Profit Planning in Manufacturing Company in Nepal

(A Case Study of Bottlers Nepal Private Limited)

A Thesis

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CHAPTER – 1

INTRODUCTION

1.1 Introduction

Nepal is an agricultural country. More than 80 percent of the Nepalese populations are primarily engaged in agriculture sector and they are depending on agriculture to fulfill their needs. Agriculture sectors alone accounts for about two thirds of total national production. People produce agricultural goods in bulk quantity but they hardly sell in the market due to lack of advertising. So they are facing many problems in selling of agriculture products.

Nepal government has operated numerous manufacturing, trading, and commercial enterprises, which are called as public enterprise. Profit planning plays greater role in the all development of all types of enterprises. So understanding of like profit planning is essential.

In profit planning, involves two aspects they are profit and planning. Profit is the primary objectives of business in view of the heavy investment which is necessary for the success of enterprises. The main aim of the firms is to maximize the profit or to maintain a specified level of profit. Profit shows the relationship between volume and cost and profit plays a key role in achieving the objectives of an organization.

Profit is the primary objectives of business in view of the heavy investment which is necessary for the success of enterprise. Profit is the excess of income over cost of production. Profit in the accounting sense tends to become long terms objectives, which measures not only the success of a product but also the development of the market for it.

Similarly planning involves anticipation of future course of action and therefore bears the elements understanding in respects of its success. A plan is pre-determined course of action to achieve a specified goal. Planning is the process of developing enterprise objectives and selecting a future course of action for accomplishing the objective, including activities necessary to translate planning to be correct current deficiencies.

In present day, profit planning is given more importance's and is regarded as a basic technique of decision making and in more important sense is regarded as a way of management and is given the name "profit planning program".

Profit planning is a sophisticated management for comprehensive profit planning, which can be established in any business endeavor by appraising the present state of accounting and management status in order to run the endeavor more efficiently in the future .Profit planning and control is an important approach, which has been developed for facilitating effective performance of management system mainly in profit oriented enterprises.

Profit planning and control are the process of management. Profit is the difference between revenue and cost. Therefore if we are planning profit and controlling the same, we have to take care of all the aspect of revenue and cost.

Profit planning and control have wide application. It can be applied both in profit making and non-profit making organization, and also both in manufacturing and non-manufacturing business.

Profit planning is a comprehensive statement of intentions expressed in financial terms, for the operation of the firm of both short and long term period. It is a plan of the firm's expectation and is used as basis for measuring the actual performance of managers and their units. The success of each enterprise in realizing its optimum profit each year will be determined by the extent to which it establishes objectives and exercise control result reach or exceeds those plan. Profit planning play significant role and public enterprises and private enterprises for regarding profit, manufacturing enterprises is taken for studying the application of Bottlers Nepal Ltd. Located at Balaju, Kathmandu.

1.2 Company profile

Bottlers Nepal Ltd. Balaju, Kathmandu is one of the manufacturing and processing company, which was established in 1979 under the company act,1964. It was initially started as a private enterprise and converted in to public enterprises in 1985 issuing shares to general public. It was established with the objectives of producing and bottling soft drinks under the brand name of coca-cola. The company also makes the sales of the soft drinks under the registered trademarks of the coca-cola managed by Singapore based F&N coca-cola pte. company Ltd. Is registered office located at Balaju, Kathmandu. The company is located at Balaju ,in area of the 10648sq meter of land and the buildings of the company covers 5823sq meter. The company has launched various types of promotional activities with financial and technical

Support from coca-cola company Singapore.

Bottlers Nepal Ltd. was converted into public company after 5 years when it was established .The amount is not invested by Nepal Government. BNL is a multinational company. So ,The coca-cola sabco (Asia)Ltd. ,a company incorporated in Dubai, UAE which holds 98.8percent shares of BNL and only 1.2 percent shares are distributed on common people. It’s established its branches in many countries like India, Singapore and Hong Kong etc. The company continues to receive support in the form of rebate on concentrate procured from the coca-cola export corporation. The company also received support from coca-cola sabco (Asia) limited, the parent on sales, marketing and technical operations.

The concept of globalization is one of the major factors which brought in the concept of multinational company. Te multinational company is establishing close relationship between each country in the world. Multinational company is being very importance to poor country like Nepal. It is supplies new technology and import huge amount of capital which is must necessary for developing country. Multinational company has been beginning at all country in the world at present situation. Many branches are established in many countries in the world.

The Bottlers Nepal Ltd. Continues to maintain its leadership in the soft drink market because of its strong market infrastructure backed of up by company's effective sales and promotional plans and consumer's performances in company's products. The company has already started distributing the product through its wholly owned company Troika Traders (P) Ltd. since 1st Jan. 2006. The result of this distribution through the MDCs is very productive .The company able to increase the market share and numeric distribution by serving the markets more effectively due to the implementation of MDC distribution model.

The irregularities in the distribution had to be corrected through organize supply and delivery system. The company was not only able to maintain quality but also provide different kinds of service to the consumers.

The success of supply management of BNL led to the addition of supply of essential commodities such as coca-cola, fanta, sprite, and processed edible to its distribution net-work. The profits received from trading activities were invested in the production of basic necessities to boost self sufficiency to accelerate economic growth, and gain public and private support. The following integrants of coca-cola can be available.

Nitration facts per 100ml

Energy	-	42 Kcal
Fat	-	0 gram
Carbohydrate	-	11

Carbonated beverage

Ingredients: carbonated water, sugar, acetated natural color and natural flavors.

At present many branch offices in over all Nepal. Their main office is situating in Balaju Industrial Area, Kathmandu. After its establishment BNL has continuously distributed qualitative coca-cola with proper price to its people, customers and its country as a whole very honesty.

Since in infancy, as a manufacture house BNL has matured in to diversified conglomerate distribution network all over the country. Its only one branches Bottlers Nepal (Terai) which is settled at Bharatpur ,Chitwan district.The one hundred three dealers through out the country , provide the people easy access to locally produced good and act as a major procurement opportunity that arise through the activities of the organization are hard to quantify as they also provide plenty of self-employment opportunities. BNL has helped to develop and boost the Nepalese entrepreneurial abilities. At present the Bottlers Nepal Ltd. Directly employ about 500 individuals all over the company.

A corporation is importing the sugar and concentrates from India and third country annually and is mixing in processing of product. Out of the total demand of coca-cola for 1 year , the coca-cola sufficient for 3 months is kept as a buffer stock by company. Because of this reason, there is no lack of goods in all over the country although many goods create lankness from time to time. The coca-cola is the seasonal drinking goods therefore, its produce on warm in huge quantity.

The Bottler group is as follows:

1. Bottlers Nepal Ltd., Balaju Industrial Area, Kathmandu
2. Bottlers Nepal (terai) Ltd., a subsidiary company, Bharatpur, Chitwan
3. Troika Traders Pvt. Ltd., a wholly owned subsidiary company
4. Coca-cola sabco (Asia) Ltd., parent company

1.3 Focus of the Study

This study focuses in evaluating the use of different types of functional budget and profit planning system for effective implementation of profit planning in BNL Company. The study describes the purpose of different kinds of budget used and it’s intended to clarify the purpose of different budget.

Generally two types of profit planning practices are stressed in an enterprise. Strategic long-rang profit plan covers the time horizon of three or more year and tactical short-range profits are made generally from coming year. Both these two profit plans are important for the successful operation of the enterprise and with the help of these two profit planning we can know the financial conditions of the enterprise.

This study focuses on the profit planning system and for the purpose of analyzing the profit planning system of BNL, following plans will be specially analyzed and these budgets are focused in this study:

a) Sales budget
b) Production budget
c) Purchase budget
d) Expenses budget
e) Cash budget
f) Capital expenditure budget
g) CVP relationships

1.4 Statement of Problem

Nepal is landlock country. Nepal is under develop country where 80 percent of the people depends on agriculture to fulfill their needs. Nepal has been trying to develop economy and poverty eliminating as well as general up-liftmen of the living standards of massage of people. So public enterprises are established in order to develop infrastructure service needed for national development , to fulfill the demand of people of the country, to increase the export opportunities, to increase government revenues, to create employment opportunities, to improve balance of trade situation, by substitution the import, to help in controlling inflation. So Nepal government is investing a huge amount every year in public enterprises [PEs]. However the PEs are found to be operating unsatisfactory and their financial position is far from satisfactory. In the context of Nepal most of manufacturing companies are suffering poor performance and loss. Therefore, they have to adopt a systematic profit planning to improve their financial performance and run on profit. Bottlers Nepal Ltd. was earning considerable amount of profit before emergency period, production capacity and production units are in increasing trend, sales are also not so poor, and still the company hasn’t been able to generate increasing percentage of profit since then.

This research paper attempts to shows the relationship between the various functional budgets, achievement and their effective application within the conceptual frame work of profit planning for solving the problems that have occurred in public enterprise.

The present study has also tried to answer the following research questions

1. What are their present and future objectives?
2. To what extent is the process of profit planning followed in BNL?
3. What are the major problems in enterprise for developing implementing profit plans?
4. Do they apply the CVP for operating at least zero profit situations?
5. What steps should be taken to improve?

1.5 Objectives of the study

The main objective of the study is to highlight the degree of application of profit planning in BNL Company. The study embodies the following objective:

- To examine the existing practice of profit planning and its effectiveness in BNL.
- To analyze the variance between plan and achievement of Bottlers Nepal Ltd.
- To know about the production and sales revenue of the company.
- To analysis the different functional budgets adopted in these enterprises.

- To mark suitable suggestions and recommendations.

1.6 Importance of the Study

This study focuses in evaluating the use of different types of functional budget and profit planning system for effective implementation of profit planning in BNL Company. The study describes the purpose of different kinds of budget used and it's intended to clarify the purpose of different budget. In the context of Nepal, most of the manufacturing companies are suffering from poor performance and financial conditions, which is not satisfactory. Most of the companies are in loss, so this study analyzes profit planning, its practicable difficulties and gives recommendations by focusing on the case study of Bottlers Nepal Ltd.

This study focuses on budgeting as a key factor in profit planning position of this kind of company. It will help specially to Bottlers Nepal Ltd. management and shareholders, government, entrepreneurs, public people, future researcher and others. Ultimately since suggestion as a find package will be made.

1.7 Limitation of the Study

This study is limited. This study belongs to BNL only to the budgeting and profit planning of BNL which are as following:

- This study is limited with the financial performance of BNL.
- This study is confined through the data of 5 years.
- The study is based on the annual report of Bottlers Nepal Ltd.

- The study is based on the secondary data available from Bottlers Nepal Ltd. and others documents, published books, booklets etc. providing from Bottlers Ltd.

1.8 Research Methodology

Research methodology is the way to solve systematically about the research problems (Wolff and Prem, 1999). Secondary data is used to fulfill the objectives of the study. The research study has followed basically a case study of profit planning and organizational effectiveness of BNL to evaluate the budgeting system in use. Therefore, the documents used in the study covers:

- Annual report of Bottlers Nepal Ltd.
- Magazine, newspapers, Booklet, Documents.
- Published Books, journal relating to Bottlers Nepal Ltd.
- Government report, Bulletin and others published statement of Bottlers Nepal Ltd.
- Previous studies made in this field.

It is based on secondary data and other information covering 5 years of Bottlers Nepal Ltd. CVP analysis, BEP analysis, mean, S.D., C.V. as tools may be used as per need. The study covers sales, production, materials labor, expenses and profit and loss of Bottlers Nepal.

This research work is however, analytical as well as exploratory depending upon the nature of issue for necessary. For this purpose data has been managed in proper form, interpretation and explanations wherever necessary.

1.9 Organization of the Study

This study has been organized in five chapters.

The first chapter is the introductory, which deals with background of the study. Bottlers Nepal Limited, statement of problems, objective of the study, importance of the study, limitation of the study and research methodology.

The second chapter deals with the review of the literature includes conceptual framework, review of journal and articles and review of previous related thesis, journals etc. with a brief profile of BNL and research gap.

In the third chapter, the research methodology employed for the study has been described. It includes introduction research design, data collection and sources, data processing procedure and tabulation, financial tools and techniques, research question and definition of key terms.

Then, the acquire data are presented and analyzed through the way given in methodology in the fourth chapter.

At last, the summary of findings, issue and constraints and some recommendation have been presented in the fifth chapter. A bibliography and appendix have also been includes in the last part of the study.

CHAPTER-2

REVIEW OF PROFIT PLANNING

2.1 General concept of profit planning

Generally speaking, planning for profit is known as profit planning. The task should be implemented according to plan. So profit planning directs the organizations towards achieving profit.

Profit planning is systematic and formalized approach of determining the effect of managements plans upon the company's profitability. In order to undertake planning for profits the financial managers makes projections of outflows and inflows of the enterprise are people, capital and materials and they are generally cost incurring factors. On the other hand , the planned outflows are products, services and social contribution that the enterprise generates. Having projected inflows and outflows the management manipulates the combinations of inflows and planned outflows so that the ultimate goal of the enterprise is reached.

Profit planning in fact is a managerial techniques and a profit plan is such a written plan , in which all aspects of business operations with respect to a definite future period are included .It is a formal statement of policy , plan , objectives and goal established by the top management in respect of gone future period. It is a predetermined detailed plan of action developed and disturbed as guide to the current operations and as a partial basis for the subsequent evaluation of performance. Thus, we can say that profit planning is a tool which may be used by the management in planning the future course of action and in controlling the actual performance. Profit planning as a decisional tool involves establishment of specific goals for the enterprise, development of long range profit plans and short range annual profit plans which are prepared after integrating sales plans, production plan , administrative expenses budget , distribution expenses budget etc. Profit planning concept is

a) Profit planning requires major planning decisions by managements.
b) Profit planning entails pervasive management controls activities ,and
c) Profit planning recognizes many of the critical behavioral implication throughout the organization.

The term comprehensive profit planning may be broadly as a systematic and formalized approach for accomplishing the planning coordination and control responsibilities of management. Especially it involves;

a) The development and application of broad and long –range objectives of the enterprise.
b) The specification of enterprise goals.
c) The specification of tactical short-range profit plan detailed by assigned responsibilities(divisions, departments, projects)
d) The development of strategic long-range profit plan in board terms.
e) The establishment of a system of periodic performance reports detailed by assigned responsibilities.
f) The development of follow up procedures.

Profit planning is a summary of overall planning process of an organization. In fact it is a managerial techniques in written form in which all aspects of business operations with respect to definite future period are included. It is a formal statement of policy, plan, objective and goal established by the top management will respect to some future period. Profit planning is deciding in advance or in the present what to achieve in the future. t comprises both the determination of a desired future and the steps to bring it about .It is a process where by companies reconcile their resources with their objectives and opportunities.

Profit planning is a part of an overall planning process and area in which financial function play major roles. “The success of each enterprise in realizing its optimum profit in each year will be determined by the extent to which it establishes objectives , develop co-ordinate plans to meet those objectives and exercise control of all facts of its activity so as to have actual result reach or exceed those planned. This entire process constitutes the budgetary planning and control program”.

The main principles and purpose of profit planning are as follows;-

-To provide a guide for management decision in adjusting plans and objectives.

-To provide a comparison of actual results with those budgeted analysis and inter operation of deviation by areas of responsibility to indicate courses of corrective action and to lead important in procedure in building future plans.

- To provide a ready basis for making forecasts during the budget period to guide management in making day to day decision.

- To provide realistic estimate of income and expenses for a period and of the financial position at the close of the period detailed by areas of the management responsibility.

- To provide a coordinated plan of action, which is designed to achieves the estimates, reflected in the budget.

Comprehensive profit planning is a new terms in the literature of business .Though it is a new term it is not a new concept in the management, other terms

, which can be used in same context, is comprehensive budgeting, managerial budgeting and simply budgeting.

2.2 Profit

Profit is the excess of income over cost of production. The expenses made on labor, raw material, interest on borrowed money, fuel and power is included in cost. The other cash terms such as salary that entrepreneurs would earn if given to others are excluded from conventional accounting profit because those opportunity cost do not appear in the book of account.

Profit is the primary measure of business success a firm or an industry is organized to make profit. Generally profit is a controversial terms and many author defined it in different ways. In simply, profit is the main objectives of every organization in the world. According to p. v. kulkarni, “profit is the primary objectives of business in view of heavy investment which is necessary for the success of most enterprise .Profit in the accounting sense trends to become a long term objectives which measure not only the success of product but also of the development market of it.”

An economist J. R Hicks defined main income as “the maximum value which he can consume during a week and steel except can consume during a week and still except can consume during a week and still expect to as well as the end of the week as he was at beginning.”

Profit is a controversial term. It is defined by Lynch and Williamson as usually, profit does not just happen, profits are managed. There are, after all, several different interpretations of the term “profit”. An economist will say that profit is the reward for entrepreneurship for risk taking. A labor leader might say that it is a measure of low efficiency labor has produced and that provides a base for negotiating a wage increase. An economist will say that profit is the reward for entrepreneurship for risk taking. A labor leader might say that it is a measure of low efficiency labor has produced and that provides a base for negotiating a wage increase. An investor will view it as gauge of the return on his or her money. An internal revenue agent might regard it as the base for determining income taxes. The accountant will define it simply as a excess of firms revenue over the expenses of producing revenue in a given fiscal period."

Profit is the fundamental factor for success for every enterprise. Similarly according to George R. Terry, "profit planning involves stream lining activities in order to get employees profit minded an to secure maximum benefit from minimum effort and expenditure. Best result seems to be obtained by accessing profit planner to investigate the entire factor affecting the profit obtained from the product. The organization, the model of operations, the pricing, the marketing or any other factor of making and selling the product that is in judgment affects profit occurring from that products, the concentration of profit efforts upon one product, and the right of the enterprise to translate needs from one group to another and to obtain concerned profit budgeting efforts are the fundamental factors that contribute the success of profit planning."

Dean Joel clearly distinguishes the views of accountants and economist about profit in as following ways. "The most important point of difference between economist and accountant approaches center around,

i) The business of costs, i.e. what should be subtracted from revenue to get profit.
ii) The treatment of capital gains and loss, and perhaps more important.
iii) The meaning of depreciation.

iv) The price level basis for valuation of assets.

A profit plan is estimation and predetermination of revenue and expenses that estimate how much income will be generated in order to meet the financial requirement. It presents a plan for spending income in a manner that does not result in a loss? It represents an overall plan of operation and covers a definite period of time and formulates the planning decision of the management.

Profit differs from return another factor in three respects:

a) profit is residual income and not contractual or certain income as in the case of other factors,
b) There are much greater fluctuation in profits than the reward of the other factors,
c) Profit may be negative aware as rent , wage and interest must always be positive -Lynch and Robert Williams define the term profits in views from management as follows:

1) An intangible expression of the goals it has set for the firm.
2) A measure of the performance towards the achievement of its goals.
3) A means of maintaining the health growth and continuity of the company.

2.3 Planning

Planning means a assessing the future making provision for it and assuming that establishing goal can be meet and acceptable home frame. Define the planning its simplest terms as the determination of anything in advance of action, it is essentially a decision making process that provides a basis economical and defective action in the future. Effective planning sets the stage for integrated action to take place, reduce the number of enforceable crises ,promotes to use of more efficient methods and provides the basis for the basis for the managerial function of control, there by assuming to cusses an organization objectives. Glenn A Welsh defines management planning as the design of a desire feature state for an entity and effective ways of bringing in about .He further explains, “A fundamental purpose of management is to provide for a feed for ward process. The concept of feed forward planning is generally recognized as the most difficult task facing the managers, and it is one on which it is very easy to procrastinate. It clearly indicated that planning is a decision making process of the highest order, it requires management time and dedication and a systematic approach. The decision made in the planning process is,

a) Anticipatory , since they are made sometimes in advance of action and
b) Interrelated, since they comprise broad groups of interdependent choice from and alternatives of the management.

Planning is the basic foundation of profit planning and plan is a projected course of action.” Planning is a technique were by the use pattern of resources is carried out.”

A planning process includes setting goals, evaluating resources forecasting by different methods and formulating a master plan. Planning depends upon the organized objectives for the planning purpose a firms objectives can distinguish mainly three types; the first-is prime, the second one is instrumental and the last one is specific. The prime objectives is the aim or end of action, an instrumental objectives are aims for accomplishment of more basis aim, for this purpose the company has establish divisional, departmental and individual job objectives. Specific objective are those objectives that have been specified as to time and magnitude, which is known as goals .So company’s objectives provide the ultimate criteria for resolving different company decisions and company objectives are the bases for long-range profit planning.

Roy. A. Gentles defined the importance of planning, as the planning process both short and long-term is the most crucial component of the whole system. It is the foundation for the other elements because it is through the planning process that we determine what we are going to do it, and which is a reason and communicates” Planning as the conscious recognition of the futurity of present decision”. Planning is the feed forward process to reduce uncertainty about the future. The planning process is based on the conviction that state of the enterprise that determines its density. So, planning is an intellectual task. Primary function of management and planning provides all managerial activities and it concept of any business organization without proper predetermined goals and objectives .Hence, it is the bold as well as heart of any organization on which makes them efficiently run towards competitive environment.

2.3.1 Types of planning

There are two types of profit plan, one strategic and other tactical. The strategic profit plan is broad and it usually encompasses three or more year in the future. The tactical plan is detailed and encompasses one-year time horizon, the up coming year. The development of tactical and strategic plan of each year in a process involves managerial decision and ideally a high level of managerial participation.

The formal portion of long-range profit plan includes following component detailed bye each year.

- Income statement
- Balance sheet
- Capital expenditure plan
- Personnel requirements
- Research plan
- Long-range market penetration plan

The distinction between strategic and tactical planning is related to three dimensions, which may be outline as follows:

Dimension chart

Types	Developed by	Time	Scope of entity activity
strategic	Top management	Long-range	Broad view of activities
Tactical or operational	All management	Short -range	Detail view of activities

2.3.1.1 Strategic long-range planning

Long range planning covers the time horizon of 5-10 years. Long range planning is one of the most difficult time span involved in planning as many problems in short-range planning can be traced to the absence of a clear sense of direction and the practices which a comprehensive long range plan provide. It is an important for present competitive and industrial age. “Long range planning is closely concerned with the concept of the corporation as a long living institution.”

Strategic planning is a top management function in which the organization’s purpose, mission and overall objectives and policies are developed to position the organization advantageously in its operating environment. It refers to the selection of company’s objectives and the determination of the growth or at least constant and competitive policies that are most likely to accomplish those objectives. It is carried out the highest policy making level of the organization will travel. According to Peter F. Drucker, long range planning has been defined as, “The continues process of making present decision systematically and with best possible knowledge of their futurity, organizing systematically the efforts needed to carry out these decision and measuring the result of these decision against the expectation through organized , systematic feedback.”

Strategic planning does not predict the future, but for a manager, it can

- Assist in coping effectively with future contingencies
- Provide an early opportunity to correct inevitable mistakes
- Help in making decision about the right things at the right time and
- Focus on what action to take in order to shape the future as desired.

The planner most includes the following factors in his plan from the analysis of available information;

a) Probable future opportunity
b) Uncertainty and
c) Challenges

Strategic planning is a particular business function, which is higher and more general management function. It is the focal point of long range planning.

2.3.1.2 Tactical short-range planning

A tactical planning is done at all levels and involves directing the activities to achieve overall strategic objectives consistent with the organization's mission and policies. Standing plans provides consistency and efficiency for on going operations and single use plans are developed for unique situation.

Tactical planning to support strategic planning provides a charter as it related to the future of an enterprise. By means of strategic and tactical planning, it is possible for employees to understand the various activities of the enterprise and how their individual jobs relate to the overall objectives, growth direction and profitability of the firm. According to Z. and O. Donnel, "The short range planning is selected to confirm to fiscal quarters or years. Because of the practical needed for conforming plans to accounting periods and the some what arbitrary limitation of the long-range to three to five years is usually based as has been indicated on the prevailing belief that the degree of uncertainty over long period makes planning of questionable value."

Short term planning is a limited time dimension usually it covers one year time period. A short term plans, covers about a year, and are less formal and detailed than long range plans, which usually covers more than three months. It is used by management as a substantial parts of long-range and medium range planning.

The short-run plan is synonymous with the classical budgetary period of one year. The short range planning is made after a freeze is taken on the consideration of possible alternative course of action. Such courses are outlines for the medium range plan, which does not concern implementation. Its aims is weeding out a plethora of possibilities which are for the most part long on premises and short on feasible, tangible result.

2.4 Purpose of profit planning

A comprehensive profit planning and controlling is a systematic and formularized approach for stating and communicating the firm's expectation and accomplishing management function in such a way to maximize benefit from the resources available to an organization over a particular span of time. It serves as a tool for management control. The major objective of profit planning and control is to assist in systematic planning and in controlling the operations of the enterprise. In fact, It is the best sources of communication and an important tool in the hand of management. The purpose of budgeting or profit planning and control may be summarized as follows;

a) To state the firms expectation (goal) in formal terms clearly to avoid confusion and facilitate their attainability.
b) To communicate expectation to all concerned with the management to the firm so that they are understood, supported and implemented.
c) To provide a detailed plan of action for reducing uncertainty and for its proper direction of individual and group efforts to achieve goals.
d) To provide a realistic estimate of income, and expenses for a period and of the financial position at the close of the period, detailed by areas of management responsibility.
e) To co-ordinate the activities and efforts in such a way that the use of resources is maximized. It provides coordinated plan of action, which is designed to achieve the result the estimate reflected in the budget.
f) To provide a comparison of results with those budgeted and an analysis and interpretation of deviation by areas of responsibilities to indicate

course of corrective action and to lead to improvement in building future plans are expected.

g) To provide a guide for management decision in adjusting plans and objective as conditions change,

Glenn A. Welsh summarized the broad concept of profit planning in short form as "the profit planning and control means the development and acceptance of objectives and goals and moving an organization efficiently to achieve the objective and goals." Other terms used in the same context of comprehensive profit planning and control are; business budgeting, managerial budgeting and budgeting.

2.5 Importance of profit planning

As regards the terms budget it can be visualized as the end result of the budgeting. If budgeting is the procedure for preparing plan in respect of future financial requirements, the plan when presented in written form is called budget. Budgeting in fact is managerial technique and a business budget is such written plans in which all aspect of business operates with respect to a definite future period are included. It is a formal statement of policy plan objective and goal established by the top management in respect for the future periods.

The following main importance is usually given for profit planning.

1) It forces early consideration of basic policies.
2) It requires adequate and sound organizational structure that must be a definite assignment of responsibility for each function of the enterprise.
3) It compels all members of management from the top to bottom, to participate in the establishment of goals and plans.

4) It compels departmental managers to make plans on harmony with the plans of other departments and the entire enterprise.
5) It requires the management to put down in figures what is necessary for satisfactory performance.
6) It requires adequate and appropriate historical accounting data.
7) It compels management to plan for the most economical use of the labor, material and capital.
8) It instills at all levels of management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decisions.
9) It reduces cost by increasing the span of control because fewer supervisors are needed.
10) It pinpoints efficiency and inefficiency.

11) It tends to remove the cloud of uncertainty that exists in many organizations especially among lower level of management, relative to basic policies and enterprise objectives.

12) It frees executive's from day to day internal problems through predetermined policies and clear-cut authority relationships. It thereby provides more executive time for planning and creative thinking.

13) It promotes understanding among members of management of their co-workers problems.

14) It forces management to give adequate attention to the effects of general business conditions.

15) It forces a periodic self-analysis of the company.

16) It aids in obtaining bank credit. Banks commonly required a projection of future operations and cash flows to supports large loans.

17) It checks progress or lack of progress towards the objectives of the enterprises.

18) It forces recognition and corrective action (including rewards).

19) Its rewards high performance and seeks to correct unfavorable performance.

20) It forces management to consider expected future trends and conditions.

2.6 The fundamentals of PPC

Comprehensively profit planning and control is one of the more important approaches that have been developed to facilitate effective performance of the management process. The concepts and techniques of profit planning and control have wide application in individual business enterprises, government units, charitable organizations and virtually all groups' endeavors. The concept of the profit planning and control process is frequently minimized or completely over looked in much of the literature and discussion the subject.

1) The mechanism of the profit planning and control: It includes the matter related to design of budget schedules, clerical computation of such schedules and routine computation.
2) The techniques of profit planning and control: Those approaches and methods of developing information for managerial use in the process of decision making. The techniques are many varying from the simple to the sophisticated.

3) Fundamentals of profit planning and control: The fundamentals are concern with effective application of the theory at management process, responsibility considerable management, organization activities and approaches necessary for proficient and sophisticated application comprehensive profit planning and control. Following are the some of the important fundamental of profit planning and control.

2.6.1 Managerial involvement and commitment and top management support

Managerial involvement entails managerial support, confidence participation and performance orientation. In order to engage competently in comprehensive profit planning and control all level of management, especially top management must 1) understand the nature and characteristics of profit planning and control,2) Be convinced that this particulars approaches to managing is to devote the effort require to make it operative 3) support the program all its planning process as performance commitments. For a comprehensive profit planning and control program each member of management, starting from the president, the impetus and direction must come from the very top.

2.6.2 Organizational adaptation

A profit planning and control program must rest upon sound organizational structure for the enterprise and a clear cut designation of lines of authority and responsibilities. The purpose of organizational structure and the assignment of authority is to established a framework within which enterprise objective may be attained in co-ordinate and effective way on a continuing basis. The scope and interrelationship of the responsibilities of each individual manager are specified. To increase management and operational efficiency, particularly all enterprises, except perhaps the very smallest ones, should be structurally disaggregated in to organizational sub units.

Normally organizational involvement includes the following:

- Delegation of authority and responsibility to each functional sub units.
- Sub-divides the whole organization into different functional sub units.
- Each sub units should prepare in one periodic plan.
- Based upon plan prepared by sub-units is to be prepared by higher management.

For easy and effective controls sometime the organizational structure are different functional sub-units. Those sub-units are known as responsibility center. In most of the cases those centers are used to be functional areas as follows:

i) Cost center

ii) Profit center

iii) Investment center

2.6.3 Responsibility accounting

Profit planning and control require responsibility accounting systems that is, one tailored to organizational responsibilities, within this primary accounting structure, secondary classification of costs, revenues and other relevant financial data may use to meet of the enterprise. So for this, reason accounting system of any enterprises should be build around the responsibility structure of organization or functional sub-units. This is called responsibility accounting.

A responsibility accounting system can be designed and implemented on a relevant basis regardless of the other features of the accounting systems, standard cost system, direct costing systems and so on. When the accounting system is established on a responsibility basis the historical data generated become especially pertinent for planning purpose.

2.6.4 Effective communication

Communication can be defined as “an interchange of thought or information to bring about a mutual understanding between two or more parties.”

“Communication is a necessary activity in all facts of management. Communication can be broadly defined as an interchange of thought or information to bring about mutual understanding between two or more parties. All communication involves a sender a massage and receiver communication may be through the line bring together the human element in a managerial decisions and leadership are accounted by communications.” So communication is needed for both the feed forward and feedback process which are most important for operation of any organization role of communication can be justified in all aspect of management. It is needed either for decision making or for supervision or evaluation. Flows of information must be adequate in all side.

There must be three primary information in an entity downward upward and laterally in the organization. Knots and Donel list the following barriers to effective communication.

-Badly express massage

- Faulty transition

- Loss by transmission and poor retention

- In attention

- Unqualified assumption

- Premature evaluation

- Failure to communication

To have effective communication for comprehensive profit planning and control both parties related with the planning activities well-defined objectives, specification of goals, development of profit plans and reporting and follow-up activities related to performances evaluation for each responsibility center.

2.6.5 An outline of the fundamental concept of PPC

1) A management process that includes planning, organizing staffing, leading and controlling.
2) A management commitment to effective management participation by all levels in the entity.
3) An organization structure that clearly specifies assignment of management authority and responsibility at all organization levels.
4) A management control process.
5) A management planning process.
6) A strategic [Long- range] profit plan.
7) A tactical [short- range] profit plan.
8) A behavioral management program.
9) A continuous and consistent co-ordination of all the management function.

10) A responsibility accounting system.
11) A continuous feed forward feedback, follow-up and re-planning through defined communication channel
12) A behavioral management program.

2.6.6 Realistic expectation

In profit planning, management must be realistic and avoid either undue conservation or irrationally optimistic. The care with which budget goals are set for such items are sales, product levels, cost, capital expenditures, cash flow, and productivity determines the usefulness of profit planning program. For profit planning purpose enterprise objectives and specific budget goals, should represent realistic expectations it must be related

a) To their specific time dimension.
b) To an assumed external and internal environment that will prevail during that time span with in these two constraints realistic expectation should assume a high level of overall efficiency, however the objectives and goals should be attainable.

Before preparing concept of profit planning and control program management have to take a good care that the goal or objectives which is going to be determined neither should be low nor would be too high but should be attainable with high level of efficiency. Because former case destroys motivation and a later case discourage the implementer. But the good, which will be challenging nature, will be of real value and will keep organization alert, which is the main objective of the realistic expectation.

2.6.7 Time Dimension

Effective implementation of profit planning concept requires that the management of enterprise establish the definite time dimension for certain types of decision. In viewing time dimension perspectives in managerial planning, a clear cut distention should be made between historical consideration and future consideration. Project plan is done on the basis of degree of activities, where as the periodic plan needs evaluation on the basis of calendar year, month and days. For periodic plan, period reports are prepared and on the basis of time will be done it needed. Periodic planning directly represents a cross-sectional focus by time on income determination and periodic performance. Periodic plans are of short and long two categories. In conclusion, we can take the version of welsch as the concept of comprehensive profit planning and control encompasses a systematic and integrated approach to project planning to tactical planning, and to strategic planning. The time dimension should be unique to the enterprise and should be design to feet its particular needs and characteristics.

2.6.8 Management control in PPC

The fundamental purpose of management planning is to provide a feed forward process for operation and for control.

The primary purpose of control is to ensure attainment of the objective, goals and standards of the enterprise. Control has many facts, such as direct observation, oral expression narrative memoranda, policies and procedures, reports of actual results and performance reports. Comprehensive profit planning and control focuses on performance reporting and evaluation of performance to determine the both high and low performance.

2.6.9 Activity Based Costing

Responsibility accounting system generally accumulates cost by department and product costing system associates costs with units of product or service organization also frequently find useful to associates cost with activities. By discomposing an organization production process into a discrete set of activities, and then associating costs with of those activities management is in a better position to determine the costs and benefits of continuing, the activities moreover, by systematically identifying the activities, through out the organization mangers can identify redundant activities.

2.6.10 Zero-Based Budgeting

Under zero-based budgeting every budget is constructed on the premise that every activity in the budget must be justified. Private and government units both have used zero-base budgeting. In zero base budgeting there are no givens. In starts with the basis premises that the budget for the next year is zero and that every expenditure new and old must be justified on the basis of its cost and benefits.

Zero-based is not a magic formula, but an attitude, woven into a structure analytical process. As most administrators known, the usual approach to budgeting is to being with the present level of operation and spending and them carefully justify the new programs or additional expenditures desired for next year. In zero-based budgeting there are no “given” it starts with the basis premise that the budget for a next year is zero and the every expenditure, old and new must be justified on the basis of its cost and benefits.

2.6.11 Flexible Application

Profit planning and control program or any other management technique should not dominate management slowly. Any of such techniques of management must be flexible, not rigid, because there are the techniques or means only not the end of the management itself. Because the main end or aim of the management is to utilize the resources in the most effective way and earn high return on investment and for this purpose comprehensive profit planning and control or other techniques are used as means only.

To cost control, the principal of flexible is especially important. Expenses and cost budget must not be used and interpreted rigidly, the budget must not prevent the making of rational decision in respect to expenses merely because and expenditure was anticipated. Flexible expenses budgets frequently are employed to meet one of the problems of cost control arising from a change in circumstance.

2.7 Limitation of profit planning

The following main limitations are usually given against profit planning and control.

a) It is difficult, if not impossible, to estimate revenues and expenses in the company realistically.

b) The management has no interest in the entire estimates and schedules. Strictly informal system is better and works well.

c) It is not realistic to write out and distribute goals, policies and guidelines to all the supervisors.

d) Budgeting places a great demand on management time, especially to revise budgets constantly. Too much paper works is required.

e) It takes away management flexibility.

f) It creates all kinds of behavioral problems.

g) It places the management in a strait jacket.

h) It adds level if complexity that is not needed.

i) It is too costly aside from management time.

j) The managers, supervisors and other employee hate budgets.

2.8 Development of profit plan

For the development of sound profit planning certain steps that an enterprise should take to establish as the foundations.

These steps are as follows:

i) Top management commitment and understanding.

ii) Identification and evaluation of enterprises characteristics and environmental factors controllable and non controllable.

iii) Evaluation of organizational structure.

iv) Organism of accounting system in such a way that provided data should be particularly useful for planning.

v) A policy determination must be made about the time dimensions to be used for profit planning purpose.

vi) A program of budgeting should be developed to inform management at all level about

- The purpose of program

- The manner in which it will operate, including the basic management policies and guidelines for its administration
- The responsibility of each level of management in the program and
- A way in which the program can facilitate the performance of each mangers functions.

2.8.1 Sales Budget/Plan

The sales planning process is a necessary part of profit planning because

a) It profits for the basic management decision about marketing
b) Based on these decisions it is an organized approaches for developing a comprehensive sales plan. If the sales plan is not realistic, most if not all of other parts of the overall profit plan also are not realistic.

In most cases sales budget is not only the most important but also the most difficult to prepare. It forecasts what the business and can responsibly except to sale to its customers during the budget period. Including with in its fold both the sales quantity as well as sales revenues, sales budget represents the income side of the planning budget. According to R. M. lynch "all budget planning began with the forecast of sales, using the information supplied by sales persons."

A comprehensive sales planning includes strategic and tactical sales plan. A sales plan includes the following components: management guidelines, sales forecasts, relevant information and plan of marketing, advertising and distribution expenses.

The sales forecast is translated in to a sales budget, which is usually broken down by product line, reasons customers and sales man. The actual sales are then accumulated in the same way and are compared with the budget classification. This refinement of the budget makes it possible for management to control the individual parts of its operation.

Sales budget forms the fundamental basis for other functional budgets and it is needed to co-ordinate the production function with expected demand for a particular product. The preparation of sales budget requires forecast of quantity to be sold and also the slandered price at which these quantities may be sold. The sales plan is the foundation for periodic planning in the firm because particularly all other enterprise planning is built on it. The primary source of cash is sales. The capital addition needed the amount of expenses to be planned, the manpower requirement, the production level and other important operational aspects depend on the volume of sales. Therefore the sales plan must be realistic.

The sales plan has three distinct parts:

a) The planned volume of sales at the planned sales price per unit for each product.
b) The sales promotional plan
c) The sales expenses plan.

The primary purposes of sales plan or budget are:

a) To reduce uncertainty about future revenues.
b) To incorporate management judgment and decision in to the planning process.
c) To provide necessary information for developing other elements of a comprehensive profit plan and
d) To facilitate management control of sale activities.

2.8.1.1 Strategic sales plan

Usually strategic sales plan covers the time period of 5 to 10 years. It is to be developed as annual amount. “The strategic long term sale plans usually involve in depth analysis of future market potential, which may be built up from a basic foundation such as population changes state of the economy, industry projections and finally company objectives. Long term managerial strategies would effect such areas of long term pricing, policies development of new products and innovation of new products, new direction in marketing efforts, expansion or change in distribution channels and cost pattern.

2.8.1.2 Tactical sales plan

Tactical short term sales plan are usually developed in terms of physical units and in sales or service amounts it must also be structure by marketing responsibility for planning and control process. Short term sales plan may involve the application of technical analysis; however managerial judgment lays a large art in their determination. The amount of detail in a tactical sale plan is a function of the company environment and characteristics. Short range sales plan includes considerable detail where as a long range sales plan should be in broad terms.

Short term sales plan is be developed for short term period in a company for future twelve months detail by months and quarters. To established policy about detailed in short range sales plan the main questions used the result.

2.8.1.3 Methods of projecting sales

There are various methods:

1) Judgmental methods:

a) Sales force composite (maximum participation)

b) Sales division’s supervisors composite (participation limited to management)

c) Executive opinion, decision and participation (limited to management)

2) Statistical methods:

a) Economic rhythm method
b) Cyclical historical analogy
c) Cross out method

3) Special purpose methods:

Industry method

a) Product line analysis
b) End-use analysis

4) Combination of method

2.8.2 Production budget/plan

Production plan is prepared after the sales budget. It is based on the sales forecasts. The primarily production budget is prepared simultaneously with preliminary sales budget. When tentative sales plan is completed the next step in building the short range profit plan manufacturing company is development of production plans. The personnel complying of the production budget will assume a pattern of demand for the finished product. Normally, this pattern will be based on previous requirements of the selling departments though major alternations in sales policy will also be taking into account.

The production budget can be represented in following way:

Production requirements = Sales volume +- finished goods inventory change

The production budget specifies the planned quantity of goods to be manufactured during the first step to establish policies for inventory levels. The next step is to plan the total quantity of each product that is to schedule this production budget period. Third step is to schedule this production by interim periods. The production budget is phrased primarily in physical terms unit of output, labor hours and material requirements.

Annual plans for production costs, purchase, manpower and cost of goods sold are all derived from the physical production budget which determines the actual production level by taking into account deviation for plan sales in inventory levels. More over, normal loss in many process industries has to be calculated in estimating production requirements.

2.8.2.1 Developing the production plan

Production managers must translate the quantities in the sales budget in to unit production requirements for the budget period for each product while considering management inventory policies. Because the production plan is developed prior to the end of the current year, the beginning inventory for the budget period must be estimated. The estimate is based on the status of the inventory at the data the budget is being prepared and it is adjusted for planned operation for the balance of the current year.

When the budgeted production for the budget period has been determined, the next problem is prorating this production by interim periods during the budget year. Interim production must be planned to 1) provide sufficient goods to meet interim sales requirements, 2) keep interim inventory levels within policy constraints and 3) manufacture the goods as economically as possible. These three objectives may not always be in complete harmony. An efficient production plan should represent the optimum coordination between sales requirements, essential inventory levels, and stable production levels.

The objectives of production budget or plan are:

a) To bring to a common focus all the factors necessary to establish policies and to determine operations.
b) To project these established policies into the future by an analysis past performance.
c) To plan and control the operation being carried out to implement policies decided upon.
d) To make prevision for material at right time and place.
e) To plan the sequence of operation required for economical production.
f) To co-ordinate the various aspects of factory operation as to make them a vital link in the chain of profitable programs.

2.8.2.2 Planned production

Mathematically, we can present production budget as under:

Planned sales unit	xxx

Add: Desired ending inventory	xxx
Total requirements	xxx
Less: Beginning inventory (of finished goods)	xxx
Planned production for year	xxx

2.8.3 Material budget/plan

Raw materials that are to be processed for conversion into finished products are shown in this budget. It will show the units or quantities of different materials to be issued to production centers during the budget period from stores. It may also contain information regarding levels of stocks of raw materials and their estimated price. This will ensure the purchase of right quantity and quality of material.

A comprehensive profit planning and control program includes planning and controlling raw materials and components use in the manufacturing of finished products. When the production budget is finished, a purchased budget can be prepared. A purchase budget on a monthly or quarterly basis, some firms, even prepare if on a weekly basis. Direct materials as the material represent a manufacturing cost, and the parts utilized directly in the manufactures of finished goods. The direct materials budget reflect the estimated amount of materials required to produce the number of units of finished goods called for in the production budged, i.e. the number of units of each type of materials required to manufacture each units of finished goods.

The materials budget includes only the quantities (not cost) of direct materials, factory supplies, and indirect materials that are included in the manufacturing or factory overhead budget. The budgeted quantities of each raw materials and part needed for each finished product must be specified in the materials and parts budget by interim periods (months and quarters) and by responsibility centers. The product, interim period and responsibility centers classification should follow the pattern used in the sales and production plans. The basis (estimated) inputs required to develop the direct materials and parts budget are 1) volume of output planned (from the production plan) and 2) standard usage rates by type of raw material and part for each finished product. Material usage rates are applied to the production data (from the production plan) to develop the materials and part budget.

Required unit of materials = Production unit x required unit of materials for each unit of production + closing stock of materials

Materials and parts budget:

This budget specifies the planned quantities of each raw material by time, by product and by using responsibility.

Materials purchase budget:

The materials budget specifies the quantities and timing of each raw material needed therefore a plan for material purchases must be developed. This budget specifies the estimated quantities to be purchased, and the estimated cost for each raw material and the required delivery dates.

Material inventory budget:

This budget reports the planned levels of raw material inventory interim of quantities and cost. The difference in units between material budget and the purchase budget is reflected as increase or decrease in the inventory budget.

Cost of material used budget:

` This budget reports the estimated cost of the materials planned for in the materials budget. Observed that the material budget can not be cost until the planned cost of purchase.

The objectives served by the direct materials budget are:

a) To give information regarding the stock position.
b) To enable estimates to be made of the total quantity of all materials required for production.
c) To arrive at the cost of the various raw materials.
d) To provide the purchasing department with the date for formulating purchase program.

2.8.3.1Purchasing policy in developing material plan

In developing the policy with respect to purchase and inventory the basic two questions should be answered.

a) How much to purchase at time?
b) When to purchase?

The 1st question is determined by economic order quantity (EOQ).

EOQ can be calculated by using following formula:

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

Where, A = Annual quantity requirement units.

O = Average annual ordering cost.

C = Annual carrying cost.

The 2nd question, when to purchase is determined by reorder point. The reorder point is reached when the inventory level is equal to the quantity needed to sustain production for a period equal to the time to reorder and receive the replenishments. It is also desirable to include a safety stock to accommodate unusual fluctuations in uses and replenishment time.

Re-order time = Replacement stock + Safety stock

2.8.3.2 Materials and parts inventory policies:

The timing of purchase will depend on inventory policies. The primary consideration in setting inventory policies for materials and parts are:

a) Timing and quantity of manufacturing needs.
b) Economics in purchasing through quantity discounts.
c) Availability of materials and parts.

d) Lead time(order and delivery)
e) Perish ability of materials and parts.
f) Storage facility needed
g) Capital requirement to finance in inventory
h) Cost of storage
i) Expected changes in the cost of material and parts
j) Projection against in shortage
k) Risk involved in inventories
l) Opportunities cost

2.8.3.3 Planned material purchase

Mathematically, we can present production budget as under:

	Required units of material	xxx
Add:	Closing stock	xxx
Less:	Opening stock	xxx
	Required material purchase unit	xxx

2.8.4 Planning of direct labor plan

"Direct labor budget is a subsidiary to production cost budget and is liked with production budget. It is an estimate of the cost of direct engaged or to be engaged during budget period. It incorporates the estimated remuneration payable to workers on the basis of their employment, which may be on tome basis rates system."

This budget gives an estimate of the requirements of direct labor essential to meet the production target. Planning and controlling labor costs involve major and complex problems areas: (i) Personnel need (ii) Recruitment (iii) Training (iv)Job description and evaluation (v) Performance measurement (vi) Union negotiation and (vii) Wage and salary administration. Each of these problems may dominate in various situations. A comprehensive profit planning and control program should incorporate appropriate approaches applicable to each problem area. A profit planning and control program can not resolve special personnel problems but it directs careful consideration to them and aids in placing them in perspective. Effective planning and control of long term labor costs will benefit both the company and its employees. "The direct labor budget includes the planned direct labor requirements necessary to produce the types and quantities of outputs planned in the production budget."

The primary reasons for using a separate direct labor budget are to provide planning data about the amount of direct labor required, number of direct labor employees needed, labor cost of each product unit, and cash flow requirements. Another purpose of the direct labor budget is to establish a basis for control of direct labor.

2.8.4.1 Approaches in planning direct labor costs

The approaches used to develop the direct labor budget depends primarily on the 1) method of wages payment 2) type of production processes involved 3) Availability of standard labor time, and 4) Adequacy of the cost accounting records relating to direct labor cost.

Basically, three approaches are used to develop the direct labor budget:

1) Estimate the standard direct labor hours required for each unit of each product, then estimate the average wage rates by department, cost center or operation.
2) Estimate ratios of direct labor cost to some measure of output that can be planned realistically.
3) Develop personnel tables by enumerating personnel requirements (including costs) for direct labor in each responsibility center.

2.8.4.2 Objective of direct labor budget

a) To access labor require requirement
b) To prepare manpower planning
c) To estimate per unit labor cost
d) To estimate cash requirement
e) To give information for cash budget
f) To control the labor budget

2.8.4.3 Planning of direct labor hour:

Internal conditions will determine whether it is feasible to related planned production in a producing department to direct labor hours. Similarly, internal factors may indicate the most practical approach to use for planning direct labor hours.

An important function of industrial engineers is to develop standard labor time for various operation and products. In some producing departments reliable time standards can be developed. In some cases, it is impractical to estimate direct labor time except interim of average based on experience.

The labor time required manufacturing the products could be estimated from standards that have been or from records of past performance. In either event, adjustment will most likely have to make. New production methods may bring about saving in labor time, thus making past records of performance absolute. Some allowance will also haven to be made for idle time, set up time and other expected variation from the standard in setting up a budget of total labor hours. Labor hour will be broken down by pay classification with estimated rates being applied by job in labor contracts, with provisions being made for adjustment in pay under circumstances.

2.8.5 Expenses budget

Expenses planning and controlling is not reduction of cost but it mean better utilization of limited resources. Expenses planning and controlling should focus on the relationship between expenditure and benefits derived from those expenditure. Therefore, expenses planning and controlling is necessary to obtain enterprises goals. When expenses budget are viewed in relation to changes in output there are three distinct expenses:

1) Fixed expenses:

Those expenses those are constant in total from month to month within relevant range of output and given set of conditions. For example salary, property taxed, insurance, depreciation.

2) Variable expenses:

Those expenses that change in total directly with changes in output or volume of work done. For example, direct material, direct labor etc.

3) Semi variable expenses:

Those expenses that is neither fixed nor variable. Semi expenses change in the same direction as output change but not in proportion to the change in output.

Expenses budget are classified into three types:

2.8.5.1 Planning Manufacturing or Factory overhead budget

Manufacturing overhead is that part of total production cost not directly identified with specific products or jobs, Manufacturing overhead consists of 1) Indirect material, 2) Indirect labor (including salaries), 3) All other miscellaneous factory expenses, such as taxes, insurance, depreciation, supplies, utilizes and repairs. Manufacturing overhead includes many dissimilar expenses; therefore, it causes problems in the allocation of these costs to products. Since there are many different types of expenses, control responsibility is often diffused. There are two distinct types of responsibility centers (e.g. department) in most manufacturing companies producing and services. Producing departments are those manufacturing departments that work directly on the products manufactured. Service department do not work on the products directly, but rather they furnish service to the producing departments and to other service departments.

Selecting the activity base:

The following measures of output (activity base) for two basis types of factory departments are frequently used:

1) Producing department:

a) Unit of output (if only one kind of output)

b) Direct labor hours

c) Direct machine hours

d) Direct labor dollars

e) Raw material units consume

f) Process time

2) Service departments:

a) Repair and maintenance---------- direct repair hours

b) Power departments------------- kilowatt hours delivered

c) Purchases departments--------- net purchase dollars

d) General factor administration------- total direct labor hours or number of employees in the factory.

The selection of an appropriate activity base for each department is a responsibility of the factory manager in co-operation with the controller and the budget manger. We can calculate the manufacturing overhead using the following simple formula.

Manufacturing overhead

	Prime cost	xxx
Add:	Indirect materials	xxx
Add:	Indirect labor	xxx
Add:	Indirect expenses of factory	xxx
	Total manufacturing overhead	xxxx

2.8.5.2 Planning distribution & selling expenses

Distribution expenses includes all cost related to selling, distribution and delivery of products to customers. In many companies, this cost is a significant percentage of total expenses. The two primary aspects of planning distribution expenses are as follows:

a) planning and co-ordination
b) Control of distribution expenses

The cost of distribution, selling and promoting the products or in other word the selling costs are budged in much the same way as the manufacturing cost. Although selling costs are not included as part product cost, they are frequently broken down by lines of products, sale regions, customer's sales man or other significant unit basis. Analysis reveal that it costs too much to sell a certain products or that it costs too much to sell a certain products or that the company would do better by concentrates on particular customer group. Promotional expenses and shipping expenses are depending upon sales and distribution but they are also influenced by other factors.

2.8.5.3 Planning administrative expenses:

All those expenses other than manufacturing overhead and distribution expenses are administrative expenses. This budget covers the expenses incurred in farming policies, direction the organization and controlling the business operations. In other word the budget provides on estimate of the expenses of central office and of management salaries. They are incurred in the responsibility centers that provide supervision of and service to all function of the enterprises, rather than in the performance of any one function. Because large portions of administrative expenses are fixed rather than variables the notion persists that they can not be controlled. Aside from certain top management salaries, most administrative expenses are determined by management decisions.

Each administrative expense should be directly identified with a responsibility center, and the center manager should be responsible for planning and controlling the expenses. This fundamental of expenses control is especially important for administrative costs because there is often a failure to pinpoint responsibility for expenses of a general nature. For this and other reasons, many companies have found it helpful to apply the fixed-variables expenses concept to administrative expenses.

2.8.6 Capital expenditure budget:

Capital expenditure includes all those expenditure, which are expected to produce benefits to the firm over more than one year and encompasses both tangible and intangible assets. In practice, most sample companies follow the traditional definition, covering only expenditure in tangible fixed assets.

Capital budgeting consisting in planning for development an available capital for the purpose of maximizing the long term profitability (return of investment) of the firm. The term capital budgeting contains two words, “capital” the relatively scarce, non human resources of productivity enterprises and “budgeting” the detailed quantified planning which guides the future activities of the enterprises towards the achievement of its goal, capital budgeting then consists in planning the development of available capital for the purpose of maximizing long-term profitability of the firm.

“Capital budgeting involves the planning and control of expenditure. It is the process of deciding whether or not commits resources to a particular long term project whose benefit are to be realizing over a period of time, longer than one year.”

“Capital project are those that are expected to generate returns for more than one year. Capital budget refers to the process of planning capital project raising funds, and efficiently allocating resources to those capital projects.”

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 requirement as specified in the production budget. The budget is prepared after taking into consideration the available production capacities, probable reallocation of the existing assets and possible improvement in production techniques. Separate budgets may prepare for different items of fixed assets such as plant and equipment budget, building budget etc. The capital expenditure budget is an important budget providing for the acquisition of assets, necessitated by the following factors.

a) Replacement of existing assets.
b) Purchase of additional assets to meet a proposed increase in production due to increase in demand.
c) Purchase of additional assets because of starting up of new lines of production.
d) Installation of an improved type of machinery so as to reduce cost of production.

2.8.6.1 Methods of measuring the economic value of capital expenditures:

Capital expenditure decision is related with the selection of one alternative form the competing capital expenditure alternatives by the management. Such decision focuses mainly in two pints.

a) investment decisions selecting the best alternatives based on their economic worth and
b) Financial decisions based on the amounts and sources of funds needed to pay for the selected alternatives.

There are several methods available for making such comparisons. The following methods are popular for evaluating proposals.

1) Simple and Traditional Methods:

a) Payback period:

This method computes the number of years required to recover the cash investment from the cash inflows generated from the project. It does not consider the time value of money. The payback period should be computed by dividing the initial cash outflow by the annual returns. We should accept the capital expenditure decision of lower length of payback period and reject the decision of higher length of payback period. The payback period method is the most widely used. Perhaps most effective application of the method is as a rough test of to determine whether for the investigation is warranted. It is used when; i) Quick information or an estimate about investment worth is desired, ii) Precision is not crucial iii) A large number of proposals are to be screened on a preliminary basis, iv) cash and credit are difficult to get and v) The risk is high or the future potential beyond the payback period are difficult to assess.

*Incase of even earning (PB) = $\frac{I}{CF_A}$

Where, PB = payback period

I = initial outlay/ project cost/investment

CF_A = annual cash flow

* Incase of uneven earning (PB) = $N_{F-1} + \frac{I_F}{CF_A}$

Where, N_{F-1} = year before full recover of investment

I_F = un-recovered cost at the beginning of the year of full recovery of investment.

CF_A = Total cash flow during the year of full Recovery of investment

b) Average rate of return method:

The average rate of return on total investment method is one variation of what sometime is called the accounting rate of return. One of these variation is based only on accrual-based revenues and cash cost, which is not cash, basis analysis. ARR on investment is the percentage of annual net return before depreciation but after taxed to the initial investment. We have to select the project having higher average rate of return and vice-versa.

i) Even earning, ARR = $\frac{EC}{I} \times 100$

Where, EC = economic cash flow + {(Net income – depreciation) – tax} + depreciation

I = initial outlay/ project cost/investment

ii) Uneven earning, ARR = Average $\frac{EC}{I} \times 100$

2) Discounted cash flow method:

The time value of money is considered in this method. The process of adjusting the face value of future cash flows to their present value by means of an imputed interest rate is known as discounting rate. Therefore discounted cash flow method takes the time value of money into account with using discounting rate, is defined as discounted cash flow method. For e.g. the amount received today Rs.1, so that money received today can be reinvested to earn additional amount of profit. There are three method of measuring capital expenditure decision, which are as follows:

a) Net Present Value (NPV): This method requires the selection of a minimum desired or target rate of return for discounting purpose. The cash flows are discounted at this rate for the periods involved. The sum of the present values of the outflows is compared with sum of the present value of the inflows, if the difference is favorable to the inflows, the project will earn more than the minimum rate of return. Alternately if the difference is unfavorable to the inflows, the project will not earn the minimum rate. In the same way if the net present value of the project is positive the investment is profitable. Therefore we should accept the project. Incase of more than one alternatives we have accept that that project which has more net present value. If the net present value is negative the project is to be rejected.

i) For even earning, NPV= $\frac{CF_n}{(1+K)^n}$

ii) For uneven earning,

$$NPV = \frac{CF_1}{(1+K)} + \frac{CF_2}{(1+K)^2} + \ldots\ldots\ldots + \frac{CF_n}{(1+K)^n} - CF_0$$

Where, CF_1 = cash flow in 1st year

CF_2 = cash flow in 2nd year

CF_n = cash flow in n th year

K = cost of capital

CFo = initial outlay

b) Internal Rate of Return(IRR):

Internal rate of return is an important method of evaluating capital expenditure decision. IRR is that cost of capital, which is applied to asses a series of future cash flows that origins the sum of their present values to the same level as the original investment. In other words internal rate of return is that rate of which is applied to discount the net returns that should make the discounted value of net returns equals to the initials cost of the project. The project should be accepted, if the IRR is more than the cost pf capital and rejected, if the IRR is less than the cost of capital. We should select the project having higher rate of IRR in case of more than one alternative.

i) For even earning:-

$$\text{IRR} = \text{LR}+\frac{Pn_{LR}\ \mathrm{Z}P_b}{Pn_{LR}\ \mathrm{Z}Pn_{HR}} \mid I$$

Where, LR= Lower discounting rate

Pn_{LR} = discounting factor in lower rate

P_b = pay back period

Pn_{HR} = discounting factor in higher rate

I = (higher rate – lower rate)

ii) For Uneven Earning,

$$\text{IRR} =\text{LR}+\frac{NPV_{LR}}{NPV_{LR}\ \mathrm{Z}NPV_{HR}} \mid I$$

Where, NPV_{LR} = net present value at lower discounting rate

LR = low discounting rate

NPV_{HR} = net present value at higher rate

I = higher rate – lower rate

c) Profitability Index(PI):

The benefit at present value of Rs1 invested is known as PI. It is a ratio between total present value and investment. PI is calculated in following way:

$$PI = \frac{TPV}{I}$$

Where, PI = profitability index

TPV = total present value

I = investment

If PI is more than 1, we should accept the project and if PI is less than 1, we should reject the project. In case of more than one alternative we have to accept that project which has more profitable index (PI).

2.8.7 Cash flow budget

Cash budget depicts the estimated cash receipts and payments during the budget period. It will ensure that sufficient cash is available when required. If any shortage of cash is required during a specified arrangement can be made with the bank for an overdraft of loan in time. Planned cash requirements earn respectability for the firm, when approached to bank for loan. The cash budget will commence with the cash and bank balance in the beginning of the budget period.

The planning and controlling of the cash inflows, the cash outflows and the related financing is important in all the enterprises. Cash budgeting is effective way to plan and control the cash flows, assess cash needs and effectively use excess cash. A primary objective is to plan the liquidity position of the company as a basis for determining future borrowing and future investment. For e.g., excess cash if not invested incurs an opportunity cost that is loss of interest that could be earned on the excess cash. The timing of cash flows can be controlled in many ways by the management such as increasing the effectiveness of credit and collection activities, making payment by time drafts rather than by check, making payments on the last day of discount periods batching payments and giving discounts on cash sales. A cash budget is a detail estimate for some future period of time of cash inflows from all sources, cash disbursement for all purposes and the resultant cash balance. It is the process of forecasting the expected receipts and expected payments of cash to meet the future obligations. It is an effective way to plan and control the cash flows; assets cash needs and effectively uses excess cash.

Cash budget is the most significant device to plan and control the cash receipts and payments. A cash budget is summary statement of the firms expected cash inflows and outflows over a projected time period. The primary purpose of the cash budget is to,

1) Give the probable cash position of the end of each period as a result of planned operation.
2) Identify cash excesses or shortage by time periods.
3) Establish the need for financing and/ or the availability of idle cash for investment.
4) Co-ordinate cash with a) total working capital b) sales revenue c) expenses d) investments and e) liabilities.
5) Establish a sound basis for continue monitoring of the cash position.
6) Indicate the availability of cash discounts.
7) Preserve liquidity.

Approaches used to develop a cash budget:

Two primary approaches are used to develop the cash budget. One is the cash receipts and disbursements approach. This method is based on a detailed analysis of the increase and decrease in the budgeted cash account that would reflect all cash inflows and outflows from such budgets as sales, expenses and capital expenditures. The other approach is called the financial accounting approach. The starting point in this approach is planned net income shown on the budget income statement. Basically, planned net income is converted from an accrual basis to a cash basis. Next, the other cash sources and requirements are identified. This approach less supporting details and provide less detail about the cash inflows and outflows. It is useful for making long-range cash projections.

Specimen of cash receipt and disbursement

Particulars	Month	Month	Month
Opening cash balance	xxx	xxx	xxx
Add: cash receipts			
Cash sales	xxx	xxx	xxx
Collection from debtors	xxx	xxx	xxx
Other income	xxx	xxx	xxx
A: Total cash receipts	xxxx	xxxx	xxxx
Cash disbursements:			
Cash purchase	xxx	xxx	xxx
Account payable	xxx	xxx	xxx
Payment to creditor's	xxx	xxx	xxx
Wages, salaries & other	xxx	xxx	xxx
Rent, rates & taxes	xxx	xxx	xxx
Dividend & interest	xxx	xxx	xxx
B: Total cash disbursements	xxx	xxx	xxx
Add: Minimum cash balance	xxx	xxx	xxx
C: Total need	xxxx	xxx	xxx
Surplus/Defecit(A-C)	xxx	xxx	xxx

2.9 Cost-volume-profit analysis:

The analysis of relationship between cost, volume and profit is known as CPV analysis. It is an analytical tool for studying the relationship between volume, cost, price and profit. It is also an important tool, used for profit planning in a business. There are three factors of cost volume profit analysis, which are interconnected and dependent with each others. For e g, profit depends upon sales, selling price to a greater extent will depend upon the volume of production. Generally, cost volume profit analysis provides the answer to the questions such as:

a) What sales volume is needed to avoid losses?
b) What sales volume is needed to earn a desired net profit?
c) What will be the effect of change in price?
d) Which product or operation of a plant should be discontinued and so on?

The following are some of the static assumptions upon which this analysis is based.

1) All costs can be classified as fixed and variable.
2) Fixed costs will not change over the entire capacity range or remain constant.
3) The behavior of cost will be linear(i.e. will show straight line on a chart) and variable cost will change in direct proportion to changes in volumes.
4) Unit of product and selling price are homogenous (i.e. all alive) or the proportions of different types of products with different prices will not change in the "sales mix".
5) There is no significant difference between production and sales in the period being analyzed.

6) There are no changes in materials price or wage rates, no design changes in the product, no methods changes in manufacture or any significant change in the efficiency or productivity during the period being analyzed.

2.9.1 Meaning of Break Even Analysis

Break-even-analysis is the term to study of the interrelationship between cost volume and profit at various level of activity. It is the most widely known form of the CVP analysis. Therefore, the CVP analysis is also called as BE Analysis.

The BEP is used under BE analysis. BEP is the level of activity at which total cost equal to total revenue. In other word, BEP a point of “no profit no loss”. If the sales or production is higher than the BEP volume, there will be a profit. And the same way if the sale (production) is less than BEP sales there will be a loss.

“Break even analysis is a method of relating fixed cost, variable cost, and total revenues to show the level of sales that must be attained if the firm is to operate at a profit.” It may be interpreted in two senses, narrow senses and broad senses. In narrow senses it refers to a system of determining that level of operation where total revenues equal total expenses i.e. the point of zero profit. Taken in its broad senses, it denotes a system of analysis that can be used to determine the probable profit at any level of operation.

2.9.2 Methods of Break Even Analysis

1) Mathematical or algebraic formula method:

In order to understand mathematical relationship between cost volume and profit it is desirable to understand the following four concepts, their calculation and application

i) **Contribution margin:**

It is the difference between the sales and the marginal cost of sales and it contributes towards fixed expenses and profit. The main aim of contribution will first go to meet fixed expenses and then to earn profit. Contribution can be represented as:

Contribution = selling price – marginal cost

Or,

Contribution = fixed expenses + profit

Contribution is different from the profit, which is the net gain in activity or surplus and remains after deducting fixed expenses from the total contribution.

ii) Profit volume(P/V) ratio:

The profit volume ratio is one of the most important ratio for studying the profitability of operation of a business and establishes the relationship between contribution and sales. It helps to find out which product is more profitable. Higher the P/V ratio, more will be profit and lower the P/V ratio, lesser will be the profit. Hence, it should be the goal of every concern to increase or improve the P/V ratio.

The P/V ratio is very useful and is used for the calculation of:

a) Break even point = $\frac{FixedCost}{P/VRatio}$

b) Volume of sales to earn a desired amount of profit = fixed cost + desired profit/ P/V ratio

c) Variable cost = sales(1-P/V ratio)

d) Profit = (sales x P/V ratio) – fixed cost

e) Fixed cost = (sales x P/V ratio) – profit

f) Margin of safety = profit / P/V ratio

g) Required production or sales to recover the losses = fixed cost + amount to be recovered / P/V ratio

iii) Break even point :

A business said to be break even when its total sales are equal to its total costs. It is a point of no profit or loss. At this point, contribution margin is equal to fixed cost. A concern, which attains break even point at less number of units will definitely be better from another concerns where break even point is achieved at more units of production.

The break even point can be calculated by the following formula:

Break even point(in units) = total fixed cost / selling price per

Unit – variable cost per unit

Or, = total fixed cost/contribution margin

Per unit

Break even point(in Rs.) = Total fixed cost /P/V ratio

iv) Margin of safety:

It is the difference between the actual sales and the sale at break even point. Margin of safety is the excess production over the break even points output. Sales or output beyond break even point is known as margin of safety because it gives some profit, at break even point only fixed expenses are recovered. It can also be expressed in percentage.

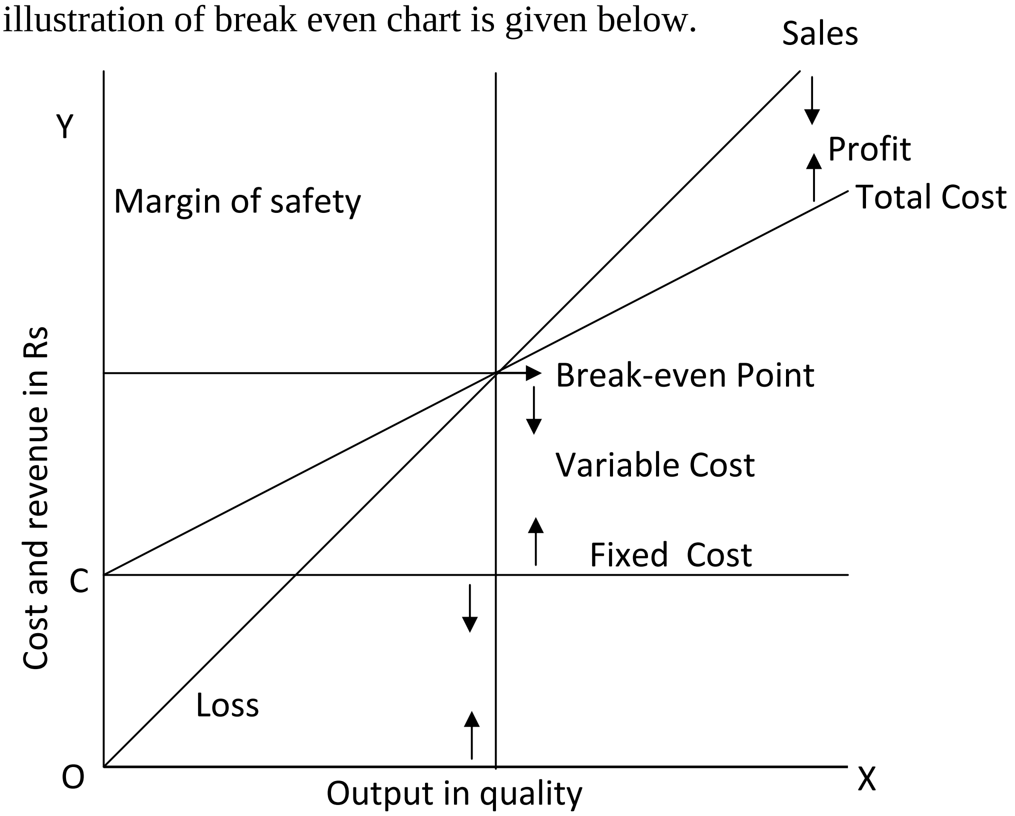
Margin of safety (M/S) = Actual sales – BE sales

Margin of safety $= \frac{Profit}{P/V Ratio}$

Higher margin of safety is the best, which is an indicator of the strength of the business.

2.9.3 Graphic or chart method:

The break-even point can also be determined with the help of a graph. A simple illustration of break even chart is given below.



Sales volume is shown in x-axis and cost/revenue is shown in y-axis. Fixed cost is always equal within a certain level of activity, so the fixed cost line paralleled to x-axis. Total cost increases with increase in sales volume, so the total cost line is slopping upwards to right side. The total cost line starts from point C. OC is indicates the level of fixed cost. OC is also total cost when the sales volume is zero. The sales revenue line originates from the origin because sales revenue is zero when the sales volume is zero. The sales revenue line is also slopping upwards right.

An equilibrium point between total cost line and total revenue line is known as break even point where both the cost and revenue is equal at OP and the break even quantity is OQ. If the actual sales volume is more than break even sales, the firm will earn profit and if the actual sale is less than break even sales, the firms will suffer a loss.

2.10 A Review of previous related research works

In Nepalese context, only few research work have been made in the area of profit planning whatever, have been made are not depth. Also the researches which have been made ready are not sufficient to every context of Nepal. A few dissertations have been submitted in the topic "profit planning in Nepal" are:

2.10.1 Surya Prasad Barakoti:

Surya Prasad Barakoti has researched on the topic of "profit planning in herbs production and processing company Ltd." Submitted to the faculty of management, Central Department, TU in partial fulfillment of M.B.S.

the study covered 10 year period of time from 2048/49 to 2057/58. The main objectives of his research was to utilize and to save the valuable herbs resources of the nation and to contribute in the national economy, other objectives are:

a) To collect and process crude herbs.
b) To cultivate the essential herbs.
c) To encourage the private sectors in herbs farming collection and processing.
d) To promote exports of processed herbs.
e) To provide essential oils to the companies involving in drug manufacturing.
f) To import and create employment.

Barakoti has pointed out various finding based on the analysis of data, he has gives some conclusions which are as follows:

a) Nepalese PEs lack entrepreneurship. They are not operated on commercial basis.
b) Budgets are prepared on traditional ad hock basis.
c) The company has not adopted any R & D activities for improvement.
d) The objectives of the company (social or profit) is not clear.
e) Lack of skilled planners and budgeting experts.
f) The plans are prepared from top level with participating after employees of the company and later it is communicated to the lower level.
g) HPPCL is suffering from high fixed cost and non manufacturing expenses.
h) Net profit margin of the company is very poor.
i) HPPCL has not system of periodic performance report.
j) The return on capital employed ratio is very far from the satisfactory during the study period.

Finally he has suggested some recommendations as below:

a) Objectives are the main guide of the enterprises. Thus, the company should formulate specific objectives.
b) Planning experts should be developed or hired from different research center.
c) The company should prepare realistic sales plan.
d) Company should use new technology to production.
e) The company should develop R & D department to analyze the condition of the company.

2.10.2 Youbaraj poudel sharma:

Youbaraj poudel sharma has researched on the topic of “profit planning and control in dairy development corporation” submitted to the faculty of management, Central Department, TU, in partial fulfillment of M.B.S. The study covered only five years of time from 2053/54 to 2057/58. The general objectives of this study are to examine the present comprehensive profit planning system applied in DDC and effectiveness. Thus the specific objectives are follows:

a) To analyze the various functional budgets those are adopted by DDC.
b) To analyze the material and other expenses budget of DDC.
c) To examine the capacity utilization of DDC.
d) To assess the financial performance ofDDC by using Bep analysis.
e) To known about the long term and short term loan and its mobilization.
f) To find out the demand and supply of DDC production.

He gives some conclusions, which are as follows:

a) The management of the company has applied annual sales budged but there is substantial gap between sales target and achievement of each year.
b) Sales and production is below the estimated and actual of previous year.
c) DDC has not analyzed of any financial performance but it is suffering in loss.
d) DDC has not prepared flexible budget and capital expenditure budget.
e) Top level executives are prepared planning and decision-making but lower level participation is not encouraged.
f) Management have not fixed rule of pricing for potential market.
g) There is not well-developed system of performance evaluation for employees.

On the basis of above study, the following suggestions are recommended as follows:

a) Sales and production forecasting should be made on the basis of realistic ground forecast should include strategic and tactical.
b) DDC should operate above its BE point. So it must decrease variable cost and increase price of product.
c) Profit planning units are not seen in DDC. So it must be established DDC units.
d) Profit planning manuals should be communicated from top to lower levels. All personnel should be participated on decision making and planning process.
e) Reward and punishment policy should be developing efficiently to improve the DDC and workers should be motive by the management.

2.10.3 Bhushan Shakya:

Bhushan shakya has researched on the topic of “profit planning and control in public utility enterprises in Nepal” submitted to the Faculty of management, Central Department, TU in partial fulfillment of MBS. His study is based on public enterprises in Nepal, namely, Nepal Telecommunication Corporation. The study covered only 5 years period of time from 1997/98 to 2001/02. The main objective of the study is to examine the current practice of profit planning and control and its effectiveness in NTC. The other specified objectives of the study are as follows:

a) To examine the practice and effectiveness of budgeting and profitability of NTC.
b) To examine NTC’s sales budgeting system and its relationship with production budget and expenses budget.
c) To point out suitable recommendation and suggestions.

He gives some conclusions, which are as follows:

a) Enjoying absolute monopoly in the telecommunications sector, NTC prepare budgets merely as formalized rather than as an essential part of profit planning.
b) Though both long-range and short-range budgets are prepared by NTC, the long-range budgets are confined to top level only.
c) The gap between budgeted and actual sales in unit is widening, but the actual sales revenue is closely related with budgeted sales revenue.
d) Both net profit and overhead expenses are in increasing trend.
e) The liquidity position of NTC is satisfactory.

On the basis of the major findings of the study following recommendations are made as follows:

a) There should be proper communication of plan from top level of the lower level of management.
b) Cost volume profit analysis should be adopted as one the important management tool.
c) In order to utilize idle capacity, NTC should try to upgrade the service delivery mechanism.
d) There should be proper co-ordination both interdepartmental and interpersonal.
e) Budget should be prepared on realistic ground and efforts should be made to minimized the gap between the target and achievement.

CHAPTER – 3

RESEARCH METHODOLOGY

Introduction

Research methodology is the way to solve systematically about the research problem. It helps to analyze various aspects of research works such as sales and production planning.

This study has intense relations with the application of profit planning in a manufacturing concern regarding the objectives to analyzes, examine and interpret the application of profit planning in BNL. This research is descriptive, analytical as well as exploratory in nature. The research methodology includes research designing, nature and sources of data, period covered, research variables and tools used. In this way research methodology is the method to solve the various research problems.

3.1 Research Design

This study is descriptive as well as analytical research design means the definite procedures and techniques which guide the study and profound ways for research viability. Research design is the main part of the thesis or any research work. Research design is the plan, structure and strategy of investigations conceived so as to obtain answers the research question and to control variances. Permanent data and information required for the study are collected, evaluated and analyzed systematically to arrive at certain conclusion.

The main objectives of this study is to highlight the degree of application of profit planning concept in BNL with respect to planned production and actual production, degree of sales realization in respect to budgeted figures and examined the cost structure. This study is an examination and evaluation of budget process in profit planning program of BNL. Various related information, functional budgets and statements of the BNL are tools to analyze and evaluate the profit planning system of BNL. It helps to solve the major problems faced by the management in developing and implementing the profit plan. It has tried to answer; the overall managerial problems and suggestion can be recommended for their proper solution.

3.2 Nature and Sources of Data

Secondary data have been used to fulfill the objectives in this paper. Secondary data have been taken from the published documents of Bottlers Nepal Company Ltd., books, booklets, magazines, publication of corporation coordination council, Ministry of finance and similar previous dissertation and other publications related to BNL.

3.3 Period covered:

Profit planning has two dimensions, strategic or long-range and tactical or short-range profit plans. Five years data is taken for long-range planning. One year's data for shot-range planning. One year's data for short-range planning. Long–range trend are taken for the fiscal year 2006/07 to 2010/11.

3.4 Research Variables:

Research variables play vital role in developing the profit plan. Research variables are sales, production, inventories, purchase, expenses, manpower, capital expenditure, cash flow, profit and loss and balance sheet of BNL.

3.5 Tools Used:

To analyze the collected data, financial and statistical tools are used. The financial and statistical tools are CVP analysis, BEP analysis, S.D., Mean, Coefficient of variance etc. have been used as per need.

CHAPTER – 4

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction:-

The main purpose of this study is the budgeting procedure in the context of PP in manufacturing company and BNL has been selected for this purpose. To accomplish this objectives this chapter of this study will analyses the various functional budget and there variances of the company.

Profit Panning is one of the most important approaches that have been developing to facilitate effective performance of the management process and it is systematic approach for attaining effective management process. Profit planning is tool which may be used by the management in planning the future course of action and controlling the actual performance.

In Nepal, Generally two types of PP are prepared, first long range and the second short range profit plan, both are prepared by BNL. Though it prepares strategic long rang PP, the present study does not deserve the quality to analyze it is detail because of the time and resource constraint. Therefore the study mainly focused on tactical short range PP of analyzed to know the overall economic and financial trend and to estimate the possible future trend of the company. For this purpose the study covers the 5 years from 2006\07 to 2010\11.

4.2 Sales Plan / Budget:-

Preparing of the sales budget is the primary steep in developing the overall process of firm. Sale is the primary source of cash and all other functional budgets are prepared on the basis of sales budgets. The main objective of the business is to earn profit. So, that the first consideration of the sales plan must be made from the PP. Sales is realistic sales is the major sources of revenue, unless there is realistic sales plan. Practically all other elements of Pp will be out of reality. So we can say, the sales plan is that step which opens the door of financial plan.

The sales planning process is a necessary part of business organization. It is the primary set up in developing the overall budget procedure and it is the primary source of cash and all other functional budgets are prepare on the basic of sales budget. It is an estimation of sales for uncertain period of future. In general, people think that a sale forecasting is the sales plan but it is not a sales plan but it is not a sales plan but it is only a major element of the sales pan. The sales plan must represent the option of all departments in the organization. The sales estimate must be consider and adjusted. Every profit plan should be prepared to fulfill the objective of that firm. There is not clear objective related to sales plan, it is depend on demand of finished products. Now, I am going to performance, to know about sales trends of past and forecast the possible future trend of the company.

BNL is one of the manufacturing and processing companies, which produces and sells many types of soft drinks in the market. Sales budget f BNL is prepared on the basis of sales fore cast but sales budget should not be viewed as fore cast. It shows the data of sales at actually.

The following table shows the target and actual achievement of BNL in Rs. of five fiscal years from 2005\06 to 2009\10.

Table-1

Sales Budget (in Bs.'000')

For FY 2006\07 to 2010\11

Fiscal Year	Sales Target	Sales Achievement	Percentage
2006\07	700,000	634,189	90.60%
2007\08	800,000	746,581	93.31%
2008\09	1050,000	1002,720	95.50%
2009\10	1610,000	1588,149	98.64%
2010\11	1890,000	1852,039	97.99%
Mean(x)	1210,000	1164,735.6	
S.D	46,939.6512	476287.0752	
C.V	38.34%	40.89%	

The above tables show that, the sales achievements are usually below the targets. Achievements are not homogeneous. The percentage of achievement has increasing trend. In FY 2009\10 actual sales is 98.64% of sales target, which is best among five years. Actual sales trend shows the fluctuation in sales. Based upon the achievement trend, which is also fluctuating, it because clear those targets of BNL are very optimistic sales. In conclusion, we can say that there is substantial gap between target and achievement of each year which is due to the weakness of top level management. There fore management of the company need t take corrective action for improving present conditions.

In order to find out the nature of variability of sales budget and sales achievement of different years we have to calculate the arithmetic mean, standard deviation and co-efficient f the variation of budgeted and actual figures of the BNL.

The above statistical information shows that actual sales and target sales are not equality. The mean of the actual sales is low and a target sale is high. So we can find that actual sales are more variable than target sales. In case of mean value of the BNL seams unable to attain the mean value of target sales. The standard deviation is better in closer of target sales and actual sales. The value of C.V of actual sales is greater that budgeted sales, which indicates that actual sales is more variable than budgeted sales.

From the analysis of sales, the following points can be drawn:

- Target sales are more than actual sales.
- The stander deviation of budgeted is less than target sales.
- The budgeted C.V. is less than actual sales.

4.3 Production Budget / plan:

Preparation of production plan is based on sales plan and it is the second step f developing the profit plan. For the purpose of the formulation f profited plan, the sales requirement is to be translated in production plan. The production budget is normally prepared in quantitative terms such s unites of output, tones f production, etc. In the case of Manufacturing enterprises the sales plan must converted to production planning mathematically as under.

Production Units = Sales planned + Ending inventory – Beginning Inventory

The production plan of BNL is based upon virus controllable factors. It is adopted seasonal production this is on peak season & slack season. The management of BNL company hard 8 fast rules and regulation but the role of management is concentrated towards the production. The manager of BNL Company prepares production plan with the help of factory supervisors, marketing manager and other members. The industry has sufficient capacity to budgeted sales, so BNL is unable to utilize its full capacity.

The targeted and actual sales plan of BNL by yearly from FY 2006/07 to 2010/11 as under:

Table No-2

Targeted Production and Actual Production [in Rs.'000]

For FY 2006\07 to 2010\11

Fiscal year	Target production	Actual production	Achievement %
2006/07	700,000	640,850	91.55%
2007/08	800,000	753,150	94.16%
2008/09	1050,000	995,355	94.79%
2009/10	1610,000	1595,245	99.08%
2010/11	1890,000	1860,375	98.43%
Mean	12,10,000	11,69,015	
S.D(5)	46,939.6512	477,834.1262	
C.V	38.34%	40.87%	

The above table shows that actual production is below than target production of each year. Targets are set at high expectations. The percentage of achievement is very near to target production in every fiscal year.

Above table clearly shows the actual production is too for from the budgeted production. It is because of the weak plan. Production manager {planner} has no adequate knowledge about the production. The highest achievement is in FY 2009/10, which 99.08% and the lowest achievement is in

FY 2006/07, which is 91.55%. The production is budgeted in the basis of sales budget.

From the above table shows the mean of budgeted production is achievement production, the stander derivation of budgeted production is less than achievement of production and coefficient of variation budgeted production is less than achievement of production. The above analyses shows that C.V. is greater in actual. It indicates that actual production is more variable than budgeted production.

From the above analysis conclusion are taken out about the production budget of BNL.

1) The production budgets are more variable than actual production.
2) The percent of production achievement is satisfactory with target all production.

4.4 Inventory consideration of BNL:

Inventory plays a vital role in profit planning .A better inventory policy makes the organization better. A center level of inventory is needed for smooth sales activities of industry. Finished goods inventory is the cushion between sales & production. When sales is higher than the production then inventory is used for sales and the level of inventory going to be decreased and in the other hand when production is kept into store and the level of inventory going increased.

Since planed production is equal to planned sales in BNL, opening inventory of finished goods is equal to closing inventory. So, theoretically stable inventory policy is planned in BNL. But in practice the level of inventory is fluctuating in each is yea. That means BNL holds inventory differently than the defined policy. The level of inventory will change whenever there is deviating between actual sales and actual production.

BNL has a policy to maintain some stock for primary sales. The following table presents the actual inventory of finished goods from fiscal year 2006/07 to 2010/11.

Table No. -3

Inventory of BNL

FY 2006/07 to 2010/11 (in Rs.'000')

FY	Opening Inventory	Closing Inventory
2006/07	175,935	189,256
2008/08	189,256	144,004
2008/09	144,004	208,753
2009/10	208,753	274,357
2010/11	274,357	217,792
Mean	198,461	206,832
S.D.	43,414	42,284
C.V.	21.88%	20.44%

The above table show that the finished foods have been fluctuating every year. It doesn't show any policy in the inventory management. The table shows that the closing inventory is low in FY 2007/08 and in FY 2009/10 inventory has gone higher than other year. The mean value of closing stock is higher then opening stock. The standard deviation of opening stock is higher then closing stock. The value of C.V. of closing stock is higher then opening stock, which indicates that closing stock is more variable then opening stock.

4.5 Raw material Budget of BNL:

Raw material budget is developed on the basis of production quantity required. About fifty percent of cost of production is covered by raw material. So, profit of business entity is affected by raw material purchases. In production process most of the manufacturing eternal enterprises use material by purchasing from external parties or by producing themselves. It should clearly show when and how much the raw material is needed for producing process and when and how much it will be purchased. Raw material purchase budget should show the quantity of raw material and cost of purchasing them.

While preparing the material plan there should be co-ordination planned and controlled among the following items, a) production requirements for materials and component parts b) raw materials and parts inventory levels and c) purchase of raw materials.

Raw material to be purchased is calculated by using the following formula,

Raw material to be purchased = Raw material requirement + Ending Inventories- opening inventories.

The total raw material purchase budget of the company for the FY 2006\07 to FY 2010\11 is given below.

Table No: - 4

Raw Material Production Budget of BNL (in Rs.'000')

FY 2006/07 to 2010/11 (in Rs.'000')

Fiscal year	Amounts(Rs.)
2006\07	3603,369(21,620 transfer from BNTL)
2007\08	421,317(25,700 transfer from BNTL)
2008\9	575,686(30,626 transfer from BNTL)
2009\10	821,989(42,948 transfer from BNTL)
2010\11	945,621(59,101 transfer from BNTL)

From the above table shows that there is fluctuating in amount of raw materials purchase in each year. These raw materials purchase from local and international market.

Again, BNL also produced some raw material its self like CO_2 gas, which is as follows from FY 2006/07 to 2010/11.

Table No:-5

Raw Material Production Budget (CO_2) of BNL (in Rs.'000')

FY 2006/07 to 2010/11 (in Rs.'000')

Fiscal year	Amounts(Rs.)
2006\07	12,618
2007\08	12,870
2008\9	13,324
2009\10	12,560
2010\11	15,120

From the above table shows that BNL has been produced CO_2 gas is self CO_2 gas is included expenses of raw materials purchase. It is also fluctuation every year.

4.6 Administration Expenses Budget of BNL:

Administration expenses include those expenses other than manufacturing and distribution. Because larger portions of administrative expenses are fixed rather than variable, the notion persists that they cannot be controlled. The overall administrative expenses budget includes several departmental budgets.

Table No: 6

Total office and administrative expenses of BNL (in Rs.'000')

FY 2006/07 to 2010/11 (in Rs.'000')

Fiscal Year	Amounts(Rs.)
2006\07	182,872
2007\08	217,564
2008\9	236,708
2009\10	292,927
2010\11	394,121
Mean	264,838.4
S.D.	73,821

The above figure shows that the office and administrative expenses is almost fixed. There is a variation in expenses for different years. BNL does not prepare office and administrative expenses budget separately. Only the expenses related to office and administrative budget are included in annual general expenditure budget. But it has practice of preparing office and administrative expenses budget in detail for next year mainly on basis of previous years actual cost. The total office and administrative expenses has been divided into different sub-headings.

The above table shows that mean of office and an administrative expense is Rs. 264,838.4. In FY 2006\07 to 2008\09 total office and administrative expenses is lower then the mean expenses. In FY 2009\10 and 2010\11 total office and administrative expenses is higher then the mean expenses. It means total office and an administrative expense is increasing trend. The S.D. is Rs.73,821, which mean that there is low consistence between the mean value and above data.

4.7 Selling And Distribution Expenses Budget:

Selling and distribution expenses include all costs related to selling, distribution and delivery of product to customers. It covers significant percentage of total expenses. Careful planning of such expenses affects the profit potential of the firm. Distribution expenses are not product costs and are not allocated to specific products.

BNL includes selling and distribution expenses in general expenditure budget estimated by the company rather than preparing selling and distribution expenses budget for coming year separately. Since BNL does not sells its products directly to its customer but distribute through retailers and distributors, selling and distribution expenses of BNL are not low in amount and it is included in both administrative and factory expenses as per the nature of cost i.e. fixed and variable. The actual selling distribution expenses of the industry for the yeas are as follows:

Table No: 7

Actual selling and distributing expenses of BNL (in Rs.’000’)

FY 2006/07 to 2010/11 (in Rs.’000’)

Fiscal Year	Amounts(Rs.)
2006\07	21,178
2007\08	25,972
2008\9	34,822
2009\10	49,726
2010\11	62,069
Mean	38,753.4
S.D.	15,177

Above figure shows that there is a highly increasing trend in selling and distributing expenses. In FY 2010/11, the expenses have increased by three times the amount in FY 2006/07. High sales are the caused by high selling and distribution expenses. If the selling and distribution expenses have increased but there is no change in sales remaining then this cost will not be justified. It means selling cost should be justified with the sales revenue. There is no meaning to increasing selling cost. By analyzing the selling and distribution budget of the company it is found that there is no planning about sales expenses. The company has adopted only lump sum expenses.

The mean value of selling and distribution expenses is Rs. 38,753.4. In FY 2006\07 to 2008\09 the actual selling and distribution expenses is lower then the mean value. In FY 2009\10 and 2010\11 the actual selling and distribution expenses is higher then mean expenses. It shows that actual selling and distribution expenses are increasing trend. The S.D. is Rs.15,177 which mean that there is low consistence between the mean value and above data.

4.8 Human Resource Planning:

Human Resource planning is the process by which a management moves from its current manpower position to its desired manpower position. Human resource planning refers to the area of personnel needs requirement tanning, job description and wages and salary administration.

BNL has two types of manpower; permanent and seasonal(which works from march to September normally). BNL has 208 permanent employees who are paid fixed salary on the monthly basis and nearly 150 seasonal workers or employees who are paid on work basis or daily basis. The company has no effective program to increase the manpower. Permanent employees are changed if employees is retired, expired, transferred etc.

Table No: 8

Summary of employee's data

For FY 2010/11

Descriptions	Female	Male	Total
Administrative	7	89	96
Production	6	106	112
Permanent employees	13	195	208
Seasonal employees	-	-	150

4.9 Capital Expenditure Plan of BNL:

Capital budgeting is the process of planning and controlling the strategic and tactical expenditures for expansion and contraction for investments in operating (fixed) assets. It is the decision making process that determines the types of plant and equipment that a firm will purchase. How much and when expenses are made, are decided. So capital expenditure budget is the use of funds to obtain operational assets that will help to earn revenue or reduce future costs.

In the context of BNL, it doesn't prepare long-term expenditure budget. it prepare short-term budget but this isn't prepared in detailed. In the context of capital expenditure, only some amounts are provided in annual budget within the constraint of budget amount on capital expenditure. Capital additions are made, as per necessity of the company. BNL is used net present value on additions capital but not followed strictly. There is not a systematic budget procedure in the purchasing additional capital. Its purchase when the additions capital necessity. Therefore the purchasing decisions aren't based on the evaluation system to make capital decision in BNL. The total allocated amounts for capital expenditure are decision upon the manager and factory supervisor.

4.10 Capacity Utilization:

Analysis of capital utilization is an important factor for manufacturing enterprises. Production, sales and cost of production plans are dependent upon the capacity. So the full utilization of capacity by efficient and scientific management technique certainly increases the return of a corporation. Higher the capacity, Higher the unit cost can be produced. Cost of production, also depends on utilization of optimal capacity utilization and lower utilization of capacity increase per units manufacturing cost and whether over utilization of capacity reduces the working life of machine.

In the context of BNL the capacity utilized can be known by the below table given.

Table No: 9

Trend of Actual Capacity Utilization of BNL

For FY 2006/07 to 2010/11

Fiscal Year	Percentage
2006/07	31.17%
2007/08	37.33%
2008/09	50.14%
2009/10	79.41%
2010/11	92.60%
Mean	58.13%

From the above table, it present that, BNL has not utilized its capacity in any year. In FY 2006/07 capacity utilization was only 31.17%. And going to, 2010/11 the capacity utilization has increase into 92.60%. By this condition, it has been affected in profit achievement because more capacity utilization also helps to achieve increasing profit objective.

The mean of capacity utilization is 58.13%. In the above table capacity utilization in FY 2006\07 to 2008\09 are below the mean and in FY 2009\10 and 2010\11 are above the mean. The company has improving in its capacity utilization at present year.

4.11 Cash Flow OF BNL

The statement of cash flow shows the effects on cash of opening, investing and financing activates of a company for on accounting period. Cash flow statement guides the firm to plan the matching in follow and outflow of cash flows for such decision a determining whether or not short term finding is necessary to pay its current liabilities, to determine whether to raise or lower its dividends and analysis of cash flow is useful for short-term planning.

In the context of BNL, to analyze the major application and sources of cash flow statement are as follow:

Table No: 10

Cash flow statement (in Rs.000)

FY 2006\07 to 2010\11

Particulars	2006\07	2007\8	2008\9	2009\10	2010\11
Cash flow from operating activities	282,367	182,642	240,437	377,522	292,709
Cash flow from investing activity	(184,364)	(245,372)	(293,792)	(118,155)	(242,626)
Cash flow from financing activity	(72,000)	180,000	(72,450)	(76,410)	(144,621)

The above table shows that cash flow from operating activities at different FY is changed. In FY 2009\10 cash flow from operating activities is higher then other FY. In FY 2008\09 cash flow from investing activity is higher then other FY, it means that the company investment is high in that FY then other FY. In FY 2007\08 cash flow from financing activity is positive which mean that component collect the fund to use for investment.

4.12 Identification of cost variability:

Identification of the variability of cost is necessary in planning and control of the cost. Thus, the knowledge of cost behavior is very important. Generally, cost behavior is in two way relation with volume of profit. First, it does not change in output, cost behavior answer happens in each expenditure when the output increases or decrease.

Cost can be classified in two groups according to their behavior, fixed and variable. Fixed cost remains constant in total for a certain range of output for a certain time within any activity level; it does not change whether there is increase or decrease in output. Another cost which is called variable is of fluctuating nature. Variable cost is that change in total directly with change in output or volume of operation but remain constant in per unit basis. There is direct relationship of variable cost without and those expenses which are neither variable nor fixed nature are called semi- variable cost.

Classification of cost into fixed and variable is very important to plan and controls the cost and to help to determine the volume of operation desired to maintain the authority profitable.

Nepalese public enterprises have not maintained on any clear-cut boundaries cost classification as fixed and variable components. However, BNL has a rough practice of classification the expenses into fixed and variable. So, the total fixed and variable expenses are in different fiscal year are as under:

Table No: 11

Cost Variability (In Rs.000)

For FY 2006\07 to 2010\11

Year	Fixed Cost	Index	Variable Cost	Index	Total Cost	Index
2006\07	206,455	1	386,855	1	593,310	1
2007\08	211,734	1.026	425,552	1.1	637,286	1.074
2008\09	323,095	1.565	631,714	1.633	954,809	1.61
2009\10	388,046	1.88	841,719	2.176	1229,765	2.073
2010\11	521,296	2.525	956,415	2.472	1477,711	2.491

In the above table fixed cost are increases in every fiscal year. In FY 2006\07 fixed cost is Rs.206, 455 and in FY 2010\11 fixed cost is Rs.521,296. It is more then two times in FY 2006\07. It is also indicates in index, which shows that in increasing trends. In FY 2006\07 it is 1 and in FY 2010\11 it is 2.525 times more then base year. Variable cost is changed in volume of out put. In FY 2006\07 it is Rs. 386,855 and in FY 2010\11 it is Rs. 956,415 which is higher then other Fiscal year. It mean that in FY 2010\11 the volume of sales is higher then other FY. So the variable cost is higher.

4.13 Cost Volume profit Analysis:

The analysis of relationship between cost, volume and profit is known as CPV analysis. It is an analytical management accounting tool for studying the relationship between volumes, Cost price and profit. It is also important tool used for profit planning is a business analysis which shows volume or level of activities of necessary to state at break even or to gain a certain amount of profit.

The CPV analysis includes both contribution analysis and break even analysis emphasized the level of output or productive activities at which sales revenue exactly total i.e. there is no profit and loss. Break-even analysis rests upon the foundation of cost variability separate identification and measurement of fixed and variable components of cost. BEP is usually applied on a total company basis.

To find the relationship of cost, production (fixed and variable cost) and sales revenue BE analysis is used. It is very important to sales and production plan because without the knowledge of BEP, it is very difficult to determine sales level for certain level of profit.

CVP analysis of BNL is based on some assumption, which is given below:

a) It is based on the accounting data of FY 2010/11.
b) The total fixed cost and variable cost are classified in separately which is taken from table no.20.
c) Non operating incomes and non operating expenses are also excluded from CVP analysis.
d) Opening and closing stock are not changed.
e) Variable cost ratio, fixed cost per annul and selling price are assumed to be remaining constant.
f) Calculations are based on total basis not on a product wise.

Now, the cost volume profit relationship is presented.

Table No. 12

Cost volume profit Relationship

FY 2006\07 to 2010\11 (in Rs. 000)

Particulars	2006\07	2007\8	2008\9	2009\10	2010\11
Sales revenue	634,189	746,582	1002,720	1588,149	1852,040
Less: Variable cost	386,855	425,552	631,714	841,719	956,415
Contribution Margin	247,334	321,030	371,006	746,430	895,625
Less: Fixed cost	206,455	211,734	323,095	388,046	521,296
Operating profit	40,879	109,296	47,911	358,384	374,329

On the basis of above relationship the following calculation can be done.

Table No. 13

CVP analysis of BNL

FY 2006\07 to 2010\11.(In Rs.000)

Ratio	2006\07	2007\8	2008\9	2009\10	2010\11
Variable cost ratio(V\V)	0.61	0.57	0.63	0.53	0.52
Profit volume (P\V) ratio	0.39	0.43	0.37	0.47	0.48
Break even point (Rs.)	529,372	492,405	873,230	825,630	1086,033
Margin of safety (R.s)	170,628	307,595	176,770	784,370	803,967

In the above table shows that V\V ratio and P\V ratio are fluctuating in every year. In FY 2010\11 V\V ratio is lower then other FY which mean that in FY 2010\11 the company P\V ratio is higher then other FY i.e. 0.48. The break even point and margin of safety is also higher in FY 2010\11 then other FY.

4.14 Major Findings:

From the analysis of all financial and non-financial term of BNL, it is found that BNL is suffering from internal and external problem. Though the Co. has been earning profit since many years, the future picture of the Co. from the view point of profit is not bright until reduces unnecessary costs and adopt systematic way for PPC system.

The following are some major finding of BNL

1) BNL has not strategic planning of sales & production budget but it has tactical planning of sales & production.
2) The company has not been using participating management policy.
3) Actual sales of the company are in increasing trend.
4) Inventory turnover ratio shows that there is inefficient inventory management.
5) Actual productions are lower than the targeted production.
6) The company hasn't adopted systematic cost classification. There is no practice of segregating semi-variable cost into variable and fixed.
7) Utilization of capacity has been better in recent year.
8) The company doesn't prepare projected profit and loss account in advance.
9) P/V ratio of the company is 0.48 0r 48% on the basis of FY 2010/11.
10) There is no systematic way in purchasing for necessary equipment and fixed assets.
11) The company fails to maintain its periodic performance and there is no proper reward and punishment system.
12) A break-even sale of the company in FY 2010\11 is Rs. 1086,033.
13) Enterprises has no financial plan, they have only sales and production forecast.
14) The company has not defined clearly the duties and responsibilities of their employees. So there is role conflict and no co-ordination between departments and personnel.
15) The liquidity position of the company is very weak.

CHAPTER – 5

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Every business Organization tries to increase profit by effective planning and controlling. The Operation of business organization, PP is the most important tools used to plan and control business operation.

Profit planning is a significant and also essential tool of any business organizations for achieving objectives. Budget plan store financial plan, prepare as a guide and control of future operations and profit planning is a part of overall/ profit planning process of an organization.

BNL is one of the top ten companies listed in the NEPSE in term of the market civilization. It produces such soft drinks, which have highly demand in the national market. BNL has a cover nearly 90% of the Nepalese market compared with other brands of the similar products . The company produces five verities of soft drink like, coke, fanta, sprite, lime and soda.

The main objectives of planning in business are to increase the chances of marketing profit. The management is continuously involved planning, organization and controlling the operation of business organization.

This research paper has tried to analyze and examine the practice, producer and techniques of preparing various functional budgets. It also tried to answer the certain questions stated in the statement of problem.

The basic objective of the present study is to highlight the degree of application of profit planning in BNL. For fulfillment of the objectives of various functional budgets are analyzed in detail. For the purpose of analyzing a short term budget of data 2010/11 has been taken. These data have been analyzed with the help of various statistical and financial tools. Data have been collection from secondary sources, various book, published and unpublished reports by the company etc.

The study has been organized in five main chapters consisting of (i) introduction (ii) Review of Literature (iii) Research methodology (iv) Presentation and analysis of Data (v) Summary, Conclusion and Recommendation.

5.2 Conclusions:

After analyzing in detail the present practice of profit planning in BNL, this study concludes the following:

1) BNL has not done long range profit planning. Generally it has only short range forecasting.
2) The plans are prepared from top level with participating after employees of the company and later it is communicated to the lower level.
3) Sales and production budget is below the estimated sales and production.
4) BNL has not practiced of analysis the variance. So the management of this corporations not conscious to re-think about causes of variance.
5) Cost is not classified into controllable and uncontrollable costs, only classified into fixed and variable. The company has not made any effort to reduce controllable cost. So, cost control program are not effectively applied in BNL.
6) The objective of the company is not clear.
7) Lack of skilled planners and budgeting experts.
8) BNL is suffering from high fixed cost and non-manufacturing expenses.

9) There is not well-developed system of performance evaluation for employees.
10) Cost Volume profit relation is not considered while developing the sales plan.
11) The productivity of employees is very low, because BNL has not adopted employee's motivation and incentives factors.
12) BNL has not system of periodical performance report.

5.3 Recommendations:

On the basis of above analysis of the profit planning system of BNL the following suggestions have been recommended on the basis of major findings to improve the performance of the company.

1) BNL has been suffering from its high cost thus cost reduction program and effective and scientific cost system must be introduced and prepared for each responsibility centre.
2) Profit planning marvels should be communicated from top to lower levels. All personnel should be participated on decision making and planning process.
3) BNL should adopt more effective advertising system to communicate the significance of products. Because the advertisement is the eye of the company.
4) Sales and promotional budget should be prepared on the systematic approach. Sales production forecasting should be made after analyzing all the variables that affected the market of the company.

5) Objectives are the main guide of the enterprises. Thus, the company should formulate specific objectives.

6) The company should take reward and punishment policy to motivate employees.
7) To take corrective action and to improve the performance. Company should followed periodic performance reporting system.
8) The company should develop different functional, financial budgets in detail separating the costs, variables or fixed, controllable or uncontrollable.
9) The company should to launch various new products to fulfill the consumer demand.
10) The company should analyze SWOT (strength, weakness, opportunity and threats) analysis to improve the company's capability.
11) To improve the productivity of employees, more facilities should be provided to the employees.
12) Manpower planning should be developed by responsibility centre, unnecessary and more staffs should be removed.
13) Cash budget should be prepared monthly, half yearly and yearly basis to control the cash balance.
14) The concept of PPC should be applied in BNL to improve its overall performance.
15) Separate marketing department and specialist should be developed and appointed to develop effective marketing policy for sales expansion.
16) Volume of finished goods inventory and raw material inventories should be reduced to optimum level.
17) Direct expenses budget should be prepared.
18) The company should develop long term strategic plan.
19) BNL should maintain proper co-ordination between production and market demand.
20) Monitoring and evaluation should be done regularly inside and outside of office.

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Appendix:-1

Income Statement

For FY 2006\07 to 2010\11(in Rs 000)

Particulars	2006\07	2007\08	2008\09	2009\10	2010\11
Sales	634,189	746,581	1002,720	1588,149	1852,039
Cost of sales	389,258	455,134	621,893	887,111	1021,520
Gross Profit	244,931	291,447	380,826	701,037	830,519
Other income	1,092	1,317	25,268	(1,983)	(6,860)
Business Experiences					
Distribution expenses	21,178	25,972	34,822	49,726	62,069
Administrative expenses	182,872	217,564	236,708	292,927	394,121
Profit from operation	41,971	49,228	134,564	360,367	381,188
Interest	8,875	20,789	26,193	20,392	15,228
Depreciation	60,227	65,414	67,871	71,740	80,192
Amortization	531	1,030	2,570	6,889	6,906
Dividend from Bottelers Nepal (Terai) Ltd,	-	(83,483)	-	(31,306)	(52,177)
a SubsidiaryCompany	(385)	10,070	(9,972)	28,143	6,782
(Profit)\ Loss on sale of fixed asserts	-	1,770	1,896	13,225	16,212
Provision for staff quarter	-	3,367	3,276	22,843	28,003
Provision for bonus	(27,277)	30,272	32,765	228,438	280,039
Profit before tax	-	2,209	-	55,025	41,951
Income Tax	-	39,492	(4,566)	(4,088)	(3,472)
Deferred Tax	27,277	(11,429)	37,331	177,502	241,559
Net profit before tax	342,592	187,865	176,436	154,941	245,932
Balance brought forward	-	-	213,767	332,443	487,491
Profit available for appropriation	1,376	-	-	77,955	107,188
Dividend paid for earlier year	-	-	-	(2,000)	-
Capital reserve transferred	-	-	-	10,555	8,945
Previous year tax expenses	313,938	176,436	213,767	245,932	371,357
Balance of profit transferred to balance sheet					