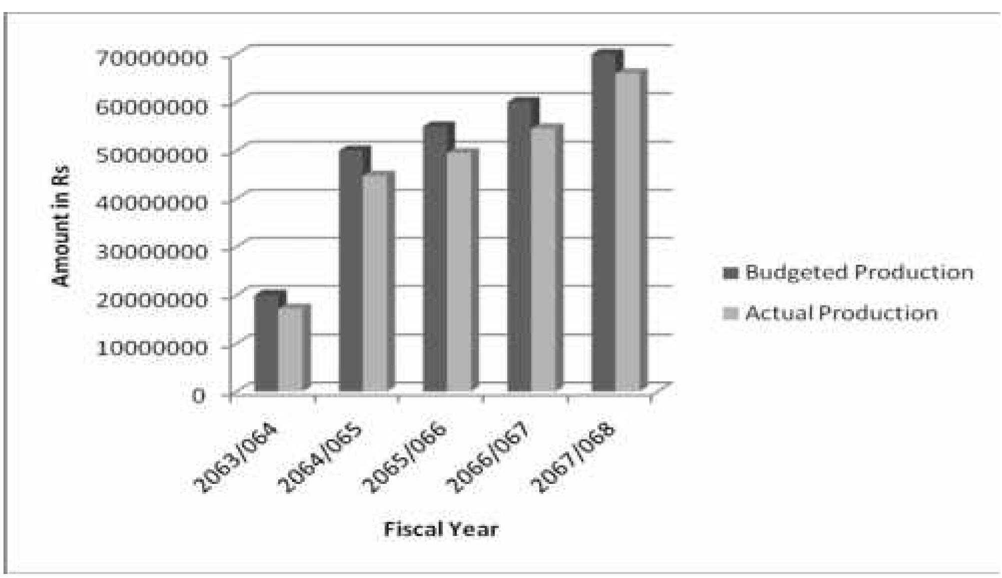
(Installed Capacity Rs. 10,00,00,000)

Fiscal Year (x)	Budgeted Production		Actual Production		% achievement Of target
	Rs	%	Rs.	%	
2063/064	2,00,00,000	20	1,72,44,752	17.24	86.22
2064/065	5,00,00,000	50	4,47,94,854	44.80	89.59
2065/066	5,50,00,000	55	4,95,03,219	49.50	90.00
2066/067	6,00,00,000	60	5,46,21,281	54.62	91.04
2067/068	7,00,00,000	70	6,59,50,467	65.95	94.21

Source: Annual Report of Laxmi Plastic Industry FY 2063/064 to 2067/068

Figure: 4.2

Production target & Actual Production Achievement



The above table and figures state that there is a wide gap between production target and actual production achievement. The highest budgeted production is Rs. 7,00,00,000 (i.e., 70% of installed capacity) in FY 2066/67 and lowest production target in the FY 2063/064 is Rs. 2,00,00,000 (i.e., 20% of installed capacity). It can be said that production target and achievement was not satisfactory.

The actual productions was below the target which gave an evidence of inefficient management of LPI.

The above table and bar diagram indicate that actual production is greater in FY 2067/068 in compare with other years. There is back of consistency in actual production achievement. To find out the variability of budgeted production and actual production of Laxmi Plastic Industry, calculation of mean, standard deviation, co-efficient of variation and correlation co-efficient.

Detailed calculation is presented in Appendix II.

Statistical Tools	**Budgeted Production 'x' (in Rs Lakh)**	**Actual Production 'y' (in Rs Lakh)**
Mean	510	464
Standard deviation (S.d.)	168.52	162.24
Co-efficient of variation (c.v.)	33.04 %	34.95%
Correlation co-efficient (r)	**= 0.998**	

Sources: Appendix II

The mean of budgeted production is high and standard deviation of actual production is also high. Co-efficient of variation of budgeted production is less than actual production. So the actual production is more variable or less stable than the budgeted production. There is highly positive correlation (relationship) between budgeted production & actual production.

The following table presents the actual sales and actual production of the previous five years of the industry.

Table: 4.3

Actual Sales and Actual Production

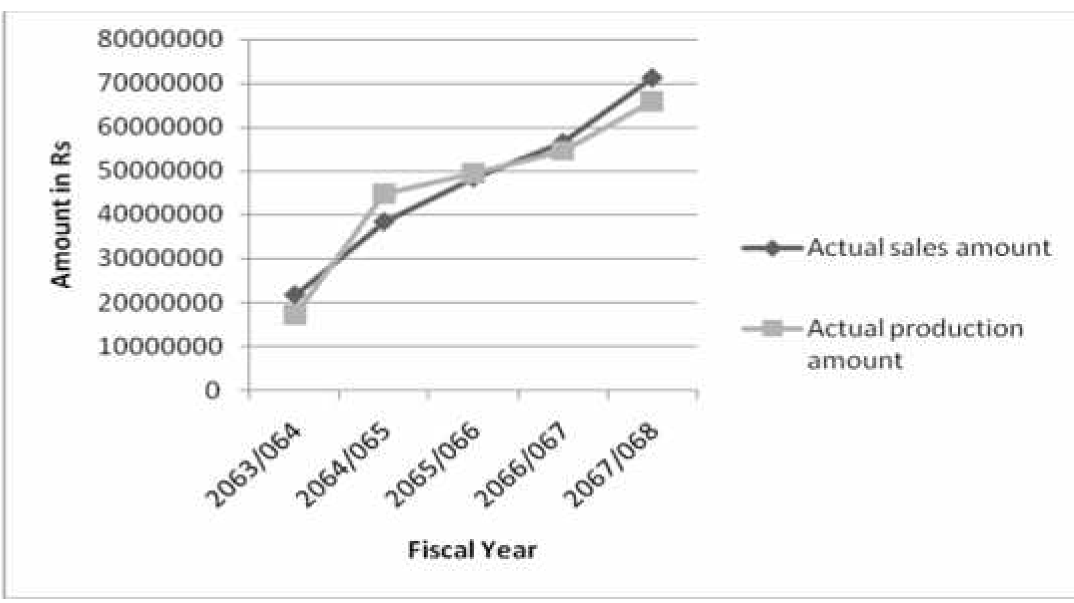
(Amount in Rs)

Fiscal year	Actual sales amount	Actual production amount	% Achieved
2063/064	2,16,78,848	1,72,44,752	125.71
2064/065	3,83,50,720	4,47,94,854	85.61
2065/066	4,84,05,190	4,95,03,219	97.78
2066/067	5,65,04,501	5,46,21,281	103.45
2067/068	7,12,92,114	6,59,50,467	108.09

Source: Annual Report of Laxmi Plastic Industry FY 2063/064 to 2067/068

Figure 4.3

Actual Sales and Actual Production of Laxmi Plastic Industry



The above table and figure indicate that there is no significant deviation between the actual sales and actual production. This shows that the industry produces goods nearer to the last year sales. In the FY 2063/064, sales & production is low as compared to other fiscal years.

The detailed calculations of these statistical measures are shown in Appendix III.

Now summarizing the results from Appendix III

Statistical Tools	**Actual Sales 'x' (in Rs Lakh)**	**Actual Production 'y' (in Rs Lakh)**
Mean	472.46	464.23
Standard deviation (S.d.)	167.12	162.25
Co-efficient of variation (c.v.)	35.36	34.95
Correlation co-efficient (r) = 0.967		

Sources: Appendix III

The mean and standard deviation of actual production was high. Co-efficient of variation of actual sales is more than the actual production. So, actual production is more stable than the actual sales. Correlation co-efficient between actual sales and actual production is positive represented by 0.967 which showed that there is perfect positive correlation between actual sales and actual production.

The following points can be noted regarding production plan.

- Laxmi Plastic Industry didn't prepare the long term production budget.
- The actual production is more variable or less stable than the budgeted production.
- Mean of budgeted production is higher than the actual production and standard deviation of actual production is greater.
- Actual sale of goods is more variable than actual production of goods.
- There is perfect correlation co-efficient between actual sales and actual production.

4.3 Material Purchase Budget and Inventory Policy

A manufacturing company cannot produce goods without materials. So raw material is the basic element of production. Material required budget deals with quantities of direct material required for planned production. Similarly material purchase budget is prepared by considering the requirements of raw materials, closing and opening stock of raw materials and cost of raw material.

LPI uses the various types of raw materials in production of goods i.e. HDPE Granules, Chemicals, water etc.

Most of the raw materials are imported from Thailand and some of them are purchased from local market.

Table: 4.4

Material Purchases

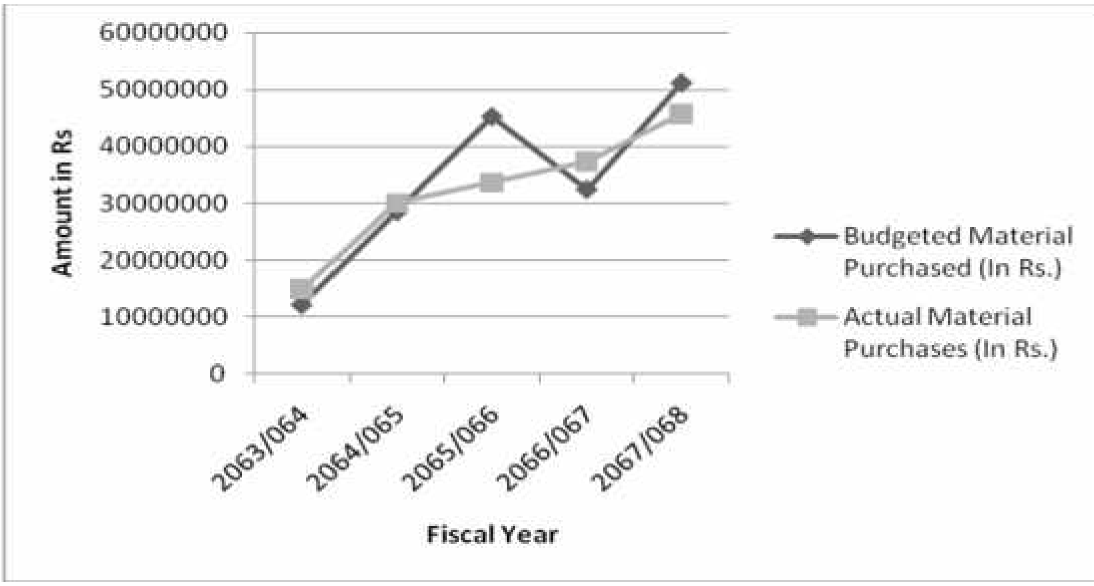
Year	Budgeted Material Purchased (In Rs.)	Actual Material Purchases (In Rs.)	Variance
2063/064	1,21,45,897	1,48,35,752	26,89,828
2064/065	2,85,76,456	2,99,37,211	13,60,755
2065/066	4,53,25,673	3,35,65,474	(1,17,60,199)
2066/067	3,24,54,367	3,72,78,945	48,24,578
2067/068	5,12,67,458	4,56,72,902	(46,94,556)

Source: Annual Report of Laxmi Plastic Industry FY 2063/064 to 2067/068

The above table 4.5 shows the actual and budgeted material purchase of Laxmi Plastic Industries. The actual material purchased is higher than budgeted material purchases except the fiscal year 2065/066 and 2067/068 but in the fiscal year 2065/066 & 2067/068 the actual material purchased budget is less than budgeted material purchased. It is shown in the following figure.

Figure: 4.4

Trend Line of Actual and Budgeted Material Purchased



The following table shows the opening stock, purchase, consumption and closing stock of raw materials in five years.

Table: 4.5

Opening Stock, Purchase, Consumption & Closing Stock of Raw Materials

Fiscal year	Opening Stock (In Rs.)	Purchase (In Rs.)	Consumption (In Rs.)	Closing Stock (In Rs.)
2063/064	1,50,43,500	1,48,35,752	1,89,35,350	1,09,43,902
2064/065	1,09,43,902	2,99,37,211	2,89,93,386	1,18,87,727
2065/066	1,18,87,727	3,35,65,474	3,38,71,953	1,15,81,248
2066/067	1,15,81,248	3,72,78,945	3,75,98,442	1,12,61,751
2067/068	1,12,61,751	4,56,72,902	4,54,01,611	1,15,33,042

Source: Annual Report of Laxmi Plastic Industry FY 2063/064 to 2067/068

The above table shows that total material purchase cost in the FY 2066/2067 is high as compared with the other years and actual production volume in the FY 2066/2067 is also high.

Consumption of raw material in the FY 2066/2067 is also high, as compared in other years but consumption of raw material is less high as availability of raw material, so there is slightly decreasing trend in closing stock of raw materials. It seemed that due to the poor political condition of the nation the industry is adopted stable inventory.

The above table also indicates that closing stock of raw material iss in increasing trend.

Thus it can be said that LPI has no adequate and appropriate policy regarding inventory of raw materials and sub raw materials. But in practice, the industry holds inventory of raw materials only for one or one and half months. Due to the unstable political condition of nation, industry is adopting aggressive inventory policy so that no hamper will occur in terms of production.

To conclude with regard to the purchase characteristics and inventory problems of LPI, the following points can be noted:

- Lack of systematic policy regarding inventory & purchase of raw materials.
- Following aspects was not considered by the industry in establishing inventory policies for materials:

a. Opportunity costs.
b. Availability of raw materials
c. Protection against shortages.
d. Risk involved in inventories.
e. Timing and quality of manufacturing needs.
f. Economies in purchasing through quantity discounts.

Therefore, to determine the realistic inventory level, management policy with respect to material and inventory must be specified.

4.4 Man Power Planning of LPI Industry

Man power planning is an important aspect of profit planning. It is required to determine the desire manpower of the firm. Manpower planning process includes

- Ascertain personal needs
- Recruitment
- Selection
- Job description and evaluation
- Training
- Fixation of wages and salary
- Motivational activities, etc.

Proper manpower planning provides right number of persons in right place and right time, from which organization can get benefit. For the annual profit plan, the direct labour budget should be developed by interim time period, responsibilities, and product. Such budget includes planned labor requirements to produce necessary quantities. Though, well manpower planning is wealth of organization, most of the public enterprise of Nepal does not give priority for manpower planning. In the context of Nepal, most of the organizations are facing overstaffing problems because of the government interference, rather than needed of the firm. In LPI industries limited, there is no practice of developing direct labour budget. Required manpower is appointed as a permanent basis and sometime the industry hires daily wage workers as per need. Fixed monthly salary is paid to the employees and daily wage to temporary workers.

The following table presents the no. of employees at the different level of LPI

Table: 4.6

Man Power Plan for FY 2067/068 of Laxmi Plastic Industry

S.N	Level	Technical	Non Technical	Total
1	General Manager		1	1
2	Officers	2	4	6
3	Assistants	50	10	60
4	Workers	54	19	73

Source: Annual Report of Laxmi Plastic Industry FY 2063/064 to 2067/068

The above table shows that there was 54 technical & 19 Non technical employees. Technical employees was more than non technical employees. Except the permanent nature employees, industry hired many hourly basis workers from local area as per the production requirement, which is not included in the above table.

4.5 Cash Budget of Laxmi Plastic Industry

Cash budget contains detailed estimates of cash receipts (cash inflows), cash out flows (disbursements) and ending position for the budget period. Cash planning is an effective way to plan and control the cash flows. It brings equilibrium between available cash and cash demanding activities-operations, capital expenditures and so on. Therefore, cash budgeting is extremely important since business operations. A firm requires adequate cash to acquire materials and meet various expenses and loan obligations.

LPI has not adopted any systematic procedure to develop cash budget. It prepares cash budget. But the major sources of cash in flows of the industry are sales of its products, cash collection from debtors, and revenue. Similarly, the major cash out flows are purchase of fixed assets (investment), distribution, Administration and interest.

To provide the information about the beginning & ending cash & Bank balance, Laxmi Plastic Industry presents cash flow statement. The following table shows the cash & bank balance of the industry for the FY 2067/068.

Table: 4.7

Cash Flow Statement As at 32nd Ashadh, 2068

S.N.	**Particulars**	**Rs. P.**
A	**Cash From Operating Activities**	
	Profit as per P/L A/C	2,887,518.56
	Depreciation on Fixed Assets	3,097,566.40
	Increase in Inventories	(271,290.73)
	Increase in Trade & Other Receivable	(15,167,891.96)
	Increase in Prepayments	(238,570.71)
	Increase in Loans & Advance	(964,320.00)
	Increase in Deposit	(505,302.79)
	Decrease in Trade & Other Payables	(1,487,131.05)
	Increase in Short term Borrowings	(350,000.00)
	Increase in VAT, IT & Other Adjustment	(78,198.78)
	Tax Provision of last yrs	(497,567.85)
	Sub Total	**(13,575,188.91)**
B	**Cash From Investing Activities**	
	Increase in Fixed Assets	(6,692,374.02)
	Sub Total	**(6,692,374.02)**
C	**Cash From Financing Activities**	
	Increase in Secured Loan	13,465,753.72
	Increase in Share Capital	7,000,000.00
	Sub Total	**20,465,753.72**
	Total This Years	198,190.79
	Cash & Cash Equivalents (O/B)	**613,111.49**
D	**Cash & Cash Equivalents (C/B)**	**811,302.28**

(Source: Annual Report of Laxmi Plastic Industry FY 2063/064 to 2067/068)

The above table shows that the cash flow from operating activities is Rs. -13575188.91. If Industry can improve its trade and other receivable system, it can increase its cash flow from operation. Cash flow from investing activities included the purchase of fixed assets.

Cash flow from financing activities consisted of short term loan taken; long term loan paid and share capital.

A change in cash is positive and there is adequate cash in the beginning so closing cash also is positive. It indicates profit in future, if the present situation remains the same in the future. There is few amount of positive net cash flow during the year (i.e. Changes in cash), so LPI needed to adopt effective cash planning and control system for improving its current cash flow position. The borrowing of Laxmi Plastic Industry is also in increasing trend.

4.6 Capital Budget of Laxmi Plastic Industry

The investment plan of the firm is commonly known as capital Budgeting or capital expenditure plan. A capital expenditure deals generally with a huge amount of money to be invested. Capital expenditure includes fixed or long term assets such as plant and machinery, land and building, furniture and equipment and major renovations etc. The investment decisions would generally involve expansion, acquisition, modernization and replacement of the long term assets. Capital expenditure plan is used to ascend future profit and to deduce future costs.

In Laxmi Plastic Industry there is no particular planning of capital budgeting. Planning section officers don't use any capital budgeting techniques like NPV, IRR, PBP, etc. while purchasing fixed assets.

The following table shows the picture of capital expenditures of the industry.

Purchase of fixed assets =Closing balance of fixed assets + depreciation – opening balance of fixed assets.

Year Purchase (Rs.)

2063/064	1,04,77,195.20 + 10,76,288.45 – 1,08,25,704.61	=	Rs. 7,27,779.04
2064/065	1,70,19,050.74 + 8,03,366.57 – 1,04,77,195.20	=	Rs. 73,45,222.11
2065/066	2,02,19,549.65 + 16,66,714.70 – 1,70,19,050.74	=	Rs. 48,67,213.61
2066/067	2,15,14,716.9 + 19,52,845.08 – 2,02,19,549.65	=	Rs. 32,48,012.33
2067/068	8,89,89,917.52 + 30,97,566.4 – 2,15,14,716.9	=	Rs. 7,05,72,767.02
	Total		**Rs. 8,67,60,994.11**

Source: Annual Report of Laxmi Plastic Industry FY 2063/064 to 2067/068

The table states that Laxmi Plastic Industry invested Rs. 7,27,779.04 in the FY 2063/064 but Rs. 7,05,72,767.02 is invested in the FY 2067/068. But lowest investment is Rs. 7,27,779.04 in the FY 2063/064. In the FY 2067/068, LPI has spent huge amount in fixed assets.

4.7 Income Statement of Laxmi Plastic Industry

Income statement provides a concise summary of revenues, expenses and net income (or loss) of the firm for a period of time. It also shows final conclusion of firm's operation of an accounting year.

In Laxmi Plastic Industry, the finance and account department prepare income statement to know the profit and loss situation at the end of each accounting year. The following table represents the profit and loss account of the industry from the FY 2066/067 and 2067/068.

Table: 4.8

Manufacturing, Trading, Profit & Loss A/C

For the Year Ended 32nd Ashadh, 2068

Particular	Schedule	Current year	Previous year
Sales Revenue	13	71,292,113.98	56,504,501.24
Cost of Sales	14	54,146,134.68	43,679,027.51
Gross Profit		17,145,979.30	12,825,473.73
Other Operating Income		-	-
Total		17,145,979.30	12,825,473.73
Other Operating Expenses		-	-
Distribution Costs	15	2,348,629.00	1,958,734.22
Administrative Expenses	16	2,720,267.92	2,555,886.00
Total		5,068,896.92	4,514,620.22
Profit From Operations		12,077,082.38	8,310,853.51
Finance Cost	17	6,091,997.42	4,043,739.37
Depreciation on Fixed Assets	18	3,097,566.40	1,952,845.08
Deferred Revenue Expenditure		-	-
Pre-operative Expenses		-	-
Sale of Fixed Assets Loss/(Profit)		-	-
Extraordinary Expenses/(Income)		-	-
Total		9,189,563.82	5,996,584.45
Profit before Income Tax		2,887,518.56	2,314,269.06
Profit & Loss Appropriation Account			
Profit (Loss) Transferred from P/l Account		2,887,518.56	2,314,269.06
Income Tax Provision		577,503.71	497,567.85
Profit (Loss) After Income Tax Provision		2,310,014.85	1,816,701.21
Adjustment VAT& IT & Others	19	(78,198.78)	(12,097.66)
Profit & Loss Account Up to Previous Year		2,585,604.68	781,001.13
Profit & Loss Account Transferred to B/S		**4,817,420.75**	**2,585,604.68**
		As per our separate report of even date	

Sources: Annual Report of Laxmi Plastic Industry FY 2063/064 to 2067/068

The above table shows that Laxmi Plastic Industry keeps record of revenues after deduction of all expenditures. There is no income from other resources from the

FY 2066/067 to 2067/068. The net sales revenue of industry in the FY 2066/067 is Rs. 5,65,04,501.24 whereas in the FY 2067/068 increased by Rs. 1,47,87,612.74. There is increasing trend of sales revenue upto the FY 2067/068. There is not huge difference in other expenses.

Due to increase in sales revenue the net profit in the FY 2067/068 also increased by 5, 73,249.50. If the industry can utilize its capacity, it can improve its profit.

4.8 Profit and Loss of Laxmi Plastic Industry

A business without profit cannot alive because profit is the major element of every business organization for their survival and future development. At present, reasonable profit approach hold a strong position.

The following table represents the profit and loss of the industry for the five fiscal years.

Table: 4.9

Profit & Loss from the FY 2063/064 to 2067/068 of Laxmi Plastic Industry

Laxmi Plastic Industries Pvt. Ltd., Nepalgunj Industrial Area, Nepalgunj

Manufacturing, Trading, Profit & Loss A/C of 5 yrs

Particular	F.Y. 2067/068	F.Y. 2066/067	F.Y. 2065/066	F.Y. 2064/065	F.Y. 2063/064
Sales Revenue	71,292,113.98	56,504,501.24	48,405,189.71	38,350,720.37	21,678,848.44
Cost of Sales	54,146,134.68	43,679,027.51	38,228,448.58	31,963,303.18	16,551,450.33
Gross Profit	17,145,979.30	12,825,473.73	10,176,741.13	6,387,417.19	5,127,398.11
Other Operating Income	-	-	-	-	-
Total	17,145,979.30	12,825,473.73	10,176,741.13	6,387,417.19	5,127,398.11
Other Operating Expenses	-	-	-	-	-
Distribution Costs	2,348,629.00	1,958,734.22	1,490,485.00	753,300.00	338,239.00
Administrative Expenses	2,720,267.92	2,555,886.00	1,682,460.00	1,367,306.00	1,805,244.00
Total	5,068,896.92	4,514,620.22	3,172,945.00	2,120,606.00	2,143,483.00
Profit From Operations	12,077,082.38	8,310,853.51	7,003,796.13	4,266,811.19	2,983,915.11
Finance Cost	6,091,997.42	4,043,739.37	3,333,105.34	1,879,610.26	1,454,980.73
Depreciation on Fixed Assets	3,097,566.40	1,952,845.08	1,666,714.70	803,366.57	1,076,288.45
Deferred Revenue Expenditure	-	-	-	-	-
Pre-operative Expenses	-	-	-	-	-
Sale of Fixed Assets Loss/ (Profit)	-	-	-	-	-
Extraordinary Expenses/(Income)	-	-	-	-	(129,016.00)
Total	9,189,563.82	5,996,584.45	4,999,820.04	2,682,976.83	2,402,253.18
Profit before Income Tax	2,887,518.56	2,314,269.06	2,003,976.09	1,583,834.36	581,661.93
Profit & Loss Appropriation Account					
Profit (Loss) Transferred from P/l Account	2,887,518.56	2,314,269.06	2,003,976.09	1,583,834.36	581,661.93
Income Tax Provision	577,503.71	497,567.85	430,854.86	340,524.39	179,641.00
Profit (Loss) After Income Tax Provision	2,310,014.85	1,816,701.21	1,573,121.23	1,243,309.97	402,020.93
Adjustment VAT, IT & Others	(78,198.78)	(12,097.66)	(108,361.37)	(160,406.60)	(325,341.13)
Profit & Loss Account Upto Previous Year	2,585,604.68	781,001.13	(683,758.33)	(1,766,662.10)	(1,843,341.90)
Profit & Loss Account Transferred to B/S	**4,817,420.75**	**2,585,604.68**	**781,001.53**	(683,758.73)	(1,766,662.10)

Source: Annual Report of Laxmi Plastic Industry FY 2063/064 to 2067/068

Account Officer   Director   Executive Chairman   Registered Auditor

Ram Prasad Khanal

For: R.P.Khanal & Co.

The above table indicates that LPI is not suffering from loss in past five years.

The trend of Net Profit, Total Revenue and % of net profit of Laxmi Plastic Industries is as follows.

Table: 4.10

Trends of Profit & Loss from Fiscal Year 2063/064 to 2067/068 of Laxmi Plastic Industry

Fiscal Year	Net Profit (In Rs.)	Total Revenue (In Rs.)	% of net profit
2063/064	5,81,662	2,16,78,848	2.68
2064/065	15,83,834	3,83,50,720	4.13
2065/066	20,03,976	4,84,05,190	4.14
2066/067	23,14,269	5,65,04,501	4.09
2067/068	28,87,519	7,12,92,114	4.05

Source: Annual Report of Laxmi Plastic Industry FY 2063/064 to 2067/068

The % of net profit is in increasing trend from the FY 2063/064 to FY 2065/066 and after FY 2066/067 the % of net profit is slightly decreasing. Highest amount of Net Profit in the FY 2067/068 is Rs. 28,87,519 but lowest in the FY 2063/064 is Rs. 5,81,662. Highest % of N.P. in the FY 2065/066 is 4.14% whereas lowest in the FY 2063/064 is 2.68%.

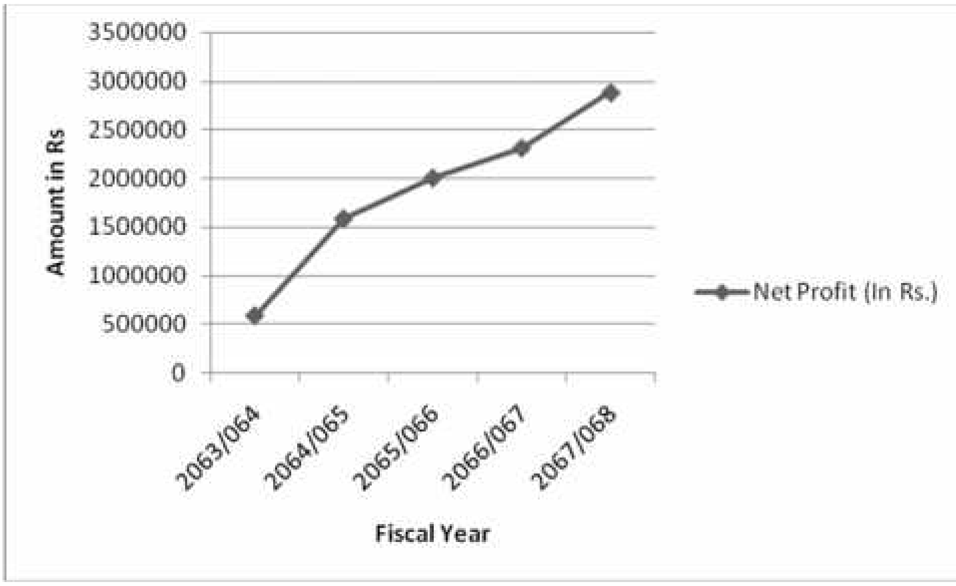
Reasons for less amount of profit was excessive cost of goods sold, interest & high fixed cost (administrative expenses). The other causes of less profit was under utilization of capacity, inadequate plans & their implementation, not effective use of funds and unbearable political pulls & pressure.

The trend of profit & loss can be presented with the help of following simple bar diagram.

Figure: 4.5

Laxmi Plastic Industry

Net Profit



The above diagram gives the picture of the Increasing trend of profit & loss of the industry. There is no loss in any year.

4.9 Balance Sheet of Laxmi Plastic Industry

Balance sheet shows the assets and liabilities of the business firm. So balance sheet is the statement of assets and liabilities, which shows the financial position of the organization at a given date of accounting period. Balance sheet indicates LPIs' financial strength and weakness. It is prepared at the end of accounting period, so it is the last portion of final account to be prepared after preparation of profit & loss account or income statement. Main importance of Balance sheet is:

- It shows the financial position of the organization for a certain period by showing details about capital, assets & liabilities.
- It helps to test the liquidity position.
- It also helps to know solvency position i.e. long-term loan paying liability of a firm.

- It shows capital structure.

Balance sheet of Laxmi Plastic Industry shows the exact position of current assets, fixed assets, current liabilities, long term liabilities (long term debt) and share capital. The following table shows the comparative balance sheet of Laxmi Plastic Industry from the FY 2066/067 to 2067/068. Detailed balance sheet from the fiscal year 2063/064 to 2067/068 is shown in Appendix V.

Table: 4.11

Balance Sheet as at 32nd Aashadh, 2068

(Amount in Rs)

Particular	**Schedule**	**Figure as at end**	**Figure as at end**
	No.	of the current year	of the previous year
1. Equity And Liabilities			
a. Share Capital	1	10,000,000.00	3,000,000.00
b. Reserves	2	63,880,393.00	-
c. Accumulated Profits/ (Losses)	P/L	4,817,420.75	2,585,604.68
2. Long Term And Medium Term Loan			
a. Secured Loan	3	54,596,659.39	41,130,905.67
b. Unsecured Loan		-	-
Total		**133,294,473.14**	**46,716,510.35**
Assets			
1. Fixed Assets	4	88,989,917.52	21,514,716.90
2. Investments		-	-
3. Current Assets			
a. Inventories (certified by Mgmt.)	5	11,533,041.52	11,261,750.79
b. Trade & Other Receivables	6	27,324,770.84	12,156,878.88
c. Cash & Cash Equivalents	7	811,302.28	613,111.49
d. Prepayments	8	885,690.33	647,119.62
e. Loans & Advance	9	2,132,093.50	1,167,773.50
f. Deposits	10	2,484,626.85	1,979,324.06
Total		**45,171,525.32**	**27,825,958.34**
4. Current Liabilities & Provisions			
a. Trade & Other Payables	11	289,465.99	1,776,597.04
b. Short Term Borrowings		-	350,000.00
c. Provision	12	577,503.71	497,567.85
Total		**866,969.70**	**2,624,164.89**
5. Net Current Assets		44,304,555.62	25,201,793.45
6. Miscellaneous expenditure to the extent not written off of adjusted		-	-
TOTAL		**133,294,473.14**	**46,716,510.35**
Sources: Annual Report of Laxmi Plastic Industries FY 2063/064 to 2067/068			

The table shows that amount of capital changed by Rs. 70,00,000 with compare on fiscal year 2066/067. Reserves and retained earnings in the FY 2066/067 is 5.53 % and in the FY 2067/068 is 51.54%. It increased by 46.01%. There is Rs. 5,45,96,659.39 long term loan. Total percent of current liabilities in the FY 2066/067 is 5.62% and in the FY 2067/068 is 65%. It is decreased by 4.97% during the period.

The fixed asset in the FY 2066/067 is 46.05% and in the FY 2067/068 is 66.76%, it is increased by 20.71%. It showed that in the FY 2067/068 industry purchased the fixed assets. A total current asset in the FY 2066/067 is 59.56% and in the FY 2067/068 is 33.89%. Total current asset is decreased by 25.67% on fiscal year 2067/068.

Thus from the above analysis it can be said that Laxmi Plastic Industry has burden of long term loan and interest. Because in some extend, it has retained earning available to use if the funds needed. It can be suggested that if the industry decrease the Long term Loan by decreasing Trade & Other Receivable and inventory, it will increase the industrial profitability.

4.10 Performance Evaluation

The measurement of efficiency of a business is known as performance evaluation. It is a tool of control process. So performance reporting for internal management use is an important part of the comprehensive profit planning and control system.

Various techniques and criteria can be used to evaluate performance of business firm. As far as Laxmi Plastic Industry is concerned; it does not make performance evaluation.

This research paper uses the following evaluation techniques to measure the performance of Laxmi Plastic industry.

- Financial ratio analysis
- Identification of cost variability and cost volume profit analysis.
- Variance analysis.

4.10.1 Financial Ratio Analysis of Laxmi Plastic Industry

The relationship between two accounting figures expressed mathematically is known as a financial ratio. Ratio analysis is a process of identification of the financial strengths and weaknesses of the firm. It measures the firm’s liquidity.

Ratios may be classified into four categories:

- Liquidity ratios
- Leverage ratios
- Activity ratios
- Profitability ratios

Liquidity ratios measure the firm’s ability to meet current obligations (i.e. current liabilities), leverage ratios show the proportions of debt and equity in financing the firm's assets, activity ratios measure the firm’s efficiency in utilizing its assets in generating sales and profitability ratios measure the overall performance and effectiveness of the firm by generating profit.

The following table shows the financial ratios of the Laxmi Plastic Industry of the last years of fiscal years 2067/068. The detailed calculation is shown in appendix (IV).

Table: 4.12

Summary of Financial Ratios

Ratios	Unit	2063/064	2064/065	2065/066	2066/067	2067/068
Current Ratio	Times	1.24	1.34	3.02	10.06	52.10
Quick Ratio	Times	0.0016	0.01	0.013	0.023	38.00
Inventory Turnover Ratio	Times	1.98	3.22	4.17	5.02	6.18
Total Assets Turnover	Times	0.074	0.09	1.11	1.15	0.53
Net Profit Margin	%	2.68	4.13	4.14	4.09	4.05
Gross Profit Margin	%	23.65	16.65	21.02	22.06	24.04
Debt Equity Ratio	%	3.37	4.51	8.45	0.69	7.36

Source: Annual Report of Laxmi Plastic Industry FY 2063/064 to 2067/068

Current ratio indicates the availability of current assets in rupees for every one rupee of current liability. Generally satisfactory current ratio is 2:1. The current ratio of Sample Company is in increasing trend every year. The above table shows that the result of the five fiscal year current ratio of Laxmi Plastic Industry is highest than the standard. It is not less than one, so in general Laxmi Plastic Industry can pay its current liabilities at the time.

Quick ratios establish relationship between quick assets and current liabilities. Satisfactory quick ratio is 1:1. But the above table indicates the quick ratio of Laxmi Plastic Industry in more than the standard level only in the fiscal year 2067/068. The major cause of low quick ratio is the high amount covered by closing stock and trade and other receivable in current assets. So it can be said that quick ratio is not favorable (so much high) it means all cost of capital consumed by closing stock and trade & Other Receivable of the industry. The liquidity position of the industry is not good.

A high inventory turnover ratio is indicative of good inventory management. Because inventory turnover ratio indicates the efficiency of the firm in selling it's product. The above table shows that the inventory- turnover ratio of Laxmi Plastic is in increasing trend every year. Inventory turnover ratio of Laxmi Plastic is very low. The inventory management of the industry is not efficient.

Total assets turnover ratio shows the firm’s ability or efficiency in utilization of total assets in generating sales. Generally higher ratio is preferable which gives the result of better profitability and better utilization of total assets in generating sales. The above table indicates that assets turnover ratio is less than one except the year 2065/066 and 2066/067 so it seemed bad and it showed the industry is in low profit position but industry should try to increase this ratio by decreasing inventory, trade & Other Receivable and increasing sales.

Profitability ratio establishes a relationship between profit & sales and indicates management's efficiency in manufacturing, administrating and selling the products. The above table indicates that net profit margin & gross profit margin of the industry is in positive but quite low. The positive factor is that net profit margin is in increasing trend from the FY 2063/064 to 2065/066. If the industry thinks about utilization of capacity & reduce the administration and manufacturing expenses, it can increase its net profit margin. So this ratio is not against the industries success.

Thus it can be concluded from the above analysis that the over-all financial ratios of Laxmi Plastic Industry are not of poor character. Inventory turnover ratio, liquid ratio & profitability ratios are not so good due to inefficiency of internal management system of Laxmi Plastic.

4.10.2 Identification of Cost Variability

Ordinarily, an expenditure involved in the process of production of goods or services is termed as cost. It refers to expense or expenditure which is expressed in monetary term. Identification of variability of cost is necessary in planning and control of the cost. On the basis of behavior cost may be segregated in to three types; (a) fixed cost (b) variable cost & (c) semi-variable cost.

Fixed costs are those, which remain fixed in total amount and don't increase or decrease when the volume of production changes. But fixed cost per unit increases when volume of production decreases and vice-versa.

Variable costs are those, which increases or decreases as the production volume increases or decreases but variable cost per unit remains constant.

The semi-variable cost is mixed of fixed & variable cost. It remains constant within certain range of output, then jumps up and remain constant for another range and so on.

Most of the Nepalese manufacturing enterprise has not maintained any clear cut and specific policy about cost classification.

Laxmi Plastic Industry classifies its cost into fixed & variable portions.

The industry classifies its cost as cost of goods sold is variable cost and other costs as fixed.

Variable costs are total cost of goods sold and fixed costs are other cost which is beyond the capacity of controlling by the industry.

The following table exposes the cost variability of the industry for the fiscal year 2067/068.

Table: 4.13

Identification of Cost Variability

Based on FY 2067/068

Particulars	Nature	Amount	%
Cost of goods sold	Variable	5,41,46,135	
Total Variable cost (A)		5,41,46,135	79.16
Distribution Expenses	Fixed	23,48,629	
Administrative Expenses	Fixed	27,20,268	
Finance Cost/Expenses	Fixed	60,91,997	
Depreciation	Fixed	30,97,566	
Total Fixed Cost (B)		1,42,58,460	20.84
Total (A+B)		6,84,04,595	100

Source: Annual Report of Laxmi Plastic Industry FY 2063/064 to 2067/068

There are different types of raw materials being used in Laxmi Plastic and for these different types of labour and variable overhead are incurred. So total cost of goods sold included total of these variable expenses, which covered 79.16% of total cost and the same cost covered 0.76 of net sales. Similarly, the fixed cost occupied 20.84% at total cost and 24 % of total net sales. Due to this low fixed costs or expenses, industry is in profit. Laxmi Plastic did not adopt any specific policy while segregating costs.

4.10.3 Cost Volume Profit Analysis

Cost volume profit analysis is an analytical tool for analyzing the relationship among cost, price, profit, sales and production volume. Mainly there are three elements in cost volume profit analysis, they are: cost, sales and profit. Now a day's cost –volume profit analysis has become a popular instrument in managerial decision making, especially on cost control and profit planning. Cost volume profit analysis helps to determine minimum sales volume to avoid losses and the sales volume at which the profit (goal) of the firm will be achieved.

Cost volume profit analysis includes break-even analysis. Break even analysis is that point of production or sales volume at which total costs are equal to total revenues. It is a no profit, no-loss point. If the actual sales or production is higher than the break-even volume there will be profit. Similarly, if the actual sale (production) is less than break even sales, there will be loss.

The cost volume profit analysis of Laxmi Plastic Industry is based on the following assumptions:

a. It is based on profit and loss account of the fiscal year 2067/068.
b. Selling price, variable cost volume; fixed costs are assumed to be remained constant.
c. Assumed that cost of goods sold is variable costs.
d. Calculations are based on the total basis not the product wise.
e. The sales revenue and other data are based on the fiscal year 2067/068.

Table: 4.14

Components of CVP Analysis

Year	C.M	PV Ratio	BEP	MOS
2063/064	19,535,365.44	0.91	2809008.159	18,869,840.28
2064/065	36,230,114.37	0.94	2840015.715	35,510,704.66
2065/066	45,232,244.71	0.93	5350546.697	43,054,643.01
2066/067	51,989,881.02	0.92	6517306.961	49,987,194.28
2067/068	66,223,217.06	0.93	9892956.887	61,399,157.09

Source: Appendix-V

The above calculation shows that the components of CVP analysis i.e. contribution margin, profit volume ratio, breakeven point and margin of safety. The profit volume ratio of the company is in fluctuating trend and other variable is in increasing trend every year.

Contribution Margin is the difference between actual sales and variable cost. Higher the CM, safer the firm or better will be the profitability of the firm. Over the study period the CM is positive, it shows the better profitability position of the firm.

Profit volume ratio establishes the relationship between contribution margin and sales. The actual sale is higher than the BEP sales in each fiscal year, so it indicates that industry is running in profit.

Margin of safety is the difference between actual sales and breakeven sales. Higher the margin of safety, safer the firm or better will be the profitability of the firm. Over the study period the actual sales is greater than BE sales so, the margin of safety is positive in each year. It shows the better profitability position of the firm.

Thus the industry can increase its profit not only by increasing the sales revenue but also by reducing the total cost. Therefore, to earn more profit, Laxmi Plastic Industry Pvt. Ltd. should seriously think about minimum level of break even sales and maximum level of actual sales revenue.

4.10.4 Analysis of Variances

A variance is the difference between budgeted results and actual results. Or the deviation of the actual cost or profit or sales from the budgeted / planned cost or profit or sales is known as "variance".

If the actual cost is less than budgeted / planned cost, actual sales or profit is better than budgeted sales or profit, it is known as favorable variance. Similarly, if the actual costs is more than the budgeted cost or actual sales or profit is less than the budgeted sales or profit it is called unfavorable variance.

The favorable variance is a sign of efficiency of the organization whereas unfavorable variance is an indicator of inefficiency of the organization.

This analysis of variance is the most suitable for cost control point of view.

For analyze the variances, the following steps are essential:

a. Setting standards.
b. Measurement of performance by comparison between actual results and standard.
c. Analyzing variances.
d. Taking corrective action.

Laxmi Plastic Industry does not have well developed system of pre-determining standard regarding various sales, production, expenses and profit. Generally, it can be seen that it has ascertained the deviations between sales target & actual sales achievement, production target & actual production.

The following table states sales variance & production (yield) variances of the industry from the FY 2063/064 to 2067/068.

Table: 4.15

Laxmi Plastic Industry

Sales Variance

(Rs. In lakh)

Fiscal Year	**Budgeted Sales**	**Actual Sales**	**Variance**	**Remarks**
2063/064	240	217	23	Unfavorable
2064/065	400	384	16	Unfavorable
2065/066	500	484	16	Unfavorable
2066/067	600	565	35	Unfavorable
2067/068	740	713	27	Unfavorable

Source: Annual Report of Laxmi Plastic Industry FY 2063/064 to 2067/068

Form the above table, in all of the year the sales variances seem unfavorable. So responsible department should be held accountable for this unfavorable sales variance in Laxmi Plastic and corrective actions should be done to minimize the adverse impact of such unfavorable variances.

Table: 4.16

Laxmi Plastic Industry

Yield Variance

(Rs. In lakh)

Fiscal Year	**Budgeted Production**	**Actual Production**	**Variance**	**Remarks**
2063/064	200	172	28	Unfavorable
2064/065	500	448	52	Unfavorable
2065/066	550	495	55	Unfavorable
2066/067	600	546	54	Unfavorable
2067/068	700	660	40	Unfavorable

Source: Annual Report of Laxmi Plastic Industry FY 2063/064 to 2067/068

In the given period of analysis the yield variances of Laxmi Plastic seem unfavorable. The causes of unfavorable variance are not apparent. Therefore the industry should control these unfavorable variances by applying most effective corrective action by its respective responsibility center.

4.11 Flexible Budget

Flexible budget is a budget which is designed to change in accordance with the level of activity actually attained. Thus, flexible budget has different budgeted cost for the different level of activity. So, the ascertainment of the costs at different levels of activity is the main objective of flexible budget. Therefore, flexible budget is a useful tool for cost control, performance reporting & variance analysis.

Laxmi Plastic Industry does not prepare flexible budget. The flexible budget is necessary for Laxmi Plastic Industry because most of its products are seasonable, and changeable.

To prepare flexible budget by Laxmi Plastic, the following points are to be considered.

- Sales price per unit assumed to remain in the same ratio as it is in the FY 2067/068.
- Variable cost volume ratio of 0.76 remains constant.
- Total fixed cost of Rs. 1,42,58,460 will also remain constant.
- Flexible budget of Laxmi Plastic is prepared from 25 % to 100% capacity utilization.

Table: 4.17

Flexible Budget

For the year 2067/068

(Full Capacity Rs. 10,00,00,000)

Rs in Lakh

Particular	25%	30%	40%	50%	60%	70%	80%	90%	100%
Sales Revenue (A)	250	300	400	500	600	700	800	900	1000
Variable Cost (B) 76% of Sales	190	228	304	380	456	532	608	684	760
Contribution Margin (C) C= A-B	60	72	96	120	144	168	192	216	240
Fixed Cost (D)	143	143	143	143	143	143	143	143	143
Net Profit & (Loss) (C-D)	(83)	(71)	(47)	(23)	1	25	49	73	97

Source: Annual Report of Laxmi Plastic Industry FY 2063/064 to 2067/068

The table indicates that when Laxmi Plastic operates at 30% or more than 30% capacity utilization, there will be profit. The cause of negative figure of profit (i.e. loss) is low capacity utilization, Low productivity of plant and manpower and high fixed cost (i.e. high administrative & depreciation expenses etc.). It also indicates that if industry increases its capacity, profit will be increase.

4.12 Major Findings

The above analysis of various budgets, accounting and financial data and actual results displayed the medium financial picture of Laxmi Plastic Industry Private Limited. But industry has been suffering from number of problems in formulating and implementing profit plan. Laxmi Plastic Industry has not given priority using financial & statistical tools to evaluate performance of the industry. The industry is not running from losses but margin of profit is very low.

Major findings of research work can be presented below.

- The industry did not use long-range profit planning.
- There is deviation between budgeted & actual sales, budgeted production and actual production. Actual sales and production was very low than the budgeted sales and production.
- The industry has high administrative cost i.e. 19.07% of total fixed cost.
- The industry has no effective inventory policy. The inventory management, raw materials handling and controlling system was not systematic.
- There is no coordination among purchasing department, production & sales department.
- Production plan of Laxmi Plastic depends upon the availability of Raw Materials.
- The industry has no detailed and systematic expenses plan. Overhead expenses plan is the necessary element of profit planning and control.
- The industry does not follow the evaluation criteria (like PBP, ARR, NPV and IRR) to evaluate major capital expenditures.
- There is no systematic and effective cost control mechanism to reduce cost.
- Sales forecasting is not based on realistic ground. LPI has no practice of using statistical techniques in sales forecasting.
- The Laxmi Plastic Industry has no practice of systematic and scientific tools to be used. Sales forecasting is based in the personal judgment of top level executives.
- The profit trend of the industry is not satisfactory as compared to sales. Profit is very low.
- Only the top level executives are involved in planning and decision making but lower level participants are not encouraged.
- The industry has not practice of cash flow statement.

- Industry does not give attention for making proper marketing strategy in the today's age of competition.
- Budgeted profit & loss account and balance sheet are developed not through deeply analysis just hypothetical figure; only actual reports are prepared at the end of each fiscal year.
- Most of the ratios analyses are not considered in Laxmi Plastic while planning a profit.
- Laxmi Plastic has no practice of direct labour budget. There is no proper reward & punishment system in the industry.
- In the industry, there is no proper cost classification system; there is no practice of preparing flexible budget to analyze its performance.
- Industry has not used SWOT analysis System.
- It seems only purchase of fixed assets but there is not mentioned detailed about it.
- Cost of raw materials is paid to foreign countries in foreign currency. Some times heavy fluctuation has made on exchange rate.

CHAPTER - V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Laxmi Plastic Industry is established in 1997 A.D. It is a Pipe manufacturing industry. It manufactures HDPE pipes. All products are durable and genuine and better priced. All the products are manufactured and processed by using sophisticated equipments and machineries under appropriate environment. However it is found numbers of problems on its manufacturing process since its establishment.

Profit planning is one of the more important approaches which have been developed to facilitate effective performance of management process.

Success of any organization depends upon the effective profit planning & controlling because profit planning and controlling is an important management tool. That's why present study tried to seek and analyze the answer of extent that profit planning & control system is being followed by the Laxmi Plastic.

This study covers the period of five year FY 2063/064 to 2067/068. Most of the data is taken from 5 years analysis & some are from FY 2067/068 only. Mainly secondary data are used for this study, besides the performance has also been supplemented from the interview with the related persons of Laxmi Plastic. These data have been analyzed with the various accounting and statistical tools.

The study has been organized in five main chapters consisting introduction, review of literature, research methodology, data presentation and analysis, summary, conclusion and recommendation. In introduction there is presented introduction of Laxmi Plastic Industries Private Limited, objective of the study etc as well. In review of literature chapter there is description of terms related with profit planning and control. In the research methodology chapter there is presented methodology terms, available data & financial statements are analyzed with the help of various budgets, accounting, & statistical tools in data presentation & analysis chapter. In last chapter there is summary, conclusion & recommendation of the study. The related literatures that are viewed during the study are the reports, books, profiles, etc.

5.2 Conclusions

After analysis of sales plan & production plan it can be said that budgeted sales and production are more than actual sales and production. There is huge gap between budgeted and actual sales and production. Different statistical tools can be used for sales forecasting but in practice industry is not using it. The entire functional budget is not prepared by the industry and they are not prepared on systematic way. Correlation between actual sales and actual production is highly positive so industry must try to increase its production to increase sales.

Most of Raw material used in the industry is purchased from foreign market. So most of the purchases of the industry is using through letter of credit (LC). Industry is suffering from over stocking problems of raw materials and finished goods in each fiscal year. Over stocking increases the working capital and increase in working capital increases the opportunity cost.

Industry has no practice of developing direct labour budget. Most of the employees are relatives of top management. So it creates low productivity & lack of responsibility, rewards & punishment problems. Industry has not practice of cash budget so it is difficult to know detailed about the cash expenses & cash receipts and actual cash balance at the end.

There is not a systematic expense planning. Over heads are not classified on the basis of function and cost are not classified on the basis of behavior i.e., fixed and variable. Variable cost in fiscal year 2067/068 is 76%. Industry has not applied cost reduction techniques. It has not applied CVP analysis, flexible budgeting and ratio analysis while decision making. So there are many difficulties for planning & implementation. Actual sales are more than break even sales which indicates efficiency of the industry. Most of the ratios of Laxmi Plastic Industry indicate poor performance but net profit margin is in positive, which indicates the good future of the industry. From fiscal year 2063/064 there is increasing trend of profit. There is no loss in five years. Industry is not applying, IRR, PBP & ARR approaches while purchasing fixed assets. Competitive marketing strategy and proper distribution system have not been applied by the industry. Data recording and document keeping system of Laxmi Plastic is not scientific. So it creates problems to receive necessary information from Laxmi Plastic Industry. And at last, low productivity of plant and man power, ignorance of SWOT analysis system, lack of entrepreneurship and commercial concept, lack of co-ordination among department, lack of proper reward & punishment system, lack of experts about profit planning and control system, lack of quality raw materials, lack of appropriate market & poor political condition of the country are main problems in success of Industry.

5.3 Recommendation

Based on the analysis, findings and conclusion of the present study, the following suggestions are recommended to improve the profitability of Laxmi Plastic Industry.

- Laxmi Plastic Industry should develop systematic, scientific and realistic strategic sales plan by considering different factors affecting sales.
- All level staffs should be given opportunity to participate on decision making and planning process of the industry.
- Production budget should be developed by product-wise, and efforts should be made to keep optimum inventory and minimize carrying and production cost.

- Sales budget should be prepared on the realistic ground. While preparing sales budget, industry should consider Break-Even-Analysis.
- Material purchase budget should be prepared in detail (i.e., by time, product and cost) on the basis of production budget. Proper inventory policy should be maintained. Economic order quantity (EOQ) technique should be adopted while purchasing materials.
- Price plays vital role to increase the sales, so industry should have the competitive pricing policy according to the market condition to gain the high market share of its product.
- All departments should be delegated full authority and accountability for their work. Planning department should create new ideas for innovation of new product to the research and development department.
- Through the cost reduction and cost control policy, industry should minimize its loss. For this, industry should establish separate costing section and cost should be classified effectively into direct, indirect, fixed, variable, controllable and uncontrollable etc.
- LPI should develop proper objective through ‘SWOT’ & ’ETOP’ analysis.
- To improve the profitability, the industry should utilize its ideal capacity by introducing new product by researching new resources of raw materials.
- LPI should develop capital expenditure budget more effectively and modern evaluation technique like NPV and IRR method should be followed to evaluate major capital expenditures.
- While formulating the profit plan, cost-volume-profit analysis and flexible budget system should be seriously considered.
- There should be effective variance analysis. Variance must be categorized as favorable and unfavorable. The causes of unfavorable variances should be timely identified and effective corrective action should be done to minimize the unfavorable variance.

- Scientific accounting, recording and summarizing system and publication system should be followed to inform Industry's situation.
- Regular Monitoring and supervision are necessary to control the wastage working hour.
- The working capital management of Laxmi Plastic Industry is not effective and efficient and liquidity position is very poor. The industry should improve the liquidity position effectively by minimizing the excess majority of closing stock in current assets.
- To generate more sales and profit, industry should emphasize an efficient utilization of total resources (i.e., total assets) because total assets turnover ratio seems not good.
- The profitability position of the industry is very low due to fixed costs. So the management of LPI should maximize its profit by reducing un-necessary and excessive amount of fixed costs by adopting effective cost control technique.
- By increasing capacity of plant and advertising its product, Industry should try to export its product for external sales (i.e., to the other country).
- LPI has not practice of direct labour budget. There is not proper reward & punishment system in the industry. In the industry, there is no proper cost classification system; there is no practice of preparing flexible budget to analyze its performance.
- Industry has not used SWOT analysis System.
- At the end, planners should be trained to make profit planning & control system more progressive. LPI should adopt the comprehensive profit planning approach. And also LPI should use effective feedback mechanism to control overall activities.