CHAPTER-1

1. Introduction

1.1 Background :

Nepal is basically an agricultural country where more than 80% of the economic active populations are dependent upon it. This sector has contributed about 40% of the GDP. However, because of the traditional methods of farming, lack of modern tools and equipments, non-availability of fertilizer and improved seeds, lack of irrigation facilities and poor governmental policy towards agriculture has made this sectors a considerable less attractive. On the other hand increasing rate of educated generation does not prefer to return towards this sector. So, industrialization can play vital role to assist the long term development of the country. Development of industries can make prominent role to generate employment opportunities, solving the great problem of unemployment, reduce import, to earn foreign currencies and balancing the payments as well.

The first step towards industrial development was taken in 1930 by establishing an industrial council. After the Nepal Company act was acted in 1936 and same industrial enterprises came in 1951. Planned efforts towards industrialization were made. Nepal industrial development corporation was established in 1959 as a development Bank with the objectives of providing financial support to industries.

The industrial sector has played a vital and active role to generate the economic development of the nation. It helps the nation by reducing the foreign dependency and keep sound, healthy and self-confidence level. It generates the employment opportunities in respect to the maximum utilization of internal resources.

After 1950, a new recent discipline in the branch of accounting is developed naming Profit planning & Control. PPC is one of the comprehensive approaches that have been developed to facilitate effective performance of the management process. It is a systematic and formalized approach for accomplishing the planning co-ordination and control responsibilities of management. It is managerial process that includes planning, organizing, staffing, leading and controlling. From the commercial point of view, profit is top indicator of the economic development of any business concern. It is only possible by the great knowledge and experience of well and systematic management. Thus, management is the process of planning, organizing, communication and control.

A success profit planning and control depends so many factors. They are as follows:

1) Managerial involvement and commitment.
2) Organizing adaption.
3) Responsibility accounting.
4) Full communication.
5) Realistic expectation
6) Flexible application
7) Timeless
8) Individual and group recognition
9) Follow up

The strategic profit plan is broad and it is usually encompasses three or more years in the future.

This research study is with reference to manufacturing concern Kamala Plastic Pvt. L.td. it is one of the important manufacturing concerns in Nepal. It produces high density polythene pipes.

1.1.1 Industrial Background of Kamala Plastic Pvt. L.td.

When public enterprises were unable to run successfully because of its own limitation like inefficient management, lack of efficient personnel (civil servant), weak labor relationship, political interference, bureaucratic tendency, administered pricing system, poor profitability, lack of commercial spirit, increase in corruption and exposure to public censure then privation is highly prioritized. Kamala Plastic Pvt. L.td. has established in private sector to put aside from the problem of public enterprises.

Kamala Plastic Pvt. L.td. is situated in Janakpur industrial estate and the state is an outcome of agreement between Nepal Government and

Government of India dated 2nd Jestha 2031 (10th may 1972) with the cost of Rs.33, 58,000 N.C. Estate was handed over to Nepal Government on 1st poush 2032 (16th December 1975).

Janakpur industrial estate lies at the southern parts of Janakpur, Dhanusa district and Janakpur zone. It is about 300 kilometers from Birgunj. There are thirteen industries and eight of them are closed and it is spread over an area of 24 acres of land (190 ropani). Kamala Plastic Pvt. L.td. is spread over a area of 9.26 ropanies of total land. Kamala Plastic Pvt. L.td. is one of the largest industries of the estate. Kamala Plastic Pvt. L.td. has about 181(male) employees and was established in 2035 B.S. as a domestic industry at first with specified capital of Rs. 2, 00,000 under the partnership act 2020. This industry was transferred into small scale industry during the period of 2042 B.S. in the period of 2043 B.S. the industry was introduced as a large scale company (Industry) by increasing its capital and began the operation from the shrawan of the same year. The products of Plastics are in the process of acquiring authority to use 'NS' mark i.e. Nepal standard it works 24 hours in the three working shifts of 8 hours each of 7 days Kamala Plastic Pvt. L.td. has 100% domestic market.

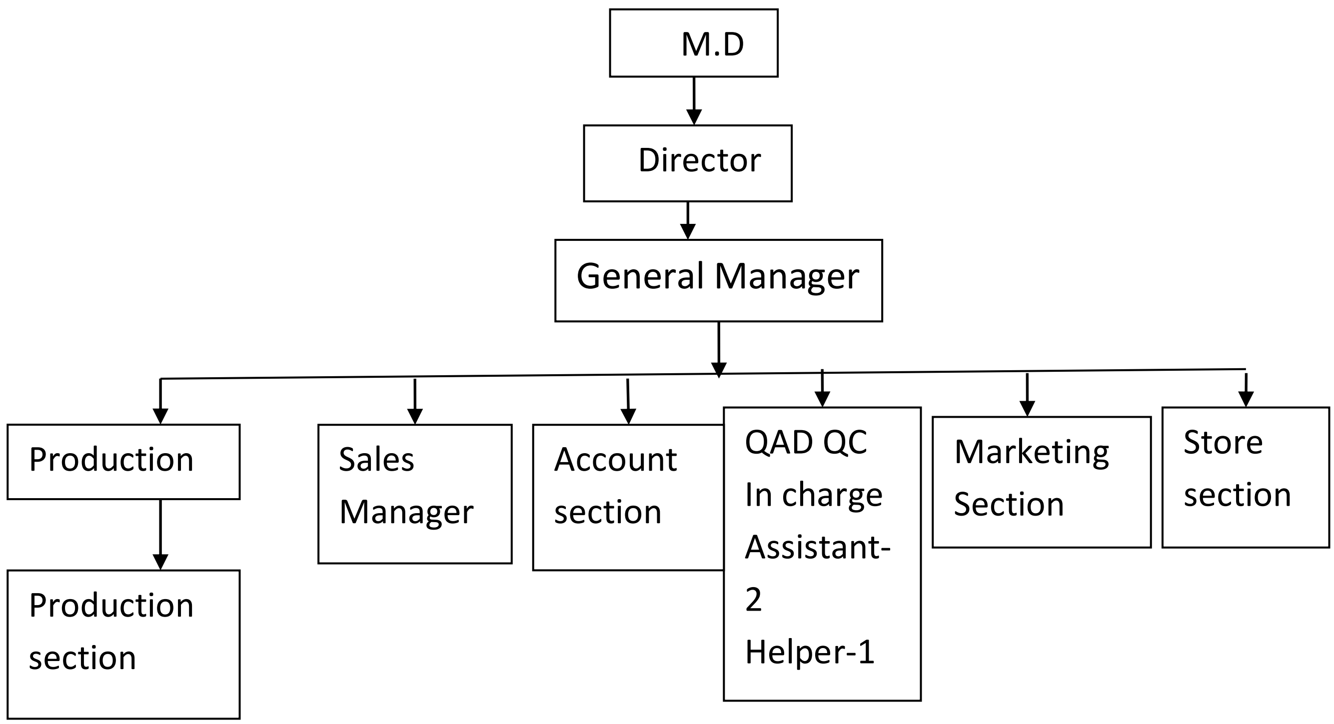
1.1.2 Industries involved in Nepal in the production of High Density Polythene Pipe

According to the booklet of Nepal standard High Density Polythene Pipe industries in Nepal obtaining Nepal Standard mark. They are listed as follows:

1) Nepal Polythine Plastic Ind. Pvt. L.td. Balaju, Kathmandu .
2) Narayani Plastic Pvt. L.td. kalaiya
3) Panchkanya Plastic Pvt. L.td. Dharan
4) Nepal Plastic Pvt. L.td. Dharan
5) Laxmi Plastic Pvt. L.td. Nepalgunj
6) Tandan Plastic Pvt. L.td. Nepalgunj
7) Nepal Blackcold Plastic Pvt. L.td. Butuwal
8) Hishi Plastic Pvt. L.td. Kathmandu
9) Kamala Plastic Pvt. L.td. Janakpur

10) Yeti Plastic Pvt. L.td. Kavre

1.1.3 Organization Chart Of Kamala Plastic Pvt. L.td.



QAD= Quality Assurance Department.

Source: - Quality Control manual of Kamala Plastic Pvt. Ltd.

1.2 Focus of the Study

Main focus of this study is to verify the short range planning adopted by the company. Even through, long range planning is also significant for the successful operation of the organization. But, this research paper is designed to high light short range planning. The following plans budgets will be especially analyze for the purpose of analyzing the short range planning of the industry.

a. Sales Budget.
b. Production Budget

c. Material Purchase Budget
d. Direct labor Budget
e. Other expanses Budget
    i. Administrative expanses Budget
    ii. Selling & distribution expanses Budget
    iii. Manufacturing Over head Budget
f. Cost Volume Profit analysis.
g. Flexible Budget.

1.3 Statement of the Problem

In the present study, we have taken the manufacturing concern Kamala Plastic Pvt. Ltd. Kamala Plastic Pvt. Ltd. has not utilized their full capacity. So, it is suffering from poor profit performance. Major problems faced by the Kamala Plastic Pvt. Ltd are sighted as follows:

i. Lack of clear cut objective or goals.
ii. Available capacities are not fully utilized.
iii. Lack of scientific evaluation system on every aspects of operation.
iv. Lack of responsibility & accountability in every section.
v. Non application of modern managerial tools and techniques.

This study has tried to answer the answer the following research questions on relation to Kamala Plastic Pvt. Ltd.

i. Whether the company has implemented profit planning or not?
ii. Flow profit planning system in Kamala Plastic can be improved?
iii. What are the major problems faced by the company on developing and implementing profits plans?
iv. What fundamental principles is short term and long planning is adopted by the company?

1.4 Objective of the Study

The primary objectives of the study is to highlight the degree of application profit planning concept in Kamala Plastic Pvt. Ltd. Major objectives of this study are as below:

a. To study various functional budgets adopted in Kamala Plastic Pvt. L.td.
b. To analyze the present comprehensive profit planning system Applied is the Kamala Plastic Pvt. Ltd.
c. To analyze the profit planning process of Kamala Plastic Pvt. Ltd
d. To identify the weakness & strength of the industry.
e. To Evaluate financial performance of Kamala Plastic Pvt. Ltd
f. To examine the various ratio.
g. To provide suitable suggestion and recommendations for improving profit plan.

1.5 Significance/ Importance of the Study.

This study concerned to theoretical explanation and practical application of profit planning in manufacturing company. Therefore it will be more useful for Kamala Plastic Pvt. Ltd management by theoretical and practical illustration and suggestion.

1.6 Limitations of the Study

This study confirms only to the profit planning of Kamala Plastic Pvt. Ltd. This study has been undergone through the data only five years. On the basis of financial document and planning documents, the accuracy of this study is depended upon the data availed by the management of Kamala Plastic Pvt. Ltd. This study is focused mainly with short term profit plan. This study is based on primary & secondary data available but mostly based on secondary data. This study is for the partial fulfillment of MBS course, so it may not be useful for other aspects.

1.7 Organization of the Study

This study has been divided into five chapters they are:

a) Introduction
b) (i) Conceptual back ground of Profit Planning
   (ii) Review of literature
c) Research Methodology
d) Data Presentation and Analysis

e) Summary, Conclusion and Recommendation.

In the first chapter contains introduction of Kamala Plastic Pvt. Ltd., Focus of the Study, Statement of the problems, Objectives of the Study, Importance of the Study and Limitation of the Study.

In the second chapter contents Conceptual back ground of Profit planning and Review of Literature. Conceptual back ground of Profit planning includes the theory of budgeting and Profit Planning. Fundamental concept of Profit Planning Process, Long term and Short term plan development of strategic and tactical profit plan. Importance of profit planning Sales plan, Production Plan, Expenses plan, Cash plan, Capital expenditure etc. The review of literature includes review of some previous related research work.

In the third chapter contents Research Methodology. This chapters includes Research design, Period covered, Nature of data, Source of data. Data collection techniques, Data analysis tools and Research procedure followed.

In the fourth chapter contents Data Presentation and Analysis. In this chapter data collected through various source has been presented. It mainly consist the analysis of various fundamental budgets from sales budgets to budgeted P/L A/c, Income statement and Balance sheet, Cost volume Profit analysis ratio analysis, Flexible budget etc. have also been done at the last of chapter.

In the last chapter this Study includes Summary, Conclusion and Recommendation.

Chapter-2

Review of Literature

(A) CONCEPTUAL BACKGROUND OF PROFIT PLANNING.

2.1 Concept of Profit Planning.

Profit planning is one of the most important management tools used to plan business operation. The effective operation of a business concern resulting in to the excess of income over expenditure fully depends upon as what extent the management follows proper planning & effective co-operation.

A profit plan is the formal expression of the enterprises plan goals and objectives started in financial terms for specific future period of time. Mostly profit plan depends upon the objectives of the organization. Plan should achieve the goals of the organization. It embarks on forecasting the environment in which objectives must be achieved. It determines approach by which the goals or objectives are to be accomplished commonly. The approach is described in the form of strategies, policies, programs and procedure for achieving the chosen objectives n a given environment. Profit planning programs also provides proper organization structure to implement the approval plans and policies.

The purpose of including this chapter is to clarify the concept of Profit Planning & Control in smooth and systematic manner. Profit Planning & Control (PPC) is newly developed concept as a crucial way in the business organization. The profit planning approach is especially useful in the selection and evaluation of the alternative to overcome the financial problem encountered by the enterprises. The tactical (short range) and strategic (long range) profit plan sometimes constitute many similar models. Which can be financial aspects of the enterprises in the process of a profit planning construction & use. A procedure such as decision models, income summaries, cash flow analysis & return on investment analysis provide critical information for assessing the impact of different alternatives. A PPC program helps management perform its control function by providing realistic goals and standards that are implemented and are than compared with actual result to measure performance.

The conceptual discussion of profit planning will be more meaningful only after clarifying and defining the idea of "Profit" and "Planning".

2.1.1 Profit

Every business organization is established to make profits. Success of any business organization is primarily measured by profit earned because profit is the acid test of individuals firm's performances. Profit vary from businessman to businessman and organization to organization. Every business organization is running behind the profit. The term profit has been defined by different people with different aspects. "An economist will say profit is the rewards for the entrepreneurship for risk taking. A labor leader might say it is a measure of how efficiently labor has produced and that it provides a base for negotiating a wage increase. An investor will view it as a gauge of the return on his or her money. An internal revenue agent might reward it as the base for determining taxes. The accountant will define it simply as the excess of the firm's revenue in a given fiscal period. Using the accountants measuring stick, management thinks of profit as:

- A tangible expression of the goods it has set for the firm.
- A mean of the performances towards the achievement of its goals.
- A mean of maintaining the health, growth and continuity of the company.

It is the ultimate objective of management to maximize profits over the long term consistent with its social responsibility"[1]. "An accounting concept of company profit is a concept of net business income. The sales transactions of a period are regarded is bringing new assets into the business and profit results if there are in excess of the assets leaving the business in the same period. Profit is thus the surplus income that remains after paying expanses and providing for that part of capital that has been consumed in producing revenue."[2]

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1. R.M. lynch and R.W Williansom," Accounting fot management planning and control"3rd edition (New Delhi Tata Me Graw Hill Publishing company Ltd.1996) Page-99-100.
2. A.W.Willsmore, "Business Budget and Budgeting control.(Sir Issae Ptiman & Sons LTD.)1986. Page.28

"Profit is the amount of revenue earned above the expanses incurred to operate the business."[3]. The word profit implies a companion of the operations of the operations of business between two specific dates which are usually separated by an interval of one year. "It should be noted that profits are residual income left after the payment of the contractual rewards to other factors of production."[4]

"Profit is a signal for the allocation of resources and a yard stick for judging managerial efficiency."[5]

Finally, it can be concluded that profit is the excess of revenue over the expenditures. It is said that profit is one of the most important key factor to measure how efficiently the business organization is operating.

2.1.2 Planning.

Planning is the first essence of management and all other function all performed within the frame work of planning. Planning is the sole concept of any efficient planning. No firm can accomplish its predetermined goals and objectives. Hence, it is the life blood of any organization which enable them efficiently running towards competitive environment.

"Planning is deciding in advance what is to be done."[6] . It is a process thinking what will be done in the future to accomplish firm's objectives. Planning starts from forecasting and determination of future results.

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3. Guerrieri/ Habir/Hoyt/ Turver."Accounting for management."(Mac Millan Mac Graw Hill)1996.Page-462
4. Shyam Josh." Management Economics" Kathmandu., Taleju Prakshan 2050 Page-170
5. PV Kulkarni," Financial Management" (India Himalayan Publising Kouse1985)Page245.
6. Y.K Bhusan."Fundamientals of Business Oraganization & Management" A. Sultan Chand & sons Publishibg House 1376) Page-552.

"All planning involves anticipation of future courses of actions (events) and therefore bear and elements of uncertainty in respect of its success".[7]

"Planning is the feed forward process to reduce uncertainty about the future. The planning process is based on the conviction that management can plan its activities and conditions of the state of the enterprise that determine its density."[8].

"The planning processes both long and short term is the most crucial component of the whole systems. It is both foundation and the bond for the other elements because it is throughout the planning process that we determining. What are going to do? How are going to do? Who is going to do? It operates as the brain center of an organization and life the brain in reason and communication."[9]

2.2.1 **Strategic or Long term Planning**

Strategic or Long term planning is generally planned for more than two years varying with the enterprise and sometimes extended to 10 Years. "The best ling range plan is one that establishes a broad flexible objective to serve as guide line for subordinates plans and that is not likely to become absolute as result of rapidity changes in technology."[10].

Basically long range planning is one important for broad and long living enterprise. It is the continuous process of making present entrepreneurial risk (risk taking) decision style systematically and with the best possible organizing systematically.

The main purpose of this plan is to serve primarily as a source of strategy, motivation and direction.

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7. IBH .Page 552.
8. I.M.Pandey." Financial Management "(India Vikash Publishing House Pvt. Ltd 1983)Page 554
9. R.K. Lekhi"The Economic of Development and Planning 1998. Page 32.
10. David N.Ewing." Long range planning for organization [New York Harper and Raw Publisher 1964] Page 7.

Some of decisions that are made in preparing long term planning are:

- Determination of goals, objectives and strategies.
- The level and direction of capital expenditures.
- The acquisition of new sources of funds.
- Organization design and structure.

"The objectives of long term planning given by George R. Terry is as follows:

- To provide a clear picture of weather the enterprise is handed.
- To keep enterprise strong.
- To evaluate management personal.
- To expedite a new financing.
- To bring attention to new technique."[11]

2.2.2 **Medium Term Planning.**

Medium term planning is normally prepared for two to three year horizon. This planning is detailed less than long range planning and more than short range planning.

"Medium term planning used mainly to determine the allocation of resources among competing activities to revise long range plans in view of more recent development. Medium term planning often takes the form of budgeting in which each division, development or unit allocated certain resources during the coming years. These allocations are based in part on forecast on demands, const financial position and competition with a time horizon of one to two years and critical decision on resource allocation, medium term planning must correctly predict the general levels of economic activity, since that effect such factors as revenues, profit, costs and expenditures.

The importance and infrequency of medium term planning make it worthwhile to spend more effect and employ more elaborate technique to obtain accurate prediction that is the case for shorter time horizon.

11. George R.Terry." Principal of Management" (Homewoodllions Richard, Richard Trwin Ind.1968.) Page-235

Often it may be wise to use more than one method in order to check and compare the accuracy of results. Some of the methods most frequently used for medium term planning needs are decomposition."

2.2.3 <u>Short Term Planning.</u>

Short term Planning is usually made for short period that is one year or less than one year. Short term planning includes policies, program, projects, budgets, procedures and rules.

Lower levels of managers are normally engaged in short term planning. It terms to be more detailed, more formal, and more certain than medium term and long term planning.

According to Koontz and Cyril O Domell. "The short range planning is to confirm to fiscal quarters or years, because of the practical needed for conforming plans to accounting periods and the same what orbitary limitation of long range to three to five years is usually based as has been indicated on the prevailing beliefs that the degree of uncertainty cover long period makes planning of questionable values."[12]

2.3 <u>Forecasting Vs. Budgeting</u>

Some times the term "Budgeting" and "Forecasting" are used interchangeably. Both terms base some similarities. For example both relate to future events and involve prediction of something. The basic difference between budgeting and forecasting lies in degree of sophistication involved in the predictions used by them. To prepare a good budged forecasting tools are needed extensively.

"Forecasting is an assessment of probable future events Budgeting is based on the implication of a forecast and related to planned events, forecasting proceeds preparation of a budget as it is an essential part of the budgeting process."[13]

12.Harold Koontz and C.O. Donnel." Long Range Planning for Management 1964" Page-37.

13. Jawahar Lal "Cost Accounting"2nd edition TATA M.C. Graw Publishing Co. Ltd. New Delhi.

Budgeting is not mainly forecasting of a particular events. It is not simply an estimation or prediction. It is a plan for certain period.

2.4 Budgeting as a Tool of Profit Planning

A budget is a formal expression of policies, plan, objectives and goals laid down in advance by top management for the undertaking as a whole and for every sub- division. Budget is expressed in financial form for a period of time in future.

"A budget is a detailed plan of operation for some specific future period. It is an estimate, prepared in advance of the period to which it applies; it acts as business barometer as it is to complete programme of activities of the business for the cover period covered."[14]

"Budget control is a system of controlling costs which includes the preparation of budgets, coordinating the departments and establishing the responsibilities comparing actual performance with the budgeted and acting upon results to achieve maximum protitability."[15]

Thus budget is concerned with policy making while budgetary control results from the implementation of the policy. The common objectives of budgetary control are to formulate policies aimed at objectives established after the consideration of the possible course of events in the future and to provide a means for the constant comparison of actual progress towards these goals against the preconceived results. Budgets not only compare the actual results with those of budgeted but also provide a standard of the performance.

2.5 Requirements for effective budgeting.

There are some requirements to develop effective budgeting which are as follows:

a. Support of top management while developing budget programmed and implementing it.

14.Dr. S.N.Maheswori" Management Accounting & Financial Control"10th revised & enlarged edition 1995.

15. Man Mohan & S.N Goyal," Principals of Management Account " India . Printice Hall of India Ltd. Page-123.

b. Clearly defined organization with defined responsibility on each responsibility center.
c. Accumulate and clear accounting system.
d. Unambiguous policy.
e. Preparation by responsible executives.
f. Immediate action in variance between actual and budgeted results.
g. Continuous budget education to employees of the undertaking on the objectives, potentials and techniques of budgeting.
h. Logical and sequential process in preparation, submission and review of budget.
i. Flexible for both possible and unforeseen circumstances require essentially in budgeting.

2.6 The Fundamental Distinction of Profit Planning

The concept of budgeting was originally established with the function of accountant . At its origin the function of budgeting was assign to the accountant. But in modern day budgeting as given much more importance and as regarded as a way of management and in more importance sense is regarded as a basic technique of decision making and is given the name " Profit, Planning & Control Program".

A well established and a well understood profit planning and control concept leads and organization to ultimate successes. But a failure to grasp this concept leads to choose for a business. So, just to understand this concept better consideration should be given to following point.

2.6.1 The Mechanism of Profit Planning

The mechanism of profit planning includes the matter related to design of budget schedules circle computation of such schedules and routine computation and check of such schedules.

2.6.2 The Techniques of Profit Planning :

The techniques are special approaches and methods of developing information for managerial use in the decision making process. The techniques are made varying from the simple to the sophisticated. Some of the most commonly used techniques are methods of forecasting sales volume, approaches in resolving the sales-resources, inventory problem, breakeven analysis, resource determination, cash flow analysis and variance budgeted procedure.

2.6.3 The Fundamental of Profit Planning

The fundamental are concerned with effective application of the theory at management process. It is applied for desirable management orientation these fundamental need to the established as a foundation of managerial commitment. Following are the some of the important fundamentals of Profit Planning.

2.6.3 (a) Managerial Involvement and Commitment

Managerial involvement entails managerial support, confidence, and participation and performance orientation. In order to engage completely in comprehensive Profit, Planning & Control, all levels management especially top management must consider the following points.

- Understand the nature and characteristics of Profit Planning.
- Be willing to develop the effort required to make it operative.
- Be convinced that this particular approach to managing is preferable for their situation.
- Support the program in all its ramifications.
- View the results of the Planning process as performance commitments.

Top management has a much broader planning responsibility than lower management and yet each level of management should have definite planning responsibilities.

Modern concept of comprehensive profit planning has highly emphasized on managerial involvement because modern PPC believes on “Performance expectation” rather than on fiscal expectation. Because modern business believes on the set objectives or goal rather than earning short run more monitory profit.

2.6.3 (b) Organization Adaptation

A success of the Profit Planning Program must rest up on the sound organization structure for the enterprise and a clear cut designation of lines of authorities and assignment of authorities is of establish a frame work in which enterprise objectives may be attained in co-ordinate and effective way on a continuing bases. Clear cut designation in organization terminates duplication of actions and creates continuous flow of work.

2.6.3 (c) Responsibility Accounting

The accounting system must be designed in such a way that provides financial information separately from each organization units and subunits because this information is used as historical data to analyzer determine variance. Moreover, this financial information can be used to with objects, goals and standards for same above mentioned purpose for the present period also.

2.6.3 (d) Full Communication

Communications can be broadly defined as an interchange of thoughts or information to bring about a mutual understanding between two or more parties. It is needed for both the feed forward & feed backward process which is most important for operation of any organization. Communication may include a combination of words, symbols, message and subtleties of understanding that comes from working together. Effective communications for profit planning comprise that all people of organization should have same degree of understanding about responsibilities, objectives and goal. Flow of information may be downward or horizontal as per requirement.

2.6.3 (e) Realistic Expectation

Profit Planning & Control must be based on realistic approach or estimation management must not take either irrational optimism or unnecessary conservatism. The objectives and goals should be capable of attainment. Goal set a high as to be practically impossible of attainment discourage series effort to achieve them. To be realistic expectation must be related:

I. To their specific time dimension.
II. To as assumed external and internal environment that will prevail during that time span.

2.6.3 (f) Time Dimension

Effective implementation of the PPC concept requires that the management of the enterprises establishes a definite time solution for certain types of decision. Weather an individual or an entity remains busy time passes at the same rate. So, the problem of the manager in one hand is to accomplish the planned activities in a given time and in other hand is to prepare plan itself. The most difficult part is phasing of the planning are of two types:

1. Timing of planning horizons.
2. Timing of planning activities.

Planning horizons is time for which the planning is done for any enterprises there use to be many planning horizons to maintain the continuity of planning activities. The decisions made by the manager for future activities reflects the managerial planning in order word managerial decision which reflects planning activities always use to have effects on future activities.

For effective implementation of planning management of an enterprise must establish a definite time dimension types for each activities. In other word for each activities related with planning would be given definite time for implementation followed by other activities.

From the view of point time dimension a manager should maintain clear cut distinction between historical and future consideration. Because the result derived from historical activities should be considered as platform for deciding plan.

2.6.3(g) Flexible Application

Profit Planning and Control programme or any other management techniques should not dominate management slowly. Any of such techniques of management must not be flexible or rigid. These are the techniques or means which is not only the end of the management is to use the resources in the most effective way and earn high return on investment and for this purpose profit planning & control or other techniques are used as means only. The principal of flexibility is especially important cost control. Expanses and cost budget must not constrain rational decisions that should be made with respect to expanses morally because expenditure was anticipated.

2.6.3(h)Behavioral View Point

The human relations angle in setting up budgets must not be forgotten. Actually a budget coordination the budget and the supervisor of each shop and ultimately between there two men and top management.

The most carefully drawn budget, the best in the word from the technical point of view is doomed to failure if the human element is not taken into account. So, for implementing the PPC program effectively, these should be a proper co-ordination between individuals goals needs and organization goal needs.

2.6.3(j). Follow Up

The importance of follow up action on profit planning & control approach is more. Follow up action after a careful study is needed to:

i. Correct the action of substandard performance in a constructive manner.
ii. To recognize and transfer the knowledge of outstanding performance to others.
iii. On the bases of the study and evaluation to provide a sound basis for future profit planning & control programme.

2.7. Process of Profit Planning & Control

A Comprehensive PPC program encompasses the application of the broad concept of profit planning and control to all phases of operations in an enterprise. "The planning process should involve periodic consistent and in depth in depth re-planning so that all aspects of operations are carefully re-examined and re-evaluated this prevent a budget planning approach that involved only justification of increase over the prior period, the concept of re-evaluation and necessary justifiers all aspects of the plans periodically finds its strongest support in what has been called zero base budget."[16]

According to Welsch; Hilton and Gordon, sequential phase of profit planning &control process are as under:

2.7.1 Identification and Evaluation of External Variables.

Every Business Organization is directly or indirectly influenced by the external variables. So, external variables should be identified and analyzed. These variables may controllable or uncontrollable. Most of the external variables are not controllable and non controllable. Variables how to gain the potential favorable impacts should be well considered.

2.7.2 Development of the Broad Objectives of the Enterprise

After identifying the relevant variables and finding the strength and weakness of organization, executive management can specify broad objectives of the enterprise. The statement of broad objectives should

16.Peter A Plivr "Zero Base Budgeting"(New York John willey & Publisher1973)

Express the mission, vision and ethical character of the enterprise are as under:

i. To define the purpose of the economy.
ii. To clarity the philosophy character of the company.
iii. To create a particular climate within the business.
iv. To set a guide for managers so that the decision they mark will reflect the best interests of business and justice to those concerned.

2.7.3. Development of Specific Goals for the Enterprises.

The purpose of the goal, phase of the profit planning process is to bring the statement of broad objectives in to spear focus and to move from the realm of general information to more specific planning information it provide both narrative an quantitative goals that are related to the enterprises as a whole and to the major responsibility center. Executive management develops these goals so that there will be realistic and clearly articulate frame work within which operation will be conducted toward common goals.

2.7.4 Development and Evaluation of Enterprise Strategies.

Companies strategic are the basic thrust ways and tactics that will use to attain planet objective and goals. A particular strategic may be short term and long term; here are some actual examples of basic strategic:

- Increases long term market penetration by using the technology to develop new products and improves current products.
- Emphasize product quality and price for the top of the market.
- Expand marketing to all status.
- Market with low price to expand volume (units).
- Use both institutional and local advertising programs to build market share.
- Improve employee's morale and productivity by initiating a behavior management program.

2.7.5. Executive Management Planning Instructions

This phase involves communication to middle and lower management levels; it explains the broad objective, enterprise goals, enterprise strategies and other executive management instruction needed to develop the strategic and tactical profit plans. It is also called the statement of planning premises or the statement of planning guidelines.

2.7.6 Preparation and Evaluation of Project Plan

Periodic plans and project plans are different in nature and function. Profit plans encompass variable time horizons because each project has a unique time dimension. Project plans encompass such items as plans for improvement of present products, new and expanded physical facilities, and entrance in to new industries, exit from products and industries, new technology and other major activities that can be separately identified for planning purpose, the nature of project is such that they must be planned as separate units. In planning for a project, the time span considered must normally be the anticipated life span of the project. Projects approved must then be timed in to the strategic and tactical profit plans.

2.7.7 Development and Approval of Strategic Tactical Profit Plans

The manager of the various responsibility centers in the enterprise can begin intensive activities to develop their respective strategic and tactical profit plans after receiving the executive. Management planning instructions and the project plans. Assuming participating planning and receipt of the executive management instructions the manger of each responsibility center will develop the strategic and tactical profit plans. Certain format and procedural instructions should be provided by a centralized source. Normally the financial function to establish the general format, amount of detail and other relevant procedural and format requirements essential for aggregation of the plans of the responsibility centers in to the overall profit plans. All of this activity must be co-ordinate among the centers in conformity with the organization structure. The manager of each responsibility center will immediately initiate activities within his or her responsibility center to develop a strategic long term profit plan (five years) and tactical short term plan (one year).

2.7.8 <u>Implementation Profit Plans</u>

Implementation of management plans that have been developed and approved in the planning process involves the management function of leading sub ordinates initiating enterprises objective and goal. Thus effective management at all levels requires that enterprise objectives, goals strategies and policies be communicated and understood by sub ordinate there are many facts involved in management leadership. However, comprehensive profit planning and control program may aid substantially in performing the function, plans, strategies and polices developed through significant participation establish the foundation for effective communication the plan should have been developed with the managerial conviction that they are going to be met or exceeded in all major results. If these principles are effective in the development process the various executive and supervisors with have a clear understanding of their responsibilities and the expected level of performance.

2.7.9 <u>Use of Periodic Performance Report</u>

Periodic performance reports are needed after implement ting the profit plan. Accounting department on monthly basis prepares this performance reports. Also same special performance reports are prepared more after on as needed basis. These performances (a) Compare actual performance with planned performance and (b) Show each difference as favorable or unfavorable performance verities.

2.7.10 Use of Flexible Expanse Budget

The flexible expanse budget is also referred to as the variable budget sliding scale budget expenses control budget and formula budget. The flexible budget concept applies only to expanses. It is completely separate from the profit plan but it is used to complement if many companies does not used flexible budget procedures. Flexible budget give realistic information about expanses that makes it possible to compute budgeted amount for various output volumes or rate of activity in each responsibility center.

2.7.11 Implementation of Follow Up

Follow up is an important par for effective control. Because performance reports are based on assigned responsibilities, they are basis for effective follow up actions. It is important to distinguish between cause and effect. The performance variations are effects (the results) the management must determine the underlying causes. The identification of causes primarily or responsibility of line management. The causes of favorable and unfavorable performance variances should be given immediate priority. In case of unfavorable variance the alternative for corrective actions must be selected and then implemented.

2.8 Importance of Profit Planning.

Profit planning means the development and acceptance of objective and goals and moving an organization efficiency to achieve the objectives and goals by substantive financial plan technique, profit planning is very important to emphasis on developing positive reinforcement, improving, motivation, developing, goals with the effect of budgeting pressure resolving budgeting padding problem and using budget of control.

The profit planning control can be adopted any (profit or nonprofit services or Manufacturing) regardless of size special circumstances or condition, so that a business enterprise has always thinking about sound profit planning & control. Following major points that show the importance of PPC in enterprise.

1. It forces early consideration of basic policies.
2. It requires adequate and sound organization structure.
3. It compels all members of management from the top down to participate in the establishment of goal and plans.
4. It compels departmental make plan in harmony with the plans of other department and of the entire enterprises.
5. It requires that management 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 labor material and capital
8. It instills at all levels to management and habit of timely careful and adequate consideration of the relevant factors before reaching important decisions.
9. Produces cost by increasing the span of control because few a supervisors are needed.
10. It frees executives from many day to day internal problems through predetermined policies and clear cut authority relationship. It there by provides more executive time for planning and creative thinking.
11. It tends to return the cloud of uncertainty that exits in many organizations that exits in many organizations especially among lower levels of management, relative to basic policies and enterprises objectives.
12. It pin points efficiency and inefficiency.
13. It promotes understanding among member of management of their to works problems.
14. It forces management to give adequate attention to the effect of general business condition.
15. It forces a periodic self analysis of the company.
16. It aids in obtaining bank credit.
17. It checks progress or lack of progress towards the objective of the enterprise.

18. It forces recognition and correctives action.
19. It rewards high performance and seeks to correct unfavorable performances.
20. It forces management to consider expected future trends and condition.

2.9 Limitation of Profit Planning.

Profits are the indispensable element in a successful business enterprise. A firm making inadequate profit will not only service but will perhaps becomes a social or economic disaster to the every society that is expected to support social responsibility is a fair weather concept, management cannot begin to think in term of philanthropy unless profit are adequate.

The usefulness of comprehensive profit planning & control has been emphasized. However, it should not be assumed that the concept is fool proof or that free of problem. The following limitation should be considered while developing PPC program.

i. The profit plan is based on estimate.
ii. PPC program must be tailored to fit the changing environment circumstances.
iii. Execution of a profit plan will not occur automatically.
iv. The profit plan is not a substitute for management.

2.10 Basic Elements of Profit Planning.

Basic elements of profit planning are as follows:

a) It is Expressed in Financial Term

All activities covered by budget are related with funds so the budget have to be expressed in monetary unit i.e. rupees, dolor or ponds.

b) It is a Future Plan for Specified Period.

Time dimension must be added to a budget. A budget is meaning full only when it is related to specific to time.

The budget estimation will be relevant only for some specific period.

c) **It is plan for the firm's operating and resources.**

Budget is a mechanization to plan for the firm's operations or activities. The two aspects of every operation and revenue and expenses. The budget must be planned for the quantity revenue and expenses related to specific operation. Planning should not be made for carry out the operations the planning for resources will include the planning for assets and sources of funds.

d) **The budgets preparation by different departments inside the organization have to coordinate:**

The profit planning considered all activities and operation of an organization. The budgets prepared by different department inside the organization have to be compelled or coordinated and it is done by profit planning so before preparing a profit planning. Firstly all the departments have to be compelled and that budget is known comprehensive budget profit planning.

2.11 Development of Profit Plan.

"The initiating management decision in developing the plan were the statements of broad objective specific goals, basic strategies and planning premises following those activities and decision the strategic (long range) and tactical (short range) profit plans are developed there profit plans are based on a structural planning process that includes a series of sequential steps."[17] These sequential steps are as follows:

a. The Sales Budget/ Plan.
b. The Production Plan.
c. The Material Plan

17Glemn A Welsch" Budgeting Profit Planning & Control" 5th edition Page-1

d. The Direct Labor Plan.
e. The Overhead Plan.
f. The Capital Expenditure Plan.
g. Cash Plan.

2.11.1 <u>The Sales Budget/ Plan</u>

The sales budget forms the fundamental basis on which the other entire budget are built up. The Sales Budget is a rational estimate of sales based on previous result on present internal and external conditions in the firm and on the general economic factors. "The Sales Planning process is a necessary part of PPC. Because,

I. It provides for the basic management decisions about marketing and
II. Based on those decision it is a organized approach for developing a comprehensive plan." [18]

2.11.1.(A) Purpose of Sales Planning

The Primary purpose of sales plan are (Welsch 1992)

a. To reduce uncertainty about futures revenues.
b. To incorporate management judgments and decision into the planning process.
c. To provides necessary information for developing other elements of a comprehensive profit plan.
d. To facilitate managements control of sales activities.

2.11.1 (B) Developing a Comprehensive Sales Plan.

1. Develop management guidelines for sales forecast
    a. Supply guideline to the entire development.
    b. About 4 P's (Price, Product, Promotion, Place)
    c. Objectives.
2. Prepare Sales forecast.

18.Glemn A Welsch "Budgeting Profit Planning & Control"5th edition Page 171.

3. Assemble for other data that will be relevant in developing comprehensive sales plan.
4. Develop the strategic and tactical sales plan.
5. Secure managerial commitment to attain the goal.

2.11.2 The Production Plan

After developing the comprehensive sales plan, the next steps in manufacturing enterprises is to develop a production plan this entails the development of policies about efficient production levels use of productive facilities and inventory levels. The quantities specified in the marketing plan adjusted to confirm to production and inventory policies give the volume to goods that must be manufacture by product and by interim time period.

2.11.2(A) General Considerations in Production Planning

a. Total production requirements (by product) for the budget period.
b. Inventory policies about levels of finished goods, work in progress and the cost of carrying inventory.
c. Plant capacity policies such as the limits of permissible departure.
d. Adequacy of management.
e. Availability of management.
f. Availability of direct material, purchased component and labor.
g. Length of the processing time.
h. Economic loss or runs.
i. Timing of production through out of the budget period, by product and by responsibility centers.

2.11.2(B) Developing the Production Plan.

The production planning refer production levels are of production facility and inventory level the second step of profit planning and control is the production budget considering management inventory policies.

Production manager must translate the quantities in the sales budget in to unit production requirements for budget period for each product. Thus the production budget can be developed in this way:

➢ Planned sales (units)	XXX.
➢ Add: Planned ending inventory of finished goods.	XXX.
➢ Total Requirements	XXX.
➢ Less: Opening inventory of finished goods.	XXX.
➢ Planned Production for the year.	XXX.

2.11.3. Material Budget

Raw material is needed for production. So, material budget specifies that how much raw materials be purchased in term of quantity and rupees in the budgeted period. Material budget is a coordination of production requirements for materials and component parts raw material and parts inventory levels and purchase of raw materials.

The following four sub budgets are developed in planning raw materials and parts.

i. Material and Parts Budget

The budget specifies the planned level of raw material in terms of quantities and cost. Generally the quantities of raw materials and parts are shown by time product and responsibility center. It helps to determine the quantities to materials and parts needed for production material budget can be calculated in the following way.

Total required units of material for production = (Production unit X required unit of raw material for each production.)

ii. Material and Parts Purchase Budget

Material & parts purchase budget specifies the planned quantities of material and parts to be purchased the estimated cost and the required delivery date. Purchasing manager is responsible for preparing material purchase material.

The purchase manager should use the following formula to determine the Purchase unit.

Total required unit of material for Production	XXX
Add: closing inventory of material	XXX
Required units of material	XXX
Less: Opening inventory of material	XXX
Planned Purchase (unit) of material	XXX

(iii) Material & Parts inventory Budget

Material inventory budget means the budgeted level of material & parts interim of quantities and cost. The difference in units between material requirement and purchase budget is known as material and parts inventory budget.

(iv) Cost of Material used Budget.

This budget specifies the estimated cost of materials planned for in the budget.

2.11.4. Direct Labor Budget.

Before defining direct labor budget, it is necessary to define direct labor cost. Direct labor cost includes the wages paid to employees who work directly specific productive output. Whereas, indirect labors involves all other labors cost such as supervisory salaries and wages paid to toolmakers, repair personal, storekeepers and custodians.

The direct labor budget includes the planned direct labor requirements necessary to production budget. In broad concept, labor cost includes all expenditure for employees such as top executives, middle management personal, staff officers, supervisors and skilled & unskilled employees.

In some companies it is four that labor costs are greater than all other costs combined. So, effective planning & systematic control of labor costs are most essential for these companies. Planning & controlling labor costs involves major and complex problem areas:-

a. Personal needs.
b. Recruitment.
c. Training.
d. Job description & evaluations.
e. Performance measurement.
f. Union negotiations.
g. Wages and salary administration.

The following four major factors determine which approach to be used develops the direct labor budget:

a. Method of wage payment.
b. Type of production process involved.
c. Availability of standard labor time.
d. Adequacy of the cost accounting records relating to direct labor cost.

An important function of industrial engineer is to develop standard labor time for various operations and products. Some approaches used in planning standard labor time are the following:

a. Time and motion studies.
b. Standard cost.
c. Direct estimate by supervisor.
d. Statistical estimate by staff group.

2.11.5. Overhead Budget.

As Welch mentioned that expense, planning should not focus on decreasing expenses but rather on better utilization of limited resources. To support the objectives and planned programmed, reasonable expenses should be maintained and the relationship between expenditures and the benefits divided from those expenditures should be focused and analyzed. Cutting expenses without considering the efforts on benefits, such decision temporarily reduce expenses soon they cause even higher cost because of breakdowns, inefficient machine, frustrated employees, shortened assets lives etc.

There are three distinct categories of expenses.

a. Fixed Expenses: Constant in total regardless of fluctuations in output, variable per unit.
b. Variables Expenses: Change in total with the change in output, constant per unit.
c. Semi Variable Expenses: Semi variable expenses change in the same direction but not in proportion to the change in output and they are neither fixed nor variable.

Three broad categories of expenses are included within the overhead budget.

- Manufacturing overhead (Factory Overhead).
- Selling & Distribution expenses.
- Administration expenses.

2.11.6. Capital Expenditure Budget.

"Capital budgeting involves the generation of investment proposals, the estimate of cash flow for the proposals, the evaluation of cash flow, the selection of projects based upon an acceptance criteria and finally the continual revolution of investment. Project after their acceptance."[19]

"Capital budgeting may be decided as the decision making processes by which firms evaluate the purchase of major fixed assets including building machine and equipment. It is a part of firm's formal planning process for the acquisition and investment of capital."[20]. Simply, a capital expenditure is the use of funds to obtain operational assets will help to earn future revenue and reduce future costs. So, while making decision of capital investment, serious consideration should be given and proper evaluation should be made on proposals.

The widely used methods for measuring the economic value of a capital expenditure are:

19.James C.Van Horn " Financial Mangement Policy". 8th edition (New Delhi prentice Hall of India 1976.Page-66.

20. Hampton John J. Financial Decision Making,Virginal.Reston Publishing Inc. Reston1976.

(1) Non discounted Cash Flow Method

(a) Pay Back Period (PBP)

(b) Accounting rate of Return

(2) Discounted Cash Flow Method

(a) Net Present Value (NPV)

(b) Profitability Index (PI)

(c) International Rate of Return (IRR)

The budget of capital addition included in the annual profit plan for a company is assembled by the financial manager and his staffs.

2.11.7 Cash Budget

The cash budget is a plan of future cash receipt and payment. Cash budget is the statement showing the estimated cash income (cash flow) and cash expenditure (cash outflow) over a projected time period. In order word, a cash budget shows the planned cash inflows, outflow and ending cash position by inter in period for a specific time span. A cash budget basically included two parts:

a. The planned cash receipts (inflow).
b. The planned cash disbursement (Outflow).

It also deals with the need for financing probable cash shortage and need for investment planning to excess cash of profitable use. It is directly related with the sales plan, accounts receivables, expenses budgets and capital expenditure budgets and capital expenditure budgets. The company treasurer for preparing cash budget.

2.12 Completion of the Profit Plan.

The development of an annual profit plan ends with preparation of planned income statement, the planned balance sheet and the planned statement of cash flows; these three statements summarize and integrate the detailed plans developed by the management for the planning period. Now, it is desirable to restate certain budget schedules so that technical accounting machines, computations and journal can be avoided as much as possible. The redesigned schedules should be assembled in a logical order and distributed before the first days of the planned budget periods.

2.13 Planning for Non Manufacturing Concern.

There is a basic difference between Manufacturing and Non Manufacturing enterprises that influences the application of sales planning & material purchase planning.

Typically a non manufacturing enterprise (e.g. whole sale & retail) purchases and sells a number of dissimilar products that vary in major ways such a usage size weight, price, style and service required the sales plan is the first merchandise budget usually includes planning or sales, inventory markdowns, employees discounts, stock shortages, purchase and gross margin.

2.13.1 Planning Inventory Levels & Purchases

Retail & Wholesale companies must plan the amount of inventory stock that should be on hand at the beginning the month. BOM plus the planned inflows of goods during the month must be adequate to support planned sales. However, inventory must be kept at levels that minimize the risk of losses through style are seasonal changes obsolescence and excess capital tied up in inventory. Here two methods of computing the stock sales ratio are presented.

1. Stock sales ratio at retail price $= \dfrac{\text{Average Inventory at retail}}{\text{Net sales}}$
2. Stock sales ratio at cost $= \dfrac{\text{Average Inventory at cost}}{\text{Cost of sales}}$

The following formula is usually applied to compute the planned purchases at retail value.

Planned purchase (at retail value) = Planned net sales + planned reductions + planned EOM stock – Planned BOM stock.

Where, EOM = Ending of month

BOM= Beginning of month

2.13.2 Open to Buy Planning

Open to buy is a term generally used in non- manufacturing enterprises to refer that amount that a buyer can spend for goods during a specific time period.

A. Stock Needed

EOM Inventory		xxx
Add: Planned sales for remaining Period		
Planned sales for whole period	xxx	
Less: actual sales to date	xxx	xxx
Add: Planned reduction for remaining period		
Planned reduction for whole period	xxx	
Less: Actual reduction to date	xxx	xxx
(A) Total Stock Needed		xxx
B Stock Available		
BOM Stock		xxx
Add: Merchandise received to date		xxx
Less: Actual Sales to date		xxx
Less: Actual reduction to date		xxx
Add: Merchandise order for delivery		xxx
(B) Total Stock Available		xxx
Open to buy stock at retail (A-B)		xxx

Open to buy stock

At cost = Open to buy $\left\{1 - \frac{\text{initial Markup}}{100}\right\}$

If available stock were in excess of needed stock, the department would be over budget.

2.13.3 Cost- Volume- profit (CVP) Analysis

The break even analysis is the most widely known from the CVP Analysis. For this reason, the two terms are used interchangeable by many break even analysis is a specific way of presenting and studying the inter-relationship between cost, volume & profits. It provides information to management in most lucid & precise manner. It is an effective & efficient financial reporting system.

The break even analysis established a relationship between revenues and costs with respect to volume. It indicates the level of sales at which costs and revenues are in equilibrium. The equilibrium point is commonly known as the breakeven point. The breakeven point is that point of sales volume at which total revenue is equal to total costs. It is a non- profit, no less point. The more significant aspect of the CVP analysis is to examine the effects of changes in cost, volume & prices on profits.

Two approaches can be used to complete the breakeven point.

I. The Formula approach
II. The Chart approach

1. The formula approach

Unit Contribution = Unit Selling Price – Unit Variable Cost

Total Contribution = Unit Contribution x Units Sold

Total Contribution = Total Fixed Cost + Profit

$$\text{BEF (Units)} = \frac{\text{Total Fixed Costs}}{\text{Selling Price – Variable Cost Per Unit}}$$

$$\text{BEP (Rupees)} = \frac{\text{Total Fixed Cost}}{1- \dfrac{\text{Variable Cost Per Unit}}{\text{Selling Price}}}$$

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

2. **The Chart approach**

Estimated Sales (Unit Sold x Per Unit Price)		xxx
Less: Variable Cost		
Direct Material	xxx	
Direct labor	xxx	
Factory overhead	xxx	
Administrative & Selling overhead	xxx	xxx
Contribution Margin		xxx
Less: Fixed Cost		
Factory Overhead	xxx	
Administrative & Selling Overhead	xxx	xxx
Net Profit		xxx

2 (B) REVIEW OF RELATED LITERATURE

Here are very few dissertation have been submitted in the topic of Profit Planning in Nepal. Whatever, the research in the area of profit planning has been made also not in depth and in detail. However, those researches work directly or indirectly influence the concerned authorities to adopt profit planning to improve the profitability and to fulfill the social expectations. Here, some of the research work which has been submitted in Profit Planning & Control in the context of Nepal will be reviewed.

1. Shiv Prasad Nepal

A research paper conducted by Mr. Shiv Prasad Nepal on the topic. **"Profit Planning in Nepalese Manufacturing & public enterprises. A Case Study of Lumbini Sugar Mills Limited" Submitted to central department of management, T.U., Kathmandu, in 1995,** has the main objectives of to examine the degree of sales realization in respect to budget figure, to high light the planned production and actual trends, to examine the cost structure and to analyze the profit pattern of the company. To fulfill the objective Mr. Nepal has used both primary and secondary source of data. The time period covered by the study was 5 years from FY 2046 /47 to FY 050/51. Some major findings of the study on the analysis of available data are pointed out as follows:

a) There is no executing management planning instructions and effective communication system in Nepalese Manufacturing public enterprises.
b) Sales plan is the infrastructure of profit plan other plans of profit plan depends upon sales plan but in Nepalese Manufacturing public enterprises the infrastructure of profit plan is production plan.
c) In Nepalese Manufacturing public enterprises there is no detail expanses plan which is the necessary element of profit planning.
d) In developing countries like Nepal supply side is important than demand side because the country cannot fulfill the national element by internal production.

Mr. Nepal has recommended the suggestion to improve the profit plan in following:

a) Top management should co-ordinate with all levels of management for setting goals for sub division.
b) Sales plan is a primary plan of profit planning so it should prepare the strategic long range and tactical short range sales plan.
c) It should prepare plan of material inventory, direct labor, variable cost and other expanses there are vital requirements of profit planning.
d) Cost control is important in every Manufacturing public enterprises, cost control is impossible through standard cost technique so that the Lumbini Sugar Mills Ltd. should implements the standard costing approach.

2. Bhim Narayan Upadhaya

Mr. Bhim Narayani Upadhaya has submitted a dissertation of the topic of "**Profit Planning & Control in Manufacturing public enterprise of Nepal. A Case Study of Birgunj Sugar Factory Limited". Submitted to the Faculty of Management central department of T.U., Kathmandu in 1998**. In case of partial fulfillment of M.B.S, He has explored the data of seven years from, FY 2047/48 to FY 2053/54. Research methodology was followed through secondary sources of data for data gathering procedure. But for other essential information primary data were also used.

Mr. Upadhaya has pointed here various findings based on the analysis of data and information. Few major findings regarding to BSFL are as follows:

a) The financial performance of Manufacturing Public enterprises has quite dismal and not be hoped to improve the situation of the enterprises in near future.
b) There is no well developed system of performance evaluation for employees and there is no fair and appropriate system of motivational enforcement to employees on the basis of their task performance.
c) Cost volume profit relationship are not considered while developing sales plan and pricing strategy.
d) The plans are prepared from top level and letter it is communicated to the lower level.
e) There is no adequate and clear out responsible a money various management level and departments.

Major recommendation stated by Mr. Upadhyay to develop implement and improve the process of profit planning in PE from the initial stage to the end are as follows:

a) Profit Planning manuals should be communicated from top level to lower levels.
b) Trained and qualified manpower of budgeting and planning should be fixed and present manpower should be trained.

c) Sales forecasting should be made on the realistic ground.
d) The production budget should be prepared by interim time period and for responsibility centers.
e) The statement of specific goals should be clear about the specific goals for which company and for its major sub division.

3. Gopi Bhandari

Mr. Gopi Bhandari has tried to point out some features and problems of profit planning in the context of Nepalese Manufacturing Company in his research work **"A Profit Planning in Nepal, A Case study of Royal Drugs L.td" Submitted to the Faculty of Management central department of T.U., Kathmandu, in 1998**, in course of partial fulfillment of M.B.S. he has explored the data of six years from 046/47 to 051/52. Research methodology was followed through secondary source of data for data gathering procedure. But for other essential information primary data were also used.

Mr. Bhandari has pointed out various findings based on the analysis of data and information. Few major findings according to Mr. Bhandari are as under:

a) Royal Drugs Ltd has not adequately considered controllable and non controllable variables affecting the company.
b) Objectives are not clear, conflict between social objectives and profit objectives.
c) They have no satisfactory achievement of specific goals that were targeted.
d) Conflicting role due to lack of co- ordination among department manger in RDL.
e) Failure in achievement due to inadequate evolution in internal & external variables.
f) Red- tapism in decision making and implementation of profit plans and programs.
g) Failure due to inadequate forecasting system.

Mr. Bhandari has recommended various recommendations to improve the Profit Planning system of Royal Drug L.td. The major recommendations are:

a) It seems necessary to develop implement and improve the process of profit planning from the very beginning to the end.
b) Cost volume profit analysis should be taken in to consideration while developing sales plan and pricing strategies.
c) Identification and evaluation of external and internal variables is must to know the company's strength and weakness.
d) A systematic approach to comprehensive profit planning should be adopted.
e) Program to be improving the employee productivity should be made effective.
f) Sales forecasting should be made on realistic basis.
g) Trained and qualified manpower of budgeting and planning should be hired.
h) System of periodical performance report should be strictly followed.

4. <u>Ram Krishna Dhakal</u>

Mr. Ram Krishna Dhakal has conducted thesis on the topic **"Profit Planning in Manufacturing Company. A Case Study of Gorkhali Rubber Udyog Limited. Submitted to the Faculty of Management central department of T.U., Kathmandu in 1999,** in case of partial fulfillment of M.B.S. the main objectives of the study are to analyze the effectiveness of profit planning in GRUL, to study the various budgets used by the company & to covers seven years period of time from 2049/50 to 2055/56. Primary and secondary sources have been adopted through analysis he found the following major findings:

a) GRUL has been suffered from a number of internal and external problems in formulating and implementation of profit plans and strategies.
b) The budget maker seems to be more ambitions because of the achievement is very low.
c) Flexible budget and CVP analysis show that the industry will be in negative profit even it utilize the hundred percent capacities.
d) No competitor with in the country but export market is not profitable.
e) Lack raw of material in domestic market and low productivity of manpower.
f) Lack of strategy long range planning
g) Under utilization of available capacity.

Finally Mr. Dhakal has stated several recommendations to improve the performance of GRUL. The main suggestions are a follows:

a) SWOT analysis should be defined and adopted.
b) GRUL must restructure its capital structure and minimize the burden of high interest and bank charge in long term loans by issuing shares and refund the dept.
c) Profit Planning concept should be communicated from top to lower levels. All members of the company should be participated on planning process.
d) Company should formulate appropriate strategic long range plan as well as tactical short range plan.
e) Record and punishment system should be followed to motivate personnel.

CHAPTER- 3

RESEARCH METHODOLOGY

3.1 Introduction

This research methodology is followed to achieve the basic objective and goals of this research work. "Research Methodology is the way to solve systematically about the research problem".[21]

"A Statement of the purpose of research is made in the form of a problem so formulated to be tackled".

The basic objectives of the present research is to high light the current practice of Profit Planning in Manufacturing Company(Kamala Plastic Pvt. Ltd) and focus on the relationship between performance and management system achieve these objectives. Following are the major context of research methodology the course of this study.

3.2 Research Design

Research design is the plan structure and strategy of investigation. The design of this study is analytical as well as descriptive approaches. This study analyzes, examines and interprets different functional budgets applied as tools for Profit Planning in Kamala Plastic Pvt. Ltd. This research highlight the degree of application of Profit Planning concept and it is mainly related with the qualitative plans and accounts of Kamala Plastic Pvt. Ltd.

3.3 Population and Sample

The total number of organization that Manufactures HDPE is the population of this Study Kamala Plastic Pvt. Ltd. is one of the earning organizations of HDPE for earning foreign currency, employment generation & environmental balances.

21 C.R. Kothari"Research Methodology, Methods and Technique "New Delhi willey Eastern Ltd. 1990.

Kamala Plastic Pvt. Ltd which is one of the oldest organizations of HDPE is chosen randomly for Case Study purpose among the total population.

Sample size $= \frac{n}{N} = \frac{1}{10} \times 100 = 10\ \%.$

3.4 Source of Data

To attain the objectives of this study primary as well as secondary data have been uses.

Primary data is collected from the following sources.

- Personal approach, interview and unstructured dialogues.
- Questionnaries.

Secondary data is collected from the following records.

- Publication of Kamala Plastic & official records.
- Published and unpublished documents related to Kamala Plastic.
- Report of auditor.

3.5 Period Covered

This study has been covered a period of 5 years from fiscal year 2061/62 to 2065/66 B.S. the strength and weakness of Managerial planning and Financial planning of Kamala Plastic Pvt. Ltd are identified.

3.6 Data Analysis Tools

The availed data from primary and secondary sources are presented and analyzes as per required table and formats. As per requirements, such table and statistical tools are used in interpreted. Financial tools and statistical tools are used in course of this study.The financial tools used in this research works are variance analysis, costs volume profit analysis ratio anlysis and Flexible budgets and statistical tool used in this research works are mean, standard deviation, co-efficient of correlation, regression, time series, graphs tables and diagram etc.

3.7 Research Procedure

The following procedures have been followed for this research study :

- Useful primary and secondary data used.
- Selected Books, magzines are collected and explored.
- Data are described and explained in the light theoretical basis.
- The collected data are presented and arranged in tabulation forms, percentage charts, ratio analysis & BEP analysis

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3.8 Research Variances

This research variances of this study are m0ainly sales, production, inventories, capacity utilization, raw materials, profit & loss, overhead, cash Flow. Capital expenditure etc. relating to long term and short term period of Kamala Plastic.

3.9 Research Questions

To obtain the basic objectives of this research this study has tried to solve the following research questions.

a) Whether the company has implemented profit planning or not ?
b) How profit planning system in Kamala Plastic can be improved?
c) What are the major problems faced by the company in developing and implementing profit plan.

Chapter - 4

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

"Profit Planning is a predetermined detailed plan of action development and distributed as guide to current operations and as a partial basis for subsequent evaluation of performance. It is a systematic approach for attaining effective management performance. Since the profit planning is a primary purpose of profit planning in business then is to increase the chances of making a profit comprehensive profit planning & control is a newly developed concept as a crucial way in the business organization. It is a recent phenomenon used extensively in the literature of business enterprise. Thus we can say the PPC is a tool which may be used by the management in planning the future course of actions and in controlling the performance."[22]

This research work is prepared to verify the present comprehensive Profit Planning system applied by the Kamala Plastic Pvt. Ltd. This chapter will analyze the various functional budgets and their actual performance in comparison to budgeted amount to achieve the objectives. Profit Planning & Control is a systematic and formalized approach for accomplishing the planning, coordination and control responsibilities of management. A comprehensive Profit Planning & control continues to be of prime importance in virtually all organization. Planning involves the control and manipulation of relevant variables (i.e. controllable & non controllable) and it reduces the impact of uncertainty. So, that enterprise could be saved from the chances of losses. Profit planning should exploit opportunities by using the limited resource. The heart of management's responsibility is the optimum use of limited resources by using the linear programming and it provides systematic profit planning program me.

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22. Gupta. S.P. Management Accounting ,Agra Sahitya Bhaawan, Dehli 1992 Page 521

Generally reputed organizations prepare two types of profit plan i.e. strategic long range profit plan and another is tactical short range profit plan. Kamala Plastic Pvt. Ltd. has not prepared strategic long range profit plan. Therefore, this study is mainly focused on tactical short range profit plan of Kamala Plastic Pvt. Ltd.

Long range profit plan encompasses five years time horizon and short range (tactical) profit plan encompasses one year time horizon segmenting in to month, quarter & half year.

In respect to Kamala Plastic Pvt. Ltd., has no practice of preparing long range (strategic) profit plan. Therefore, the analysis of long range profit plan is limited, so the research is mainly focused on the short range (tactical) profit plan of Kamala Plastic Pvt. Ltd. While developing the short range profit plan, it has no practice of segmenting annual target into monthly and quarterly basis. The Fiscal years starts from 1st Shrawan to 31st Ashad.

Various functional budgets will be analyzed, comparison of budgeted target and actual results to analyze. Variances are included for analysis purpose. For study purpose, it covers the prides of five years from 2061/62 to 2065/66 and detail analysis is made for FY 2064/65 & 2065/66.

4.2 Defined Objectives & Goals as a Basic Element of Profit Planning.

Every organization should formulate goal or objectives because objectives are those ends which organization seeks to achieve through its existence and operations. Without setting objective and goal. No organization can move systematically and smoothly. All level of management should be well known about their enterprise goal & target. Goals and target should be communicated to lower level management, which is prime importance to achieve enterprise objective. The success or failure of an organization largely depends up on lower level management. Actually managements help to coordinate human efforts and enterprise's objectives to accomplish the goals by utilizing the efforts of people.

In Nepalese Manufacturing enterprise, goals and objectives are established in formal way. Most of people working in the organization have very little knowledge about their company's situation, goals and objectives. In such condition, effective planning cannot be formulated. In absence of effective planning, it will be impossible to run business successfully.

So far Kamala Plastic is concerned basic objectives of the organizations are as follows:

(1) To produced high density polythine pipe (in place of galvanize Iron Pipe).
(2) To substitute import for such product.
(3) To earn foreign currency.
(4) To make country self dependent in plastic pipe production.
(5) To create opportunity of employment.

Through, Kamala Plastic Pvt. Ltd. has not clearly defined and specified its main objectives in annual goals or targets such as share of market, growth rate, profit margin, return on investment etc. More ever, there is no clear cut and transparent policies and strategies to fix out their specifies goals and targets.

4.3 Sales Budget/Plan

Sales plan provides basic management decision about marketing & based on those decisions, it is an organized approach for developing a comprehensive sales plan. Preparation of sales plan is first & important step in developing the overall profit planning process of a firm. Sales are the primary sources of cash & all other functional budgets/ plans are prepared on the basic of sales plan. All business operations are directly linked with the sales plan thus sales plans should be realistic. A plan of operation must necessary be built around the activity of volume of business that can reasonably be expected during the specific periodic covered by the profit plans.

The sales plan is the foundation for periodic planning in the enterprises. Most of the operation aspects including manpower requirements materials, Cash etc. depend upon the volume of sales. Sales plan is prepared on the basic of sales plan involve the following four interrelated steps (a) The Sales forecast (b) The Marketing plan (c) The Advertising & Promotion Budget (d) The Selling expenses budget.

The major responsibility of preparation of sales budget goes to sales manager but chief executive should also participate in this complex process. As we know, sales price & sales volume are mutually inter-related with each other. So, suitable pricing strategy must be considered in the sales plan.

4.3.1 Sales Plan in Kamala Plastic

Kamala Plastic is a HDPE pipe Manufacturing Company. There is no practice of preparing the long range as well as short range sales plan effectively. They prepare only short range sales plan in annual figure in rough way and it is not segmented in quarterly and monthly basis management of Kamala Plastic has little knowledge about budgeting. Generally, how much they produce in the factory, they try to sell them through direct contact with third party. Initially concerned ministry of HMG determined its (product) price but these days plastic pipe producer's association is determining the price. It means while fixing the price, cost of production and market research is not considered. Not only this, analysis of cost volume profit relationship is followed. Kamala Plastic accepts the determined by plastic pipe producer's association.

The following table shows Sales Plan & Achievement.

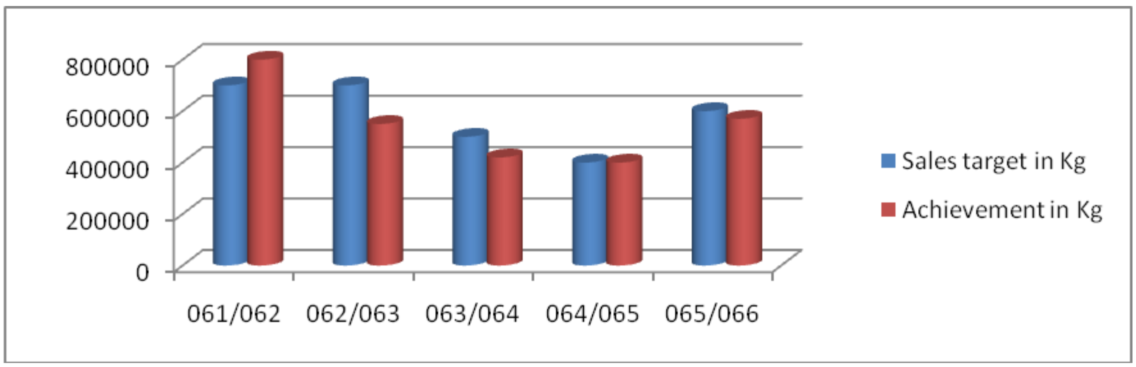
Table No.1

Fiscal year	Sales Target (Kg)	Achievement (Kg)	Percent
2061/062	7,00,000	7,80,025,420	111.43%
062/063	7,00,000	5,63,634,161	80.52%
063/064	5,00,000	4,25,205,953	85.04%
064/065	4,00,000	3,92,434,899	98.11%
065/066	6,00,000	5,51,263,180	91.88%

The above table shows that FY 061/062 actual achievements are higher than the target sales but in FY 2062/63, 2063/64, 2064/65 & 2065/66 actual achievements are lower than target sales. By the analysis of the above table it is said that target are not based on historical data. The gap between actual and target sales figure is fluctuating year by year .In FY 2061/62 the actual achievement was 111.43% while in FY 2062/63 the actual achievement was 80.92% based on budgeted sales of corresponding year. Such large gap indicates weak point of planning. It means target are not fixed according to last year performance and market research. Sometimes target is made with pessimistic way and same time, with optimistic way. All these prove that management of Kamala Plastic does not follow modern management tool of planning.

The above gap between Target Sales and Actual Achievement can be presented in the graph.

Graph:-1



The above graph show that the trend of sales target & sales achievement is fluctuating. Because of indefinite fluctuating nature of sales trend it is impossible to project the future potential sales.

To find out the nature of variability arithmetic mean, standard deviation, coefficient of variation and correlation of the budgeted and actual sales figure of Kamala Plastic are calculated. The detail calculation of those is shown in Appendix-2.

Summarizing the result from Appendix-2.

	Target Sales (x)	Sales Achievement (y)
Mean(x) Standard Deviation C.V	5,80,000 1,16,619.04 20.11%	5,42,512.72 1,36,542.45 25.17%
Correlation (r)	0.8492	
P.E(r)	0.0841	
6 time PE (r)	0.5046	

By the analysis of mean standard deviation & coefficient of variation (C.V) it can be said that target sales is less variable, more stable, more uniform that of actual sales. Since the coefficient of variation of target sales are fixed with considering actual past sales and actual market situation. It also signifies that Kamala Plastic is following budgeting procedure properly.

To find out the correlation of coefficient between budgeted sales & actual sales, Karl Pearson's Coefficient of Correlation (r) is determined. For this purpose target sales figures (X) are assumed to be independent variable & actual sales (Y) are assumed as dependent variable. The value of r always lies between – 1 to and1.When r =1, it means here is perfect positive correlation between budget sales and actual sales. When r = -1, it means there is negative correlation between budgeted sales and actual sales. Where r = 0, it means there is no relationship between two variables. Here the value of r=0.8492, it means there is positive correlation between budgeted sales and actual sales. The test of significance of the value of six times probable error P (E) 0.5046. Here, the value of six times probable error (0.8492 > 0.5046). Therefore, it can be concluded that the value of r is significant. So, it may be concluded that there is significant relationship between budgeted sales & actual sales. A regression line also can be fitted to show the degree of relationship between target sales and actual sales.

So, the regression line of achievement (y) on targets (x) or y on x as under:

$$(y - \bar{y}) = \frac{r.\sigma y}{\sigma x} (x - \bar{x})$$

<u>From Appendix 2, we have</u>

$\sigma x = 1.1662$

$\sigma y = 1.3654$

$r = 0.8432$

$\bar{x} = 5.8$

$\bar{y} = 5.4251$

<u>Regression Line Y on X</u>

$$Y – 5.4251 = \frac{0.8492 \text{ x } 1.3654}{1.1662} (x - 5.8)$$

$$\text{Or, } y – 5.4251 = \frac{1.1595}{1.1662} (x - 5.8)$$

Or, y – 5.4251 = 0.9942(x-5.8)

Or, y – 5.4251= 0.9942 x – 5.7663

Or, y = 0.9942 x – 5.7663 + 5.4251

Y = 0.9942 x – 0.3412

Given the value of x (target sales) the expected achievements of sales can be ascertained.

To analysis the trend of actual sales and to estimate the possible future sales for a given period of time, we can use another statistical tool called square method. A straight line trend by this method will show the relationship between time or years and actual sales of the relevant years. In this method, it is assumed that the sales are consistently changed with the change in time and such change can be expressed by the components of time series. Five years data (061/062 to 065/066) are taken into consideration to abstract the required value to fit the straight line trend. To fit the straight line trend the time factor is considered as independent variables (x) and actual sales are considered as dependent variables(y). Then the straight line trend by the least squares method for actual sales upon time is expressed by equation:

Y = a + bx where x is the time.

Table No.2

FY	Actual sales in kg(y)	X	X^2	Xy
061/062 062/063 063/064 064/065 065/066	7.800254520 5.63634161 4.25205953 3.92434899 5051263180	3.54819467 1.38428208 0 -0.32771054 1.26057227	12.58968542 1.916236877 0 0.107394198 1.589042448	27.67682044 7.80228669 0 -1.28605053 6.94907078
N=5	Σy=27.12563613	Σx= 5.86533848	Σx^2= 16.20235894	Σxy= 41.1421273

To find out the value of a and b

Where, $a = \frac{\Sigma y}{N} = \frac{27.12563613}{5} = 5.42512723$

$b = \frac{\Sigma xy}{x^2} = \frac{41.1421273}{16.20235894} = 2.53926773$

Substituting the value of a and b in Straight line trend equation.

Y= a + bx

Y= 5.42512723 +2.53926773 x

This trend line shows the positive figures of sales, which means the sales will increase by 2, 53,926,773 Kgs in the next year.

Fiscal year 063/064 is assumed as base year. Therefore, the value if x in FY 063/064 is zero. x is calculated by subtracting the figures of FY 063/064 from each year's actual sales(x = y - 4.25205953).

Following points can be pointed out based on the sales analysis.

i. Kamala Plastic does not prepare long term sales plan. Only short terms sales plan is prepared on the annual basis.

ii. While fixing the price.BEP analysis & cost of production is not seriously considered.
iii. There is large gap between budgeted sales actual sales in FY062/063.
iv. There is positive correlation between budgeted sales & actual sales.
v. The straight line trend shows the increasing trend of sales in future.
vi. Kamala Plastic does not have experts and skilled planners. The management of KPPL has in adequate knowledge of budgeting.

4.4 Production Budget

After completing sales budget, production budget is prepared. Preparation of production budget is the second step in developing profit plan. Production budget specified the planned quantity of goods to be produced in the budgeted periods to meet budget fully depends upon sales budget & inventory policy. Planned capacity also should be considered while developing production budget. The responsibility of preparing production budget goes to production manager. We can understand the production planning mathematically as under:

Production Unit = Planned sales + Final inventory - Initial inventory.

4.4.1 Production Budget in Kamala Plastic

There is no effective preparation of long range and short range production plan. Generally Kamala Plastic only prepares short range production plan of coming year in annual figures. There is no provision of segmenting annual figure in to half yearly, quarterly or monthly. General Manager prepares production budget with the half of production section. In Kamala Plastic. General Manager & production manager is same. While preparing production budget neither sales budget is considered nor inventory policy or inventory level is considered. There are no hard and fast rules regarding production & inventory. Plant capacity is another factor in production budget. Kamala Plastic has sufficient capacity (2600

MT) to meet production target but it is not utilizing its capacity due to market.

The following table shows the production target achievement (Capacity utilization: 2600 MT)

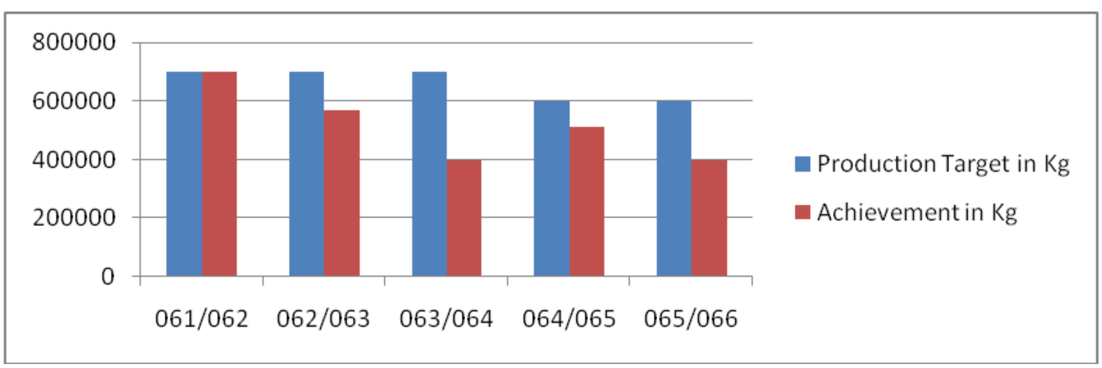
Table No. – 3

FY	Production Target in Kg	Percent	Achievement in Kg	Percentage
061/062	7,00,000	29.16%	6,96,725.00	99.53%
062/063	7,00,000	29.16%	5,67,967.00	81.14%
063/064	7,00,000	29.16%	4,13,240.62	59.03%
064/065	6,00,000	25.00%	5,14,205.00	85.70%
065/066	6,00,000	25.00%	4,07,434.00	67.91%

The above tables show the percentages of achievement of target fluctuating in year by year. This is due to fluctuating nature of sales achievement is below than budgeted production. The actual achievement range from 59.03% to 99.53% of budget production. All these indicate poor situation of planning. On the other hand, capacity utilization percentage is not satisfactory. It is very low. It means fixed assets are not fully utilized which increases fixed cost.

The target & achievement of production of five years can also be shown through the help of graph.

Graph No. 2



To find out the nature of variability of production budget & achievement of different years arithmetic mean, standard deviation, and coefficient of correlation should be calculated. The detail calculation is shown in Appendix-3.

Summarizing the results from Appendix-3.

	Budgeted production in Kg	Actual Production in Kg
Mean SD C.V	6,60,000.000 48,989,795 7.42%	5,19,914.324 4,07,363,656 20.65%
Correlation (r) P.F(r) 6 time PE (r)	0.4494 0.2407 1.4442	

The above analysis shows that coefficient of variation is lower in budget production than of actual production. It means the nature of variability is more in actual production than in budgeted production.

The find out the correlation between target figures and actual figures, Karl Pearson's coefficient of correlation (r) is determined. For this figures (x) are assumed to be independent variable and achievement figures of production (y) are assumed to be dependent variable. Here, Karl Pearson's coefficient of correlative ($r = 0.4494$) indicates that there is normal positive relationship between budgeted Production & actual production. The test of significance of the value of r can be calculated by probable error of relationship between target & actual production. Here the value of r can be calculated by probable error of relationship between target & actual production. Here the value of six times P.E(r) =1.4442. Coefficient of correlation is less than the value of six times probable error ($0.4494 < 1.4442$). It means value of r is not significant. So, it may be concluded that there is no significant relationship between budgeted production and actual production.

A regression line also can be used to find out the relationship between targeted and achieved production. For this purpose achievements

(Actual) have been assumed to be dependent upon targets. So, the regression line of achievement (y) on targets(x) or y on x is as under:

$$(y - \bar{y}) = \frac{r.\sigma y}{\sigma x} (x - \bar{x})$$

From Appendix 3, we have

$\sigma x = 0.4899$

$\sigma y = 1.0736$

$r = 0.4494$

$\bar{x} = 6.6$

$\bar{y} = 5.1991$

$$(y - \bar{y}) = \frac{r.\sigma y}{\sigma x} (\bar{x} - x)$$

$$\text{Or, } y - 5.1991 = \frac{0.4494 \text{ X } 1.0736}{0.4899} (x - 6.6)$$

$$\text{Or, } y - 5.1991 = \frac{0.4825}{0.4899} (x - 6.6)$$

Or, $y - 5.1991 = 0.9849 (x - 6.6)$

Or, $y - 5.1991 = 0.9849x - 6.5003$

Or, $y = 0.9849x - 6.5003 + 5.1991$

$Y = 0.9849x - 1.3012$

Given the value of x (target production) the expected achievement of production can be ascertained.

Time element is another important factor, which determined the future production. This time production relationship can be expressed in term of a straight line trend by least squares method.

Table No.-4

Fitting the straight lined trend by the method of Least Squares Method.

Fiscal Year	Actual in kg(y)	x	X^2	xy
061/062	6.96725	2.8348438	8.03633937	19.7510655
062/063	5.67967	1.5472638	2.39402526	8.78794779
063/064	4.1324062	0	0	0
064/065	5.14205	1.0096438	1.01938060	5.1916389
065/066	4.07434	-0.0580662	0.00337168	0.23658144
N=5	Σy= 25.9957162	Σx= 5.3336852	Σx^2= 11.4531169	Σxy= 33.4940707

<u>To find out the value of a and b</u>.

Where, $a = \frac{\Sigma y}{N} = \frac{25.9957162}{5} = 5.19914324$

$b = \frac{\Sigma xy}{X^2} = \frac{33.4940707}{11.4531169} = 2.92445025$

Substituting the value of a and b in straight line trend equation.

Y= a + bx

Y= 5, 19,914.324 + 2, 92,445.025 x

This trend line shows the positive figures of production, which means he production will increase by 2, 92,445.025 Kgs in the next year.

Fiscal year 063/064 is assumed as base year. Therefore the value of x in FY 063/064 is Zero. x is calculated by subtracting the figures of FY 063/064 from each year's actual production (x = y - 4.1324062).

Following points can be pointed out based on the production budget.

1. KPPL does not prepare long term production budget. It only prepare short term production budget in annual figure.
2. The production budget is prepared based on sales budget.
3. The percent of production achievement is not satisfactory. Generally achievement is less than target.

4. Production target is more variable than actual production.
5. There is normal positive relationship between production budget and actual budget.
6. The actual production is less variable than actual sales.

4.4.2 Relationship between actual sales & actual production

Production plan or budget is prepared on the basis of sales budget. So, it is necessary to analyze whether production meets sales or not. So, it is significant to analyze the relationship between sales and production.

The following table shows the actual sales and actual production of Kamala Plastic for the past five years.

Table No.-5

FY	Actual sales in kg	Actual production in kg
061/062	7,80,025.420	6,96,725.00
026/063	5,63,634.161	5,67,967.00
036/064	4,25,205.953	4,13,240.00
064/065	3,92,434.899	5,14,205.00
065/066	5,51,263.180	4,07,434.00

The above table shows the actual production & actual sales are nearly similar. To find out the nature of variability, mean, standard deviation & coefficient of correlation are calculated. The detail calculations are shows in Appendix-4.

Summarizing the results from Appendix-4

	Actual sales in Kg	Actual Production in Kg
Mean	5,42,512.7226	5,19,914.324
S.D	136542.446455	1,07,363.656423
C.V	25.17%	20.65%
Correlation Coefficient(r)	0.7557	
P.E.(r)	0.1294	
6 times PE (r)	0.7765	

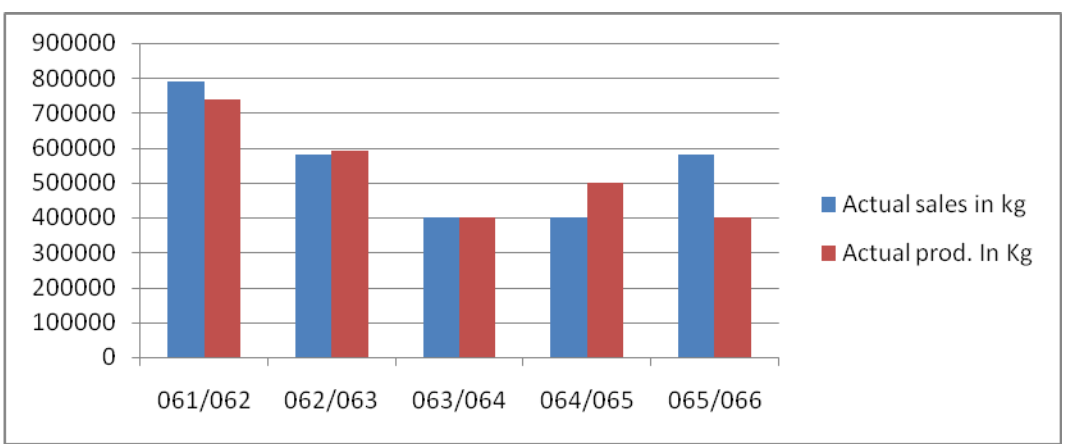
The above result shows that the coefficient of variation (C.V) of actual sales is greater than that of actual production. Therefore, an actual sale has the nature of more variability than actual production.

If the sale is high then production should be high to meet the demand of higher sales. So, actual sales and actual production should be positively correlated. To find out such relationship, coefficient of correlation is calculated. After calculating the Karl Pearson's coefficient of correlation, it can be examined whether there is positive correlation between actual sales and actual production or not. The detail calculation of coefficient of correlation is shown in Appendix 3, in which an actual sale is assumed to be independent variable denoted by x and actual production is assumed to be dependent variable denoted by y.

From the detail calculation, the value of r (0.7557) shows that there is high degree of positive correlation between actual sales and actual production. The calculated value of r is significant because the calculated value of r (0.7557) is less than the value of six times probable error (0.7765). So, it may be concluded that there is no significant relationship between actual sales (x) and actual production. (y).

The data of actual sales and actual production can be plotted in the graph.

<u>GraphNo.3</u>



This figure proves that there is no any trend either increasing or decreasing of actual production and actual sales. And also indicates that there is small gap between actual sales & actual production.

4.5 Inventory Budget

Every, Management should maintain certain level of inventory for smooth sales activities. Inventory includes raw material, work in progress and daily consuming goods. Finished goods inventory is the cushion between sales and production. When sales exceeds production then inventory is used for sales and the level of inventory is decreased and on the other hand when production exceeds sales then the excess production is kept into store hence the level of inventory is increased. Different companies have different inventory policies according to their nature. Generally inventory level of product depends upon the product etc.

There are some policies in maintaining inventory.

i) Unstable inventory policy v/s Stable production policy.
ii) Stable inventory policy v/s Unstable production policy.
iii) Flexible in both policy & Production.

There are some consideration in setting inventors policies for materials & parts.

i) Timing & quantity & Manufacturing needs.
ii) Economics in purchasing through quantity discount.
iii) Availability of material & parts.
iv) Lead time (order & delivery)
v) Permissibility of materials & parts.
vi) Store facility needed.
vii) Capital requirements to finance inventory.
viii) Cost of storage.
ix) Risk involved in inventories.
x) Opportunity costs.

The following tables show the inventors position of Raw material & Finished goods of Kamala Plastic Pvt. Ltd.

Raw Materials

Table No.-6

FY	Opening inventory		Closings inventory	
	Kgs	**Costing Rs**	**Kg**	**Cost in Rs**
2061/062				
HDPE Granules	3,62,911.46	2,25,86,565.25	1,55,169.56	1,03,52,774.25
PVC Granules	1,800.00	2,06,912.25	1,800.00	2,06,912.25
Master Batch	-	-	-	-
Total	3,64,711.46	2,27,93,477.50	1,57,269.56	1,08,59,686.50
2062/063				
HDPE Granules	1,55,469.56	1,05,52,774.25	1,10,890.00	73,37,591.20
PVC Granules	1,800.56	2,06,912.25	1,800.00	2,06,912.25
Master Batch	-	-	5,035.00	5,66,146.65
Total	1,57,269,56	1,08,59,686,50	1,17,725.00	8,11,0650.10
2063/064				
HDPE Granules	1,10,890.00	73,37,591.30	36,605.20	22,88,557.16
PVC Granules	1,800.00	2,06,912.25	1,800.00	2,06,912.25
Master Batch	5,035.00	5,66,146.65	--	---
Total	1,17,725.00	81,10,650.20	38,405.20	24,95,469.30
2064/065				
HDPE Granules	36,605.20	22,88,557.10	8580.95	46,154.38
PVC Granules	1,800.00	2,06,912.25	1,800.00	2,06,912.25
Master Batch			825.00	1,02,052.50
Total	38,405.20	24,95,469.30	11,205.09	3,55,119.13
2065/066				
HDPE Granules	8580.95	46,154.38	930.50	8,30,313.51
PVC Granules	1,800.00	2,06,912.25	1,800.00	2,06,912.25
Master Batch	825.00	4,02,052.50		
Total	11,205.09	3,55,119.13	2,730.50	10,37,225.76

Finished Goods
Table No.-7

FY	Opening Inventory		Closing Inventory	
	kgs	Rs	Kgs	Rs
061/062	1,37,506.468	1,12,56,279.46	54,206.480	48,57,946.02
062/063	54,206.480	48,57,946.02	50,539.319	50,03,355.50
063/064	50,539.319	50,03,355.59	46,573.986	38,72,626.94
064/065	46,573.986	38,72,626.94	40,724.067	59,86,948.02
065/066	40,724.067	59,86,948.02	32,662.886	35,19,426.07

The above tables show that the closing inventory of KPPL has been fluctuated year by year. It has been fluctuated from 32,662.886 kgs to 54,206.480 kgs in the study period. It is clear that KPPL is unable to reduce the inventory in FY 064/065 as compared to FY 063/064,total closing stock in FY 064\065 is 40,724.067 kgs whereas the total stock in FY 063/064 was 465,73.986 kgs. The inventory is increased by 19.69 % than FY063/064. KPPL neither follows any appreciate inventory policy nor coordinates among production, purchasing & sales department.

4.6 Capacity Utilization

Kamala Plastic Pvt. L.td. is facing so many problems of under utilizing its available capacity. Management looks very indifferent about capacity utilization whereas cost of production broadly depends upon the utilization of capacity .Cost of production will be lower at optimal level of capacity utilization.

Following tables shows the trends of capacity utilization of Kamala Plastic Pvt. L.td.

Table No.-8

(Production capacity 2600 M. Ton.)

Fiscal Year	**Capacity Utilization in kgs**	**Capacity utilization in percentage**
061/062	6,96,725.00	29.03%
062/063	5,67,967.00	23.66%
063/064	4,13,240.62	17.22%
064/065	4,07,434.00	16.98%
065/066	5,14.205.00	21.42%

The above tables show that more than 70% capacity has been idle. It means investment on fixed cost has been idle which creates serious adverse impact in their profit position. The trend of capacity utilization is fluctuating in each year. In FY 064/065 capacity utilization is 16.98% but in 061/062 capacity utilization is 29.03% which indicates very poor knowledge about profit planning. To improve profitability of Kamala Plastic Pvt. should strictly follow profit planning technique.

4.7 Raw Material Purchase Budget of KPPL

After preparing production budget raw material purchase budget is prepared. Raw material purchase budget is developed in order to fix the quantity and amount of raw material fully depends upon budgeted production & policy of closing inventory of raw material.

The following formula should be used to determine material requirements for the planned period.

Raw material required for production = production units X required unit of raw material for each unit of period.

Responsibility of preparing raw material budget goes to purchasing manager; he should prepare the budget very seriously because more than 50 % of production cost covers by raw material purchase which affects profit position of the organization. To determine raw material purchase unit, we can use following formula.

Raw material purchase unit = raw material requirements + Closing Inventory of raw material – Opening Inventory of raw material.

Preparation of raw materials budget plans the prime importance in profit planning. KPPL does not prepare raw material budget. It only records the cost of raw material purchase in profit & loss a/c by material types. The following table shows the quantity in profit & loss a/c by material types. The following table shows the quantity and amount of raw material purchase from FY 2061/062 to FY 2065/066

Raw Material Purchase trends of KPPL

Table No.-9

Fiscal Year	HDPE Grannies		Master Batch	
	Kgs	Rs	Kgs	Rs
061/062	5,61,000	3,84,38,897.40		
062/063	5,44,975	3,60,61,119.30	5035.00	5,66,146.65
063/064	3,42,000	2,13,80,628.80	353.20	59,661.00
064/065	3,78,500	2,56,17,399.22	1,000.00	1,23,700.00
065/066	5,65,750	5,17,12,004.58	550.00	48,400.00

By the analysis of above table, it is clear that Kamala Plastic Pvt. Ltd .does not prepare Material purchase budget nor adopts any inventory policy. Raw Material Purchase of Kamala Plastic Pvt. Ltd. is fluctuating year by year. Purchase of HDPE granules in FY 064/065 is 3, 78,500 Kgs where as in FY 065/066 it is 5, 65,750 Kgs. It all proves that KPPL has no knowledge about material purchase budget. So, purchasing manager of Kamala Plastic Pvt. Ltd. should determined economic order quantity and should prepare material budget to improve their profit position.

4.8 Direct Labor Budget

The direct labor budget should be prepared by responsibility centers for the annual profit plan. Direct labor cost included all expenditure for employees. Top executive, Middle managements, Staff officer, Supervisor and skilled or unskilled labors. Direct labor is calculated by multiplying the units produced and estimated labor hours for each unit. After determining total hours required labor cost is calculated by multiplying the labor hours and wage rate/hours.

Planning and controlling direct labor cost refer the area of Personnel needs recruitment, training, job description and evaluation, performance evaluation union negotiations and wages and salary administration.

Kamala Plastic Pvt. Ltd does not prepare direct labor budget 220 male employees is working in it as a permanent staff. As per requirement. Other temporary staffs are hired. Permanent staff is paid salary as monthly basis and temporary staffs are hired. Permanents staff is paid salary as monthly basis and temporary staffs are paid daily wages. Wages and salaries are treated in three ways. They are (i) Manufacturing wages. (ii) Administration staff salary (iii) Selling & distribution staff salary.

The following table shows the Actual Manufacturing Wages for Labor of previous years.

Table No.-10.

Fiscal year	**Actual Manufacturing Wages(Rs)**
061/062	45,52,215.25
062/063	43,21,923.75
063/064	37,96,190.52
064/065	42,76,261.27
065/066	37,42,292.50

The following table shows the actual administration Staff salary and Selling & Distribution Staff salary of previous years.

Table No.-11

Fiscal year	Actual Administrative Staff Salary(Rs)	Actual Selling & Distribution Staff Salary(Rs)
061/062	19,59,303.00	13,19,295.00
062/063	19,10,252.00	13,85,215.00
063/064	19,52,222.00	13,60,400.00
064/065	20,38,970.00	13,20,860.00
065/066	21,16,265.00	14,00,750.00

4.9 Overhead Budget

Expanses planning and controlling is not reduction of cost but it means better utilization of limited resources. Overhead budget should be focus on the relationship between expenditure and benefits derived from those expenditures.

Knowledge of cost behavior is essential in cost planning & control. There are three types of expanses:-(i) Fixed expenses (ii) Variable expanses (iii) Semi variable expanses. Moreover, expanses can be divided into controllable. Expanses budget should be developed separately for each responsibility center and by interim periods.

Overhead budget can be divided into three types.

I. Production Overhead Budget.
II. Administration Expanses Budget.
III. Selling & Distribution Budget.

4.9.1 Production Overhead Budget.

Generally the expenses incurred in production process are known as Production overhead or Factory overhead. In factory overhead both variable and fixed expenses are included. Factory Overhead budget should be based on Production Budget. The following table shows the production overhead expanses of KPPL.

Table No.-12

Fiscal Year	Actual Production Overhead Expenses(Rs)
061/062	88,75,010.37
062/063	51,88,995.39
063/064	35,07,692.57
064/065	31,01,706.76
065/066	35,18,448.15

According to the above table the actual production overhead expenses are fluctuating in each year. There is no specific trend i.e. increasing or decreasing in production overhead expenses. This cost is directly related with production quantity.

Kamala Plastic Pvt. Ltd fixes the annual expanses in rough way and there is no practice to divide these expanses into Production, Administrative, Selling & distribution.

The detailed Production Overhead for FY 2064/065 & 065/066 are presented below:

Table No.-13

Element of cost	FY 064/065	FY065/066
	Rs	Rs
Electricity & water charge	21,64,519.32	26,87,357.35
Land & house rent	1,93,507.80	1,93,507.80
Generator expanses	6,65,466.17	6,02,855.00
Insurance	10,215.00	8,550.00
Medicine (Labor)	15,015.50	16,010.00
Miscellaneous	12,528.20	10,168.00
Total	**31,01,706.76**	**35,18,448.15**

Above tables shows the total production overhead expanses incurred to produce 5, 14,205.00 kgs of polythine pipe for the FY064/065 and 4, 07,434.00 kgs in FY 065/066 .Total production overhead expenses incurred in 064/065 and 065/066 are Rs.31,01,706.76

and Rs.35, 18,448.15 respectively. Kamala Plastic Pvt. Ltd. does not prepare production overhead expenses budget so, it is difficult to compare actual &budgeted overhead.

4.9.2 **Administrative Expanses Budget**

Administrative expenses are related to those expanses which incurred in administration department. In the other words, Administration expenses mean those expenses other than Manufacturing and Selling & distribution expenses. Mostly administrative expenses are fixed in nature. More or less, these expenses do not change as per production volume. However, Kamala Plastic does not prepare administrative expenses budget.

The following tables show the Actual Administrative Expenses of previous year.

Table No.-14

Fiscal Year	Total Administrative Expenses (Rs.)
061/062	54,48,184.28
062/063	32,22,582.27
063/064	32,84,999.78
064/065	31,89,642.27
065/066	34,02,856.29

The detailed Administrative Expenses incurred in FY 064/065 and 065/066 is presented below:

Detailed Administrative Expenses

Table No.-15

S.N		FY 064/065	FY 065/066
		Rs	Rs
1.	Staff salary & allowances	20,38,970.00	21,16,265.00
2.	Stationary & printing	65,730.00	60,854.00
3.	Travelling& Transportation Expenses	2,17,918.73	2,44,563.46
4.	Magazine Newspaper	15,370.00	8,425.00
5.	Bank Commission	89,174.71	1,42,163.84
6.	Transportation Vehicle Expenses	2,42,992.90	2,74,292.14
7.	Donation	56,033.56	85,567.00
8.	Worship Expenses	18,572.00	19,880.00
9.	Membership fees	5,200.00	22,473.00
10.	Postage & telegram	2,72,852.52	2,45,198.35
11.	Auditors fees	10,000.00	10,000.00
12.	Quality expenses	5,000.00	22,650.00
13.	Miscellaneous Office expenses	1,37,210.85	1,04,432.50
14.	ISO Certification Expenses	11,232.00	46,192.00
15.	Penalty on VAT	3,385.00	-
16.	Revenue Expenses		100.00
	Total	**31,89,642.27**	**34,02,856.29**

4.9.3 <u>Selling & Distribution Expanses Budget</u>

Selling & Distribution Expenses related to those expanses which incurred in the process of selling, distribution & delivery of product to customers. When selling activities are increased naturally selling expenses will be increased. It covers significant portion of total expenses. Kamala Plastic Pvt. Ltd. does not prepare selling & distribution expenses Budget.

In Selling & distribution expanse budget, Kamala Plastic Pvt. Ltd includes following headings.

i. Salary & Allowance (Selling Department)

ii. Tender Expanses.
iii. Advertising
iv. Guest Entertainment
v. Measurement Expanses.
vi. Pipe transportation Expanses.
vii. Packing Expanses.

The following table shows the actual Selling & Distribution expanses of pervious year.

Table.No.-16

Fiscal Year	Actual Selling & Distribution Expanses(Rs)
061/062	39,89,252.50
062/063	36,52,159.25
063/064	37,19,488.50
064/065	35,93,836.50
065/066	39,78,863.50

The Detailer Selling & distribution expanses Budget incurred in FY 064/065 & FY 065/066 are presented below:

Table.No.-17

S.N.	Headings	FY064/065	FY065/066
1	Salary & allowances	13,20,860.00	14,00,750.00
2	Tender Expanses	44,553.00	46,633.00
3	Advertising	9,900.00	25,050.00
4	Guest Entertainment	1,28,039.80	1,32,010.00
5	Measurement Expenses	1,030.50	1,030.50
6	Pipe transportation Expanses	8,45,580.00	9,53,890.00
7	Packing Expanses	12,43,873.20	14,19,500.00
	Total	**35,93,836.50**	**39,78,863.50**

4.10 Other Expanses Budget

Other expanses budget included those expanses which are not mentioned in above. Such as depreciation, interest & Bank charges, amortization cost etc. In Case of Kamala Plastic, Factory depreciation, Office depreciation, Interest & Bank charges are included in other expanses budget. Among them depreciation has been treated as operating expenses and interest and Bank charges have been treated as non-operating expenses.

The following table shows the Factory & Office depreciation incurred in Past Year.

Depreciation Expanses Budget

Table No.-18

Fiscal Year	Factory Depreciation	Office Depreciation	Total
061/062	9,39,375.66	3,21,142.95	12,60,518.61
062/063	11,44,965.40	3,54,703.57	14,99,668.97
063/064	14,62,857.60	3,79,321.41	18,42,179.03
064/065	1,45,968.09	3,62,215.26	18,21,901.29
065/066	15,39,835.23	3,95,177.75	19,35,012.92

The above table clearly defines that KPPL has been expenditure its large amount on these cost headings. Kamala Plastic does not prepare other expanses budget separately. So, it is difficult to find out the various between budgeted & actual other expanses.

4.11 Cash Budget

Cash budget is the most essential tools of cash management. It is an integral part of Cash planning. The Cash budget is a plan of future cash receipt and payment. Cash budget is known as the statement showing the estimated cash income (Cash inflow) and expenditure (Cash outflow) over a projected time period. It presents the planned cash inflows, outflows and ending cash position by interim period for a specific time. Cash budget plays vital role to co-ordinate among working capital, sales revenue, expanses, investments and liabilities.

To maintain a sound cash position is the great challenges of financial manager. So, he should keep other functional budget in mind before preparing cash budget. The level of cash position should neither less or more because deficiency of cash create problem in Manufacturing operation while excess cash creates the problem of over capitalization means idle finance.

Kamala Plastic Pvt. Ltd does not prepare cash budget. KPPL prepare cash flow statement which gives information about the beginning and ending cash position.

The following table shows the Cash Flow Statement of FY064/065 and FY065/066.

Table No.19

Fiscal Year 064/065

Particulars	**Amount(Rs)**	**Amount(Rs)**
(A) Cash Generated from Operating Activities		
Net Profit before Tax & appropriations	22,72,992.05	
Add: Depreciation	18,21,901.29	
Add: Interest Expenses	4,564.06	
Cash before changes in Working Capital	40,99,457.40	40,99,457.40
Add: Change in Working Capital		
Decrease in Current assets	1,08,39,432.87	
Increase in current Liabilities	5,97,005.15	
Decrease in cash for payment of Income Tax & Other	(5,89,457.16)	
Interest Payment	(4,564.06)	
Penalty on Performance Bond	(13,43,710.00)	94,98,676.80
Cash Generated from Operating Activities		**1,35,98,134.20**
(B) Cash Generated from Investing Activities		
Increase in fixed Assets	(25,82,507.51)	
Increased in Investment	(92,32,395.81)	
Cash Generated from Investing Activities	**(1,21,14,903.32)**	**(1,21,14,903.32)**
(C) Cash Generated from financial Activities		
Dividend	(15,75,000.00)	
Cash Generated from Financial Activities	**(15,75,000.00)**	**(15,75,000.00)**
Net Cash Flow(A)+(B)+(C)		(91,769.12)
Add :Opening Cash & Bank Balance		15,26,315.76
Closing Cash & Bank Balance		**14,35,146.64**

<u>Table No.-20</u>

<u>Fiscal Year 065/066</u>

Particulars	Amount(Rs)	Amount(Rs)
(A) <u>Cash Generated from Operating Activities</u>		
Net: Profit before Tax & appropriations.	91,54,857.42	
Add : Depreciation	19,35,012.92	
Add: Interest Expanses.	7,392.31	
Less : Profit on sale of Land	44,78,839.00	
Cash: Before change in Working Capital	66,18,423.65	66,18,423.65
Add: <u>Change in Working Capital</u>		
Increase in current assets	(40,83,804.14)	
Increase in current Liabilities	16,90,892.22	
Decrease in cash for payment of Income tax & other	(584,084.41)	
Interest Payment	(7,392.31)	
Cash Generated from Operating Activities	**36,34,035.01**	**(29,84,388.64)**
(B) <u>Cash Generated from Investing Activities</u>		
Increase in Fixed Assets	(88,44,183.10)	
Decrease in Investment	3,68,634.00	
Decrease in Fixed Assets	1,18,45,000.00	
Cash Generated from Investing Activities	**26,32,182.90**	**26,32,182.90**
(C)<u>Cash Generated from Financing Activities</u>	-	-
Dividend	-	-
Cash Generated from Financing Activities	-	-
Net Cash Flow (A)+(B)+(C)		62,66,217.91
Add: Opening Cash & Bank Balance		14,35,146.64
Closing Cash & Bank Balance		**77,01,364.55**

4.12 <u>Capital Expenditure Budget</u>

Capital expenditure is the process of Planning & Controlling the long term and short term expenditure for expansion and contraction of investments in operating (fixed) assets. A Capital expenditure is the use of funds to obtain operational assets that will help to earn future revenues or to reduce future costs. Capital expenditures include such fixed assets as properly, plant, equipment, major renovations and patents. Capital expenditures become expenses in the future as their related goods and services are beings used to earn higher profits from future revenues or to achieve future cost savings.

Kamala Plastic Pvt. Ltd. does not strictly follow the expenditure budget. When fixed assets are needed board of directors taken decision where to add the assets or not. However, certain amount of capital addition is allowed in annual budget. While decision for addition of fixed assets is taken, evaluation criteria of capital expenditures are not followed strictly only rough calculation is made . Kamala Plastic Pvt. Ltd. does not use modern tools & technique for capital decision like Net present value, Interest Rate of Return & etc. Only payback period is calculated with the help of estimating data.

The following table shows a picture of addition of capital expenditure for past years.

Table No.-21

	Balance of 061/062	**Addition in 062/063**	**Addition in 063/064**	**Addition in 064/065**	**Addition in 065/066**
1.Land	16,13,521.00	-	12,51,681.80	-	61,66,161.00
2.Building Group					
(a) Factory	8,22,786.00	-	-	-	-
(b)Water house	15,02,585.73	-	-	-	-
Total	39,38,892.73	-	12,51,681.80	-	61,66,161.00
3. Computer					
Office Equipment					
(a)Furniture	1,20,108.70	-	-	-	-
(b) Office Equipment	6,75,876.32	-	-	-	-
(c) Safe Box	38,927.58	-	-	-	-
Total	8,34,912.60	-	-	-	-
4.Automobiles Group					
Vehicles	17,20,257.34	-	-	-	-
Total	17,20,257.34	-	-	-	-
5. Construction Group					
(a)Machinery	67,14,704.30	37,08,258.47	3,44,851.20	17,44,183.85	15,98,924.84
(b) Generators	35,600.59	19.34.795.09	-	-	-
Total	67,50,304.89	56,43,053.56	3,44,851.20	17,44,483.85	15,98,924.84
6.Old Coins	140.00	-	-	-	-
Total	140.00	-	-	-	-
Total (1+2+3+4+5+6)	1,32,44,507.56	56,43,053.56	15,96,533.00	17,44,183.85	77,65,085.84

Above tables indicates that Kamala Plastic Pvt. Ltd. Invested a huge amount for fixed assets in different fiscal Year. The major capital expenditure made in FY 065/066 was Rs 77, 65,085.84.

4.13 Profit & Loss Account of KPPL.

Profit is the major element of each & every business endeavors for survival, further development and full filling social expectation.

After preparing all function budgets, Budget profit & loss a/c is prepared. Profit & loss a/c is developed to report the financial results of the various functional sub plans and commitments. P/L a/c shows the operating efficiency of the organization of an accounting year.

In Case of KPPL, it does not prepare budgets P/L a/c in advance. It prepares P/L a/c at the end of each year to know the profit loss situation. Being a Manufacturing Organization, Kamala Plastic Pvt. Ltd. is able to earn certain level of profit in spite of low capacity utilization and heavy investment in fixed assets.

The following tables show the Profit & Loss trend of Kamala Plastic Pvt. Ltd. of the past years.

Table No.-22

Profit and Loss Trend of KPPL

Fiscal Year	Amounts
061/062	4,91,872.68
062/063	1,47,515.46
063/064	1,11,758.36
064/065	3,81,553.25
065/066	1,52,326.26

By the analysis of above table, KPPL is able to earn certain level of profit. However, percentage of profit on the turnover is not satisfactory. In FY 061/062 .KPPL is able to achieve the highest profit i.e.Rs.4, 91,872.68 and in FY063/064, KPPL made the lower profit of Rs 1, 11,758.36 in the analysis period.

The reason behind low percentage of profit is excess inventory of Raw material and finished goods, high depreciation cost and low capacity utilization. It all shows KPPL does not take serious consideration to control cost and be careless a profit plan.

The following table shows the actual P/L a/c of the FY064/065 & FY065/066.

Table No.-23

S.N	Particular	FY064/065		FY065/066	
		Rs	Rs	Rs	Rs
1	Sales Revenue		4,53,52,049.55		7,26,18,737.61
2	Cost of Production		3,37,79,857.52		5,79,81,368.75
3	Gross Profit(1)-(2)		1,15,72,192.03		1,46,37,368.86
4	Other Income		430,806.26		3,68,634.00
5	Other Business Expenses				
	(a) Administration Exp.	31.89.642.27		34,02,856.29	
	(b) Distribution Exp.	35.93.836.50		39,74,863.50	
	(c) Maintenance Exp.	8.50.456.59		9,41,387.54	
	(d) Bonus Exp.	2.27.299.20		4,67,601.84	
	(e) Special fees	42.306.33	79.03.540.89		87,90,709.17
6	Net Operating Profit(3+4-5)		40.99.457.40		62,15,293.69
7	Interest expenses.		4,564.06		7,392.31
8	Depreciation		18,21,901.29		19,35,012.52
9	Interest on Investment		-		4,03,129.96
10	Gain on sale of land		-		44,78,839.00
11	Income before Tax(6-7-8+9+10)		22,72,992.05		91,54,857.82
12	Provision for Income Tax		5,70,000.00		21,70,000.00
13	Income Year (Previous year)				
	Tax	5,89,457.16	89,457.16	5,84,084.41	
	Provision	(5,00,000.00)		(5,70,000.00)	14,084.41
14	Penalty on Performance Bond.		13,43,740.00		-
15	Net profit after Tax(11-12-13-14)		2,69,794.89		69,70,773.41
16	Balance brought forward		1,11,758.36		3,81,553.25
17	Total Profit (15+16)		3,81,553.25		73,52,326.66
18	Proposal Dividend		-		72,00,000.00
19	Profit transfer to Balance Sheet(17+18)		3,81,553.25		1,52,326.26

4.14 Balance Sheet of KPPL

Balance sheet is prepared at the end of the fiscal year. It is prepared after completing all functional budgets as well as budgeted P/L a/c & Cash budget. Budgeted balance sheet reflects the true picture of assets, liabilities & capital of the company according to plan. Balance sheet shows the real financial position of the firm. It simply a statement of assets & liabilities of a firm.

KPPL does not prepare a projected balance sheet in advance. But at the end of each fiscal year it prepares Balance sheet to show real financial position of the firm.

The balance sheet for FY 064/065& FY 065/066 are presented below:

Table No.-24

	064/065	**065/066**
Assets		
1. Current Assets		
Inventories (Jinshi goods)	80,41,808.15	88,97,521.83
Sundry debtors	62,31,624.88	1,67,49,434.32
Advance &deposit	91,78,482.81	18,88,763.83
Cash &other balance	24,35,146.64	87,01,364.55
Total Current Assets	2,28,87,062.48	3,32,37,084.53
2. Fixed Assets	1,4583,066.29	1,41,26,075.47
3. Investment	1,09,46,433.87	1,13,15,067.87
Total	**5,14,16,562.64**	**6,16,78,227.87**
Capital &Liabilities		
Capital	4,80,00,000.00	4,80,00,000.00
Reserve &profit	3,81,553.25	1,52,326.26
Sundry creditors	24,65,009.39	1,13,55,901.61
Provision	5,70,000,00	21,70,000.00
Total	**5,14,16,562.64**	**6,16,78,227.87**

In FY 065/066, the Liabilities side of the balance sheet shows 76.69% of share capital and 0.26% of reserve and profit. It has no ownership capital as a result there is no burden of interest. In the assets side inventory (Jinshi goods) has the significant, 13.46% of the total assets.

4.15 Performance Evaluation

Performance reports constitute an important part of internal management control procedures. These reports serve to motivate mangers to perform in conformity with expectation. Moreover they signal super management where operations are not proceeding according to the plans. To be effective performance reports should be tailored to the organizational structure and simple, accurate & timely and to facilitate management by exception.

The performance reporting phase of a comprehensive PPC program significantly influence the extent to which the organization's planned goal and objects are obtained. Performance evaluation is an important phase of control process.

It is impossible to evaluate all the techniques of performance evaluation but this study uses the following evaluation techniques to measure the performance of KPPL.

1. Financial Ratio
2. Identification of Cost Variability & Cost Volume Profit analysis.
3. Flexible Budget
4. Variance Analysis.

4.15.1 Financial Ratio

Arithmetical relationships between two figures are known as ratio. It is computed by dividing one item of relational ship with the other. Ratio simply means one number expressed in terms of another.

Ratio analysis is a technique of analysis and interpretation of financial statement. To evaluate the performance of an organization by creating the ratio from the figures of different accounts consisting in balance sheet & income statement is known as ratio analysis.

Here are presented some important ratios.

1. Current Ratio $= \dfrac{\text{Current Assets}}{\text{Current Liabilities}}$
2. Quick Ratio or, Acid Test Ratio or,

   Liquid Ratio $= \dfrac{\text{Quick Assets}}{\text{Current liabilities}}$

   [Quick Assets = Current Assets – (Inventory + Prepaid)]
3. Debt Assets Ratio $= \dfrac{\text{Total Debt}}{\text{Net Tangible Assets}}$
4. Inventory Turnover Ratio $= \dfrac{\text{Cost of goods sold}}{\text{Average Inventory}}$
5. Capital Employed Turnover Ratio $= \dfrac{\text{sales}}{\text{Total Capital Employed}}$
6. Total Assets Turnover Ratio $= \dfrac{\text{Total net sale}}{\text{Total assets}}$
7. Return on Capital Employed Ratio $= \dfrac{\text{Net Profit AT}}{\text{Total Capital}} \times 100\%$

8. Operating Ratio = $\frac{\text{Cost of goods sold + Operating Expanses}}{\text{Sales}}$ x100%

9. Gross Profit Margin Ratio = $\frac{\text{Gross Profit}}{\text{Sales}}$ X 100%

10. Net Profit Margin Ratio = $\frac{\text{Net Profit}}{\text{Sales}}$ X 100%

The following tables shows some important financial ratio of KPPL for Five year from FY 061/062 to FY 065/066

Table No.-25

S.N	Ratio	FY 061/062	FY 062/063	FY 063/064	FY 064/065	FY 065/066
1	Current Ratio	4.73	4.32	8.58	7.54	2.46
2	Quick Ratio	3.03	2.80	6.73	5.22	1.87
3	Debt Assets Ratio	0.17	0.17	0.08	0.06	0.23
4	Inventory Turnover Ratio	9.03	9.95	7.99	6.85	12.20
5	Capital Employed Turnover Ratio	1.97	1.39	1.04	1.0	1.61
6	Total Ratio Turnover Ratio	1.63	1.16	0.96	0.94	1.24
7	Return on Capital Employed Ratio	15.85%	9.85%	3.41%	0.59%	15.44%
8	Operating Ratio	91.81%	91.36%	92.28%	91.91%	92.95%
9	Gross Profit Margin Ratio	18.66%	21.70%	24.41%	25.52%	20.16%
10	Net Profit margin Ratio	8.06%	7.09%	3.28%	0.59%	9.60%

(i) Current Ratio:-

The ratio is the relationship of current assets and current liabilities. The current ratio is calculated by dividing current assets by current liabilities. The current ratio is a measure of the firm’s short Term solvency.

It indicates the availability of current assets in rupees for every one rupee of current liabilities. The standard current ratio 2:1 which means an enterprise should have the current assets equal to two times of current liabilities. The comparison to current liabilities investment in current assets is very high in KPPL.

(ii) Quick Ratio:-

Quick ratio establishes a relationship between quick or liquid assets and current liabilities. It is found out by dividing the total of the quick assets by total of current liabilities. Quick asset means those current assets other than Inventory & prepaid expanses. It also shows the liquidity position of the firm. Quick ratio is in increasing trend. The standard quick ratio is 1:1 which means an enterprise should have quick assets equal to current liabilities. The quick ratio of KPPL is sound and short term financial strength good.

iii) Debt Assets Ratio:-

It is the relationship between the total liabilities and total assets. This ratio indicates that ratio of financial assets by the liabilities. Debt assets ratio of KPPL is an in increasing trend. The standard debt assets ratio is 80 %. Debt assets ratio of KPPL is lower than that of standard ratio. Highest ratio is not preferable for a company.

iv) Inventory Turnover Ratio:-

It is the relationship between cost of goods sold and average inventory. This ratio indicates as to how fast the goods are sold and whether stock position of the enterprise is satisfactory or not. This ratio is computed by dividing the cost of goods sold by an average inventory. The standard turnover ratio is 9 times or more. Inventory turnover ratio range is 6.85 to 12.20. A high inventory turnover ratio is indicative of good inventory management. A low inventory turnover ratio implies excessive inventory levels than warranted ratio of KPPL indicates excessive inventory level than necessary, which is not favorable to the organization. So, KPPL should increase sales and reduce the stock level to improve the inventory turnover position.

v) <u>Capital Employed Turnover Ratio:-</u>

It is the relationship of sales & total capital employed. Higher capital employed turnover ratio is preferable which shows that firm is very efficient on sales activity. The standard capital employed turnover ratio is 3. Capital employed turnover ratio is ranges in between 1.0 to 1.97 which is not satisfactory because this ratio is less than standard capital employed turnover ratio.

vi) <u>Total Assets Turnover Ratio:-</u>

It is the relationship between sales and total assets. A higher ratio indicates better utilization of total assets & vice-versa. In case of KPPL total assets turnover ratio are not satisfactory because it's ratio less than standard total assets turnover ratio. The standard total assets turnover ratio is 1.8 or more. This indicates the firm has not good management regarding about that. To improve this ratio further KPPL should increase sales and some excess assets should be disposed off.

vii) <u>Return on Capital Employed Ratio:-</u>

It is the relationship between net profit and capital. A higher percentage of return on capital employed is preferable which indicates higher operating profit. The standard return on capital employed ratio is 31%. The ranges of return on capital employed ratio are 0.59%-15.85%. This ratio of KPPL is not satisfactory because there is not very low percentage in each year. Low percentage of return on capital employed shows that KPPL is unable to yield desired return. To improve this situation KPPL should increase operating profit & should curtail the unnecessary cost.

viii) <u>Operating Ratio:-</u>

It is the relationship between operating expenses including cost of goods sold and sales. A low percentage of operating ratio indicate good management and high percentage indicates the inefficiency of management in minimizing operating cost. Low operating ratio means the higher operating profit. So, the minimum percentage is preferable.

The standard operating ratio is less than 80%. The operating ratio of KPPL ranges from 92.28% to 92.95% which indicates poor situation of the organization. So, KPPL should increase its sales volume & reduce the operating expenses.

ix) Gross Profit Margin Ratio:-

It is the relationship between gross profit margin & sales. Higher percentage of gross profit margin ratio is preferable which shows efficiency in minimizing the cost of goods sold and maximizing the profit. The standard gross profit margin ratio is 45% or more. In Case of KPPL, Gross profit margin ranges in between 18.66% to 20.16% in analysis period which indicates not so satisfactory situation because gross profit margin ratios are less than standard in each year. So, to improve further KPPL should minimize the direct expenses.

x) Net Profit Margin Ratio

It is the relation between net profit & sales. Higher percentage of net profit margin indicates the higher overall efficiency of the business and better utilization of total resources. The standard net profit margin ratio is 10% or more. In Case of KPPL, net profit margin ratio ranges in between 0.59 % to 9.60% and it does not show specific trend. However low percentage of positive net profit margin ratio indicates favorable situation in some extent but it is not satisfactory. To improve the situation, KPPL should control the operating cost as well as fixed cost.

4.16 Planning of Profit with Cost- Volume - Profit Analysis

4.16.1 Identification of Cost Variability

Identification of the variability of cost is necessary in planning & control of the cost. Thus the knowledge of cost behavior is very important. Generally cost behavior in two ways with relation to the volume of output. First, it does not change with the change in output and second it changes proportionately with the change in output. Cost behavior gives us answer as the output in a firm increase or decreases what happens to each expense incurred to produce that output?

The cost remains constant in total or certain range of output for a certain time within an activity level is known as fixed cost and it does not change either there is increase or decrease in output. The expenses which change in total to the change in output called variable cost. There is direct relationship between variable cost and output. As output changes, the expenses change in the same direction but not in proportion to the change in output is called neither semi variable expenses which is neither fixed nor variable. Classification of costs into fixed and variable is very important tool for planning of cost volume profit analysis. But KPPL has not maintained any clearly boundaries about cost classification as fixed and variable components.

The following tables show the cost classification in KPPL of FY 064/065 & 065/066.

Table No.-26

S.N.	Cost Items	Behavior	FY 064/065	FY065/066
			Rs	Rs
1.	Raw material Purchased	Variable	2,57,41,099.22	5,17,60,404.58
2.	Wage manufacturing	"	42,76,261.27	37,42,292.50
3.	Selling & Distribution expanses	"	22,72,976.50	25,78,113.50
4.	Water & Electricity Charges	"	21,64,519.32	26,87,357.35
5.	fuel	"	6,65,466.96	6,02,855.00
	Total		3,51,20,322.48	6,13,71,022.93
6.	Selling & Distribution expanses	Fixed	13,20,860.00	14,00,750.00
7.	Land & House Rent	"	1,93,507.80	1,93,507.80
8.	Insurance Factory	"	10,215.00	8,550.00
9.	Sundry expanses	"	12,528.20	10,168.00
10	Depreciation expanses	"	18,21,901.29	19,35,012.92
11.	Repair & Maintenance	"	8,50,456.59	9,41,387.54
12.	Fixed Administration expanses	"	11,50,672.27	12,86,591.29
13.	Salary(factory)	"	20,38,970.00	21,16,265.00
	Total		73,99,111.15	78,92,232.55

By the above table shows the total fixed cost is Rs.78,92,232.55 in FY 064/065 & Rs 73,99,11.15 in FY 065/066 and total variable cost is Rs.3,51,20,322.48 in FY 064/065 & Rs.6,13,71,022.93 in FY 065/066. Although there is no practice to separate the cost into variable and fixed which is the weakness of the organization?

4.16.2 <u>Cost Volume Profit Analysis</u>

Cost Volume Profit analysis is the relationship between cost volume & profit. It is an important tool for studying the relation between volume, cost, price and profit. It is an important tool used for profit planning.

These factors cost volume and profit is interconnected and dependent with each other. Profit depends upon sales, selling price depend upon the cost & cost depend upon the volume of production.

Cost Volume Profit analysis helps in managerial decision making, Cost & Profit Planning. Cost Volume Profit analysis says what sales volume is needed to avoid losses and to earn desire profit.

Cost Volume Profit analysis of KPPL is based on some assumption, which are as follows:-

i. The costs can be divided as fixed & variable.
ii. Cost volume structure is based on the accounting data 065/066
iii. Activity base is selected in terms of sales volume.
iv. Selling Price, variable cost volume ratio & fixed cost per annum are assumed remain constant.
v. Sales mix is constant.
vi. Changes in inventory have not been considered while analyzing cost volume profit of KPPL.
vii. Non operating income & non operating expanses are not included in CVP analysis.
viii. The efficiency and productivity will not change in short run.

Following formula will be used to evaluate the KPPL's Cost Volume Profit analysis.

Sales Revenue = Rs.7, 26, 18,737.61

Total Variable cost = Rs.6, 13, 71,022.93

Total Fixed cost = Rs.78, 92,232.55

i) <u>Cost Volume Ratio (V/V Ratio)</u>

$$\text{V/V Ratio} = \frac{\text{Total Variable Cost}}{\text{Sales}} = \frac{6,\ 13,\ 71{,}022.93}{7,\ 26,\ 18,\ 737.61}$$

$$= 0.84$$

ii**) <u>Profit Volume Ratio (P/V)</u>**

P/V ratio =1-V/V Ratio = 1-0.84= 0.16

iii) <u>Operating Breakeven point (BEP) in Rs.</u>

$$\text{BEP} = \frac{\text{Total Fixed Cost}}{\text{P/V Ratio}} = \frac{78,\ 92,\ 232.55}{0.16}$$

$$= \text{Rs. } 4,\ 93,\ 26{,}453.43$$

iv) <u>Financial Breakeven point (BEP) in Rs.</u>

$$\text{BEP} = \frac{\text{Fixed cost + Interest Expanses}}{\text{P/V Ratio}}$$

$$= \frac{78,\ 92,\ 232.55 + 7,\ 992.31}{0.16} = \text{Rs. } 4,\ 93,\ 76,\ 405.37$$

(v) <u>Margin of safety for budgeted year 066/067.</u>

Budgeted quantity for FY 066/067 is 6, 50.000 kgs and selling price based on FY065/066 is Rs.107.75 per kg. So, budgeted sales will be Rs. 7, 00, 37, 500.00

Margin of Safety = Budgeted sales - BEF sales

= 7, 00, 37,500.00 - 4, 93, 26,453.43

= Rs. 2, 07, 11,046.57

(vi) <u>Margin of safety Ratio for FY 066/067</u>

$$\text{Margin of Safety Ratio} = \frac{\text{Margin of safety}}{\text{Budgeted sales}}$$

$$= \frac{2,07,11{,}046.57}{7,00,37{,}500.00} \times 100\ \%$$

$$= 2\ 9.57\ \%$$

(vii) <u>Budgeted Profit</u>

= Margin of Safety x P/V ratio

= 2, 07, 11, 046.57 x 0.16

= Rs.33, 13,767.45

In the above calculation variable cost volume is 0.84 which means the proportion if variable cost is 0.84(84%) to each rupees of sales and remaining 0.16 (16%) is available to cover all other cost & make a profit. Break Even Point of KPPL is Rs 4, 93, 26,453.43 that is less than actual sales. Analysis if margin of safety indicates there are chances to earn more profit in future. In the conclusions if the company attempts the increase the sales revenue through various sales promotion techniques. It will be able to earn good profit in the future.

4.16.3 Flexible Budget

Flexible Budget is a budget which is prepared for more than one level of activity. The basis of flexible budget is the concept of expanses variability. It shows cost and profits at the various levels.

Flexible expanse budget is also called dynamic activity or output adjusted expanses budget. With the help of flexible budget, the company can determine the operation level by taking into consideration of the cost & profit at different level of utilization. A flexible budget estimate costs at several level of activity. This means that all cost must be identified as to how they behave with a change in volume whether they vary or remain fixed.

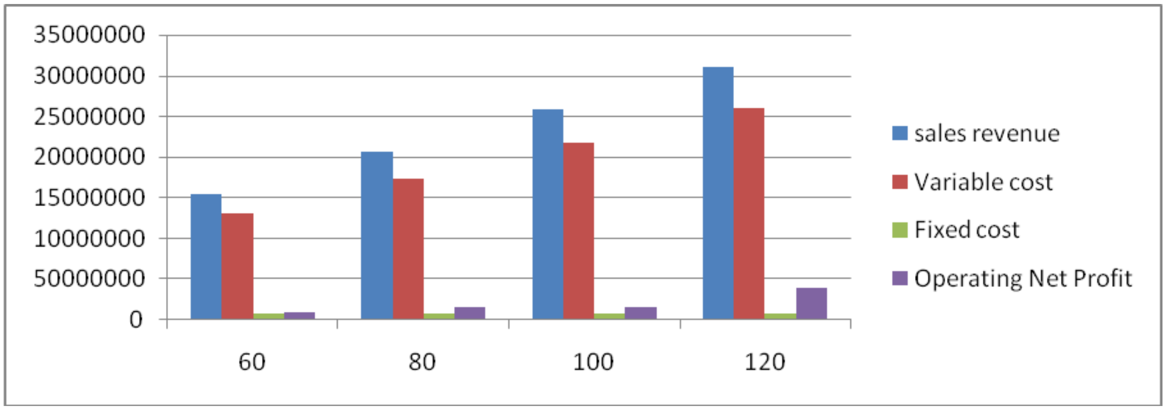
KPPL does not prepare its flexible budget. On the basis of cost and other data of FY 065/066 , a flexible budget of KPPL has been prepared below. Variable cost changes proportionately with the change in level of activity but fixed cost remain constant for a reasonable period of time. Flexible budget of KPPL is prepared as below at 60% to 120% capacity utilization.

Table No.27

Flexible Budget of KPPL

Particulars	**Activity levels in Percentage**			
	60	80	100	120
Sales in Kg	14,40,000	19,20,000	24,00,000	28,80,000
Sales Revenue in@ Rs107.75 Less: Variable Cost	15,51,60,000 13,03,34,400	20,68,80,000 17,37,79,200	25,86,00,000 21,72,24,000	31,03,20,000 26,06,68,800
Contribution margin Less: Fixed Cost	2,48,25,600 78,92,232.55	3,31,00,800 78,92,232.55	4,13,76,000 78,92,232.55	4,96,51,200 78,92,232.55
Operating Net Profit	1,69,33,367.45	2,52,08,567.45	3,34,83,767.45	4,17,58,967.45

<u>**Graph-4**</u>



The above table & diagram shows that if KPPL utilization 80% of its capacity it was earn Rs. 2,52,08,567.45 and at 100% it was earn Rs.3,34,83, 767.45. So, KPPL has to increase in production volume as well as sales volume to earn more profit in future. More capacity utilization is helpful to decrease the operating cost also.

4.16.4 <u>Variance Analysis</u>

A Variance is the difference between actual results and planned or budgeted goals. Analysis of variance is the helpful in controlling the performance and achieving the profits that have been planned.

To analyze the variance the following steps are to be considered.

I. Attainable standard should be developed for material, labor overhead sales yield & profit.
II. Computation of deviation between actual & budgeted results.
III. Significant deviation should be investigated and reasons behind such deviation should be identified and diagnosed as controllable.
IV. For controllable causes of unfavorable variances, responsibility and accountability should be assigned.
V. To improve the unfavorable variances, necessary corrective action should be taken.

In KPPL there is no practice of analyzing variance. It only fixes the sales and production target but does not study between target & actual results seriously & formally.

The following tables show the Sales & Yield variances of KPPL

Tables No.-28
Sales Variance

FY	Target Prod^n	Actual Prod^n in Kgs	Variances in Kgs	Remarks
061/062	7,00,000	7,80,025.420	80,025.420	Favorable
062/063	7,00,000	5,63,634.161	1,36,365.839	Unfavorable
063/064	5,00,000	4,25,205.953	74,794.047	Unfavorable
064/065	4,00,000	3,92,434.899	7,565.101	Unfavorable
065/066	6,00,000	5,51,263.180	48,736.820	Unfavorable

Table No.-29
Yield Variances

FY	Target Prod^n	Actual Prod^n in Kgs	Variances in Kgs	Remarks
061/062	7,00,000	6,96,725.00	3,275.00	Unfavorable
062/063	7,00,000	5,67,967.00	1,32,033.00	Unfavorable
063/064	7,00,000	4,13,240.62	2,86,759.38	Unfavorable
064/065	6,00,000	5,14,205.00	85,795.00	Unfavorable
065/066	6,00,000	4,07,434.00	1,92,566.00	Unfavorable

The above sales variance shows unfavorable variances in FY 062/063,063/064,064/065 &065/066 and Favorable variances' in FY 061/062. The above Yield variance shows unfavorable in each year.

The cause of unfavorable variances should be identified & responsible department should be held accountable for those unfavorable sales & output variances and corrective action should be taken to avoid such unfavorable variance in coming year. The causes of favorable variances also should be indented and studied to save for long term.

4.17 <u>Major Findings</u>

The above analysis of various functional budgets, financial budgets their achievements, Cost Volume Profit analysis Flexible budget shows the KPPL is suffering from the number of Internal & external problems in formulating and implementing profit plans. KPPL is very careless to adopt the systematic and comprehensive ways of formulating and implementing the profit plan. Although, if it adopts profit planning & control system in systematic way for the coming days. Profit performance of the company will be bright & attractive. On the basis of data presented and their analysis, the major findings are as follows;

(i) Specific goals and financial targets are not defined clearly to achieve the basic objective of KPPL.

(ii) Under utilization of available capacity less than 30% of available Capacity.

(iii) Lack of detailed tactical profit plan, only annual amount is fixed.

(iv) Unrealistic sales forecast and inadequate forecasting system.

(v) Level of closing inventory of finished goods is high. It is more than average monthly sales.

(vi) Excessive amount of cost of goods sold (about 80% of sales)

(vii) Inadequate profit planning due to planning experts.

(viii) Lack of defined authority and responsibility. As result there is no proper co-ordination among carious responsible departments.

(ix) Lack of raw materials in domestic market.

(x) Careless in planning to reduce cost.

(xi) Lack of strategic long range planning.

(xii) There is no practice of taking corrective actions

(xiii) There is no practice of performance evaluation system.

(xiv) The company is suffering from excessive depreciation cost.

(xv) There is no practice of classifying expanses in systematic way, which creates huge problem in analyzing expanses.

(xvi) Low productivity of man power.

(xvii) Decision making power is reserved in top level management only.

(xviii) According to bench mark Dept assets ratio will be 80% or less but Dept assets ratio of this company maximum 17% which is less than Bench mark (standard). The firm not good management of Dept to total assets ratio.

(xix) According to bench mark capital employed turnover ratio will be 3. But capital employed turnover ratio of this company are 1.0 to 1.97 which is less than bench mark. So the firm has not good management of sales to total capital employed.

Chapter-5

5.1 Summary

Profit planning is one of the most important managerial tools used to earn profit and to control cost of business operations. This managerial device is very essential to step away on the way of success. Management remains incomplete without application of profit planning & control because profit is the lifeblood of the organization. The enterprise which has been established in social sectors should also generate profit at least for its survival in business society. Profit plan can be divided into two groups as functional plan and financial plan. Functional plan includes sales budget, sales budget, production budget, raw material budget, direct labor budget and Expenses budget etc. financial plan includes cash flow, Capital expenditure, Plan budgeted income statement and Budgeted Balance sheet.

From the point of view of time profit plans are divided into strategy long range profit plan for 5-10 years and tactical short range profit plan for one year detailed by interim periods. Profit planning is an artistic work. It should be net, clean, achievable and comprehensive.

Data and information collected for both primary and secondary source are analyzed with the help of statistical and financial tools. Statistical tools include percentage, mean, standard deviation, coefficient of variation, coefficient of correlation. Similarly, financial tools like financial ratios, Flexible budgets and cost volume profit analysis and variance analysis are used in the study purpose.

This research paper is designed to examine that to what extent KPPL is applying comprehensive profit planning system. The practices and effectiveness of profit planning is reviewed of the company with the help functional plan and financial plan having prepared a plan it is equally important to implement effectively and to evaluate performance appraisal. Difference between actual results and the budgeted may arise to indicate the necessity for correction. It is necessary to formulate the forwarded plan.

More than 80% of the population of our country has occupied agricultural sector. However, because of various problems this sector is considered less attractive and less safety. So, people of our country are trying to change their occupation from traditional agriculture to comprehensive industrial sector. Kamala Plastic Pvt. L.td. which produces high density polythine pipe plays a vital role to develop the incidence of national economy in relation to industrialization.

This study has been divided in five chapters consisting of Introduction, Conceptual Background of Profit Planning and Review of the literature, Research methodology, Data presentation & analysis and Summary Conclusion & Recommendations.

5.2 Conclusion

After analyzing in detail the present practice of profit planning process in KPPL the following conclusions have been drawn.

1. KPPL prepares some functional budgets like sales budget, production budget, annual expanses budget. But, there is no practice of dividing annual amounts in to interim periods. Budgets are prepared an annual basis only.

2. KPPL has not prepared overhead budget in smooth manner.

3. Selling & distribution expenses are prepared on annual basis.

4. KPPL has high amount of depreciation cost.

5. There is no fair working environment and no fair system of reward and punishment to employees on the basis of their work performance.
6. The balance sheet of KPPL shows the huge inventory material and finished goods. Stock turnover also shown high inventory level which creates negative impact upon profitability.
7. KPPL has no practice of sales forecasting. Sales budget is depend upon production budget rather than on sales.
8. In KPPL, profit planning & control concepts are limited top level to lower level.
9. The basic objectives of the company are not clearly specified in annual targets.
10. Cost of production of KPPL is very high due to lack of technological advancement, Excessive burden of cost and high operating cost.
11. Capacity utilization of KPPL is very low due to unavailability of raw material and competitive market position.
12. Correlation between actual sales and target sales and actual production & actual sales is highly significant and positive. It means that increase in budgeted sales will also increases actual sales. Similarly increase in actual sales will also increase actual production.
13. The correlation between actual productions 7 budgeted production is no significant.
14. Least square straight line of sales of KPPL shows increasing sales trend by each year.
15. The pricing policy of the company is not based on cost of production. But, it is based on competitor price. While fixing the price, cost volume profit relationship is not considered.
16. Costs are not classified neither fixed and variable nor controllable and non controllable. Moreover, the company looks careless to reduce the controllable cost. So, cost control devices are not effectively applied in KPPL.

17. KPPL does not prepare the raw material purchase budget. As a result company is successful to purchase an economic order quantity (EOQ)
18. KPPL does not prepare cash flow plan in advance. In other hand, cash flow statement is not adequately prepared. There is no detail description of sources of cash and uses of cash. It has also not planned of interim financing in case of cash shortage and interim investment in case of excess cash.
19. KPPL does not prepare adequate capital expenditure budget. As a result it is unable to evaluate capital expenditures proposals.
20. Liquidity position of the company is very sound. A high amount of working capital has been utilized in inventory and stock. But, excess investment in such current assets does not produce return.
21. The flexible budget shows that if the company utilizes its full capacity, it will be able to earn handsome profit in future.
22. The operating position of the company is not goods. Its V/V ratio and P/V ratio are 0.84 and 0.16 respectively because of lower contribution margin and high fixed coat. Company is running at minimum profit level. The major reason behind it may be high administrative.
23. Margin of safety ratio of company for budgeted year 066/067 is 29.57 %. This indicates company will able to earn profit of Rs. 33, 13, 767.45

5.3 Recommendations

After the detail analysis of profit planning in Kamala Plastic Pvt. L.td. Some suggestions have been recommended in the basis of major findings to improve the formulation and implementation of profit planning system of the company.

I. All members of company should be participated while formulating plans and policies. Profit planning concept is communicated from top to lower levels. Adequate budget educations should be provided to improve profit planning system.

II. KPPL should clearly define its basic objectives. Based on basic objectives annual goals and targets should be fixed.

III. KPPL should analyze SWOT (strength, weakness, opportunities and threat) to strengthen its capability and reduce its weakness.

IV. Company should formulate appropriate strategic long range plan as well as tactical short range plan.

V. KPPL should try to minimize the gap between planned and actual sales by the help of modern forecasting tools.

VI. KPPL needs to increases in production and sales volume for the utilization of available capacity.

VII. To control expense KPPL should develop overhead budget in systematic way overhead expense. NPPL should be classified in separate headings.

VIII. KPPL should classified cost into controllable and uncontrollable, fixed variable implement the effective cost control devices.

IX. Cost volume profit relationship should be considered while fixing price quantities of sales.

X. KPPL should manage reward and punishment system to motivate the staff.

XI. Trained and qualified manpower of budgeting and profit planning should be helped and present manpower should be trained to implement the profit plans effectively.

XII. Capital structure of KPPL should be restructured because there is no long term debt. So, the company should do to take loan to avoid fund crisis and utilize its most profitable manner.

XIII. KPPL should effectively plan to utilize its idle capacity by launching new product or by expanding current product line.

XIV. Flexible budget system should be considered while formulating profit plan.

XV. Direct labor budget should be developed which helps to assets labor requirements to prepare manpower planning and to estimate per unit labor cost.

XVI. Capital expenditure budget should be developed while purchasing fixed assets and to evaluate the proposals.

XVII. The policy should be formulated to finance cash in case of deficit and utilize its excess cash in short term investment.

XVIII. Performance evaluation system should be followed strictly to improve poor performance or to take corrective action.

XIX. Inventory level should be maintained on economic order quantity or optimum level.

XX. Finally, the company should adopt comprehensive profit planning approach. Basic fundamentals of profit planning should be considered while formulating and implementing the profit plan.

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Appendix – 1

Questionnaire

Name of Respondent :
Position :
Department :
Qualification
(a) Academic :
(b) Professional :

Would you please answer the following questions properly?

1. Is your factory operating on the basis of profit planning or simple budgeting?
2. Does your factory apply any system for developing strategy to fulfill the established objectives?
3. Is there a participative management system in your factory to achieve the goals?

   (a) Yes (b) No
4. Is there a particle of preparing long range sales plan?

   (a) Yes (b) No
5. In developing countries the supply side is important, so the basic plan of profit plan is production plan, do you agree with this statement?

   (a) Yes (b) No
6. Is your sales plan supported by necessary details i.e. marketing plan by month & product?

   (a) Yes (b) No

7. Do you sales plan supported by necessary details i.e. marketing plan by month & product?

(a) Yes (b) No

8. Is your production plan supported by other necessary plan?

(a) Yes (b) No

9. Do you have sufficient raw material?

(a) Yes (b) No

If no why?

(a) High Competition (b) Low Price Fixed by factory

(c) Others

10. Is there a post of Profit planning Director in your factory?

(a) Yes (b) No

11. Do you prepare flexible budget in your factory?

(a) Yes (b) No

12. Do you get the price fixing authority?

(a) Yes (b) No

13. Do you think that amount of profit which the factory earned in past were adequate?

(a) Yes (b) No

14. Is your factory is facing the problem for getting skilled manpower?

(a) Yes (b) No

15. Do you think that the present strategy enables to achieve the objectives or it should be modify or adopt new strategy?

Ans:

16. Are you taking the collective actions for re-planning?

Ans:

17. How many shares had taken in HDPE pipe supply the country by factory?

Ans :

18. On which plan your factory gives more attention to fulfill the established objectives?

Ans :

Apendix-2

Calculation of mean, Standard deviation, Coefficient of Variation, Correlation, Probable error of target sales and actual sales. Figures in Lakhs [00000].

FY	Target sales(X)	Actual Sales (Y)	x=X-X (X=5.8)	y=Y-Y (Y=5.42512723)	xy	x^2	y^2
	7	7.80025420	1.2	2.37512697	2.85015236	1.44	5.641228142
	7	5.63634161	1.2	0.21121438	0.25345726	1.44	0.044611516
	5	4.25205953	-0.8	-1.1730677	0.93845416	0.64	1.376087819
	4	3.92434899	-1.8	-1.50077824	2.70140083	3.24	2.252335313
	6	5.51263180	0.2	0.08750457	0.01750091	0.04	0.00765705
N=5	$\sum x$=29	$\sum y$=27.12563613	$\sum x$=0	$\sum y$=0	$\sum xy$=6.76096552	$\sum x^2$=6.8	$\sum y^2$=9.32191982

Arithmetic mean of target sales.

$$\overline{X} = \frac{\sum X}{N} = \frac{29}{5} = 5.8$$

Arithmetic mean of actual sales

$$\overline{Y} = \frac{\sum y}{N} = \frac{27.12563613}{5} = 5.42512723$$

Standard deviation of target sales

$$\sigma X = \sqrt{\frac{\sum x^2}{N}} = \sqrt{\frac{6.8}{5}} = 1.16619037$$

Standard deviation of actual sales

$$\sigma y = \sqrt{\frac{\Sigma y^2}{N}} = \sqrt{\frac{9.32191982}{5}} = 1.36542446$$

Coefficient of Variation of target sales

$$CVx = \frac{\sigma x}{Y} \times 100\ \% = \frac{1.1662}{5.4251} \times 100\ \% = 20.11\%$$

Coefficient of Correlation

$$r = \frac{xy}{\sqrt{x^2y^2}} = \frac{6.76096552}{\sqrt{6.8\ x 9.32191982}} = \frac{6.76096552}{7.96172436} = 0.84918357$$

Probable Error

$$PE(r) = \frac{0.6745\ (1- r^2)}{\sqrt{N}} = \frac{0.6745\ (1- 0.8492^2)}{\sqrt{5}} = \frac{0.18809064}{2.23606798} = 0.0841$$

6 times of PE(r) = 6 x 0.0841= 0.5046.

Appendix-3

Calculation of mean, Standard deviation, Coefficient of variation, Correlation, Probable error of target Production and actual Production. (Figures in Lakhs (00000).

FY	Target sales(X)	Actual Sales (Y)	x=X-X (X=6.6)	y=Y-Y (Y=5.19914324)	xy	x^2	y^2
061/062	7	6.9672500	0.4	1.76810676	0.7072470	0.16	3.12620151
062/063	7	5.6796700	0.4	0.48052676	0.19221070	0.16	0.23090597
063/064	7	4.1324062	0.4	-1.06673704	-0.42669482	0.16	1.13792791
064/065	6	5.1420500	-0.6	-0.05709324	0.03425594	0.36	0.00325964
065/066	6	4.0743400	-0.6	-1.12480324	0.67488194	0.36	1.26518233
N= 5	$\sum x$=33	$\sum y$=25.9957162	$\sum x$=0	$\sum y$=0	$\sum xy$= 1.18189646	$\sum x^2$=1.2	$\sum y^2$= 5.7347736

Arithmetic mean of target Production.

$$\bar{X} = \frac{\sum x}{N} = \frac{33}{5} = 6.6$$

Arithmetic mean of actual Production.

$$\bar{Y} = \frac{\sum Y}{N} = \frac{25.9957162}{5} = 5.19914324$$

Standard deviation of target Production.

$$\sigma x = \sqrt{\frac{\sum x^2}{N}} = \sqrt{\frac{1.2}{5}} = 0.48989795$$

Standard deviation of actual production

$$\sigma y = \sqrt{\frac{\sum y^2}{N}} = \sqrt{\frac{5.76347736}{5}} = 1.07363656$$

Coefficient of Variation of target production

$$CV_X = \frac{\sigma_X}{X} \times 100\,\% = \frac{0.4899}{6.6} \times 100\,\% = 7.42\%$$

Coefficient of Variation of target production

$$CV_y = \frac{\sigma_Y}{y} \times 100\,\% = \frac{1.0736}{5.1991} \times 100\,\% = 20.65\%$$

Coefficient of Correlation

$$r = \frac{xy}{\sqrt{x^2 y^2}} = \frac{1.18189646}{\sqrt{1.2 \times 5.76347736}} = \frac{1.18189646}{2.6286175} = 0.4494$$

Probable Error

$$PE(r) = \frac{\mathbf{0.6745\,(1- r^2)}}{\sqrt{N}} = \frac{0.6745\,(1- 0.4494^2)}{\sqrt{5}} = \frac{0.53827774}{2.23606798} = 0.2407$$

6 times of PE(r) = 6 x 0.2407 = 1.4442

Appendix-4

Calculation of mean, Standard deviation,Coefficient of variation, Correlation, Probable error of actual sales and actual production. (Figures in Lakhs 00000)

FY	Actual sales(X)	Actual Production(Y)	x=X-X (X=5.42512626)	y=Y-Y (Y=5.19914324)	xy	x^2	y^2
061/062	7.80025420	6.9672500	2.37512794	1.76810676	4.19947976	5.64123273	3.12620151
062/063	5.63634161	5.6796700	0.21121535	0.48052676	0.10149462	0.04461192	0.23090596
063/064	4.25205953	4.1324062	-1.17306673	-1.06673704	1.25735373	1.37608555	1.13792791
064/065	3.92434899	5.1420500	-1.50077727	-0.05709324	0.08568423	2.25233241	0.00325964
065/066	5.51263180	4.0743400	0.08750554	-1.12480324	-0.09842651	0.00765722	1.26518232
N= 5	$\sum x$= 27.12563613	$\sum y$= 25.9957162	$\sum x$=0	$\sum y$=0	$\sum xy$= 5.53958583	$\sum x^2$= 9.32191983	$\sum y^2$= 5.76347734

Arithmetic mean of Actual Sales

$$\bar{X} = \frac{\sum x}{N} = \frac{27.12563613}{5} = 5.42512626$$

Arithmetic mean of Actual Production

$$\bar{Y} = \frac{\sum Y}{N} = \frac{25.9957162}{5} = 5.19914324$$

Standard deviation of Actual Sales

$$\sigma x = \sqrt{\frac{\sum x^2}{N}} = \sqrt{\frac{9.32191983}{5}} = 1.36542446$$

Standard deviation of Actual production

$$\sigma y = \sqrt{\frac{\sum y^2}{N}} = \sqrt{\frac{5.76347734}{5}} = 1.07363656$$

Coefficient of Variation of Actual Sales

$$CVx = \frac{\sigma x}{X} \times 100\,\% = \frac{1.3654}{5.4251} \times 100\,\% = 25.17\,\%$$

Coefficient of Variation of target production

$$CVy = \frac{\sigma Y}{y} \times 100\,\% = \frac{1.0736}{5.1991} \times 100\,\% = 20.65\%$$

Coefficient of Correlation

$$r = \frac{xy}{\sqrt{x^2 y^2}} = \frac{5.53958571}{\sqrt{9.32191983 \times 5.7634774}} = \frac{5.53958571}{7.32984813} = 0.7557$$

Probable Error

$$PE(r) = \frac{0.6745\,(1 - r^2)}{\sqrt{N}} = \frac{0.6745\,(1 - 0.7557^2)}{\sqrt{5}} = \frac{0.28930486}{2.23606798} = 0.1294.$$

6 times of PE(r) = 6 x 0.1294 = 0.7764

Appendix- 5

Kamala Plastic Pvt. Ltd. Janakpur, Dhanusha

Comparative Balance sheet

For the Fiscal Year 061 /062 to 065/066

	061/062	062/063	063/064	064/065	065/066
Assets					
1. Current Asset					
Inventories (Jinshi goods)	1,58,55,207.02	1,37,89,750.79	72,94,702.29	80,41,808.15	88,97,521.83
Sundry Debtors	1,21,84,176.64	1,13,43,066.99	2,36,93,926.97	62,31,624.88	1,67,49,434.32
Advance & deposit	1,48,48,235.75	87,52,488.22	13,02,719.45	91,78,482.81	18,88,763.83
Cash & other balance	13,03,909.06	52,53,416.22	15,26,915.76	24,35,146.64	87,01,634.55
Total Current Assets	4,41,91,528.47	3,91,38,755.02	3,38,18,264.47	25,88,7062.48	36237354.53
2. Fixed Assets	88,74,724.48	1,37,68,106.07	1,35,22,460.06	1,45,83,066.29	1,41,26,075.47
3. Investment	17,69,215.00	12,94,280.06	17,14,038.07	1,09,46,433.87	1,13,15,067.87
Total	**5,48,35,467.95**	**5,42,01,108.15**	**4,90,54,762.60**	**5,14,16,562.64**	**6,1678497.87**
Capital & Liabilities					
Capital	4,80,00,000.00	4,80,00,000.00	4,80,00,000.00	4,80,00,000.0	4,80,00,000.0
Reserve & profit	4,91,872.68	1,47,515.46	1,11,758.36	3,81,553.25	1,52,326.26
Sundry creditors	80,93,595.27	81,92,592.69	34,43,004.24	24,65,009.39	1,13,55,901.6 1
Provision	12,50,000.00	8,61,000.00	5,00,000.00	5,70,000.00	21,70,000.00
Total	**5,48,35,467.95**	**5,42,01,108.15**	**4,90,54,762.60**	**5,14,16,562.64**	**6,1678497.87**

Appendix-6

Kamala Plastic Pvt. L.td. Janakpur,Dhanusha

Comperative Profit & Loss Account

For the Fiscal year 2061/026 to 065/066

	061/062	062/063	063/064	064/065	065/066
1. Sales Revenue	89,473,827.24	62,659,468.82	46,952,636,01	45,352,049.55	72,618,737.61
2. Cost of Production	72,776,966.82	49,061,327.06	35,490,181.87	33,779,857.52	57,981,368.75
3. Gross Profit	16,696,960.42	13,598,141.76	11,462,444.14	11,572,192.03	14,637,368.86
4. Other Income	1,449,199.21	1,703,88.67	419,758.00	430,806.26	368,634.00
5. Other Business Expenses	9,372,405.35	8,185,412.14	7,838,387.97	7.903,540.89	8,790,709.17
a) Administration Expenses	4,297,494.83	3,513,803.35	3,284,999.78	3,189,642.27	3,402,856.29
b) Distribution Expense	4,102,753.50	3,656,254.03	3,719,488.50	3,593,836.50	3,978,863.50
c) Maintenances Expense	478,295.11	552,751.18	524,925.11	850,456.59	941,387.54
d) Bonus Expense	421,287.53	405,352.28	220,556.01	227,299.20	467,601.84
e) Extra Fees	72,574.38	57,251.30	88,418.57	42,306.33	
6. Net Operating profit (3+4-5)	8,773,754.28	7,115,918.29	4,043,814.17	4,099,457.40	6,215,293.69
7. Interest expenses	15,198.23	14,282.45	12,387.45	4,564.06	7,992.31
8. Depreciation Expense	1,260,518.61	1,499,668.97	1,842,179.09	1,821,901.29	1,935,012.92
9. Interest on investment	10,414.27	8,212.50	16,312.51	-	403,129.96
10. Income from sales of fixed assets	-	-	-	-	4,478,839.00
11. Income Before tax (6-7+8+9)	7,508,451.71	5,610,179.37	2,205,560.14	2,272,992.05	9,154,257.42
12. Provision for income Tax	150,000.00	861,000.00	500,000.00	570,000.00	2,170,000.00
13. Income Tax	150,212.25	308,560.59	166,317.24	89,457.16	14,084.41
Tax	1,275,212.25	453,536,59	1,027,314.24	589,457.16	584,084.41
Provision	1,125,000.00	1,250,000.00	861,000.00	500,000.00	570,000.00
14. Penalty for Performance Bond	-	-	-	1,343,740.00	-
15. Net Profit (11-12-13)	7,208,238.46	4,445,642.78	1,539,242.90	269,794.89	6,970,773.01
16. Balance Brought forward	963,633.22	491,872.68	147,515.46	111,758.36	381,553.25
17. Total profit (15+16)	8,171,872.68	4,937,515.46	1,686,758.36	381,553.25	7,325,326.26
18. Proposed Dividend	7,680,000.00	4,790,000.00	1,570,000.00	-	7,200,000.00
19. P/L transferred to balance sheet (17-18)	491,872.68	147,515.46	111,758.36	381,553.25	152,325.28

Appendix -7

Different Ratio Test from FY 061/062 to FY 065/066

Kamala Plastic Pvt. Ltd.

Ratio	Formula	FY061/062	FY062/063	FY063/064	FY064/065	FY065/066
Current ratio	$\frac{current\ assets}{current\ lialilities}$	$\frac{4,41,91,528.47}{93,43,595.27}$=4.73	$\frac{3,91,38,722.02}{90,53,592.69}$=4.32	$\frac{3,38,18,264.47}{39,43,004.24} = 7.54$	$\frac{2,28,87,062.48}{30,35,009.39} = 7.54$	$\frac{3,32,37,084.53}{1,35,25,901.60} = 2.46$
Quick ratio	$\frac{Quick\ \ assets}{Current\ Liabilities}$	$\frac{2,83,36,321.45}{93,43,595.27}$=3.03	$\frac{2,53,48,971.23}{90,53,592.69}$=2.80	$\frac{2,65,23,562.18}{39,43,004.24} = 6.73$	$\frac{1,58,45,254.33}{30,35,009.39} = 5.22$	$\frac{2,53,39,562.70}{1,35,25,901.60} = 1.87$
Debt Assets ratio	$\frac{Total\ Debt}{Net\ tangible\ Assets}$	$\frac{93,43,595.27}{5,48,35,167.95}$=0.17	$\frac{90,53,592.69}{5,12,01,108.15}$=0.17	$\frac{39,43,004.24}{4,90,54,762.00} = 0.08$	$\frac{30,35,009.39}{4,84,16,562.64} = 0.06$	$\frac{1,35,25,901.60}{5,86,78,227.87} = 0.23$
Inventory Turnover ratio	$\frac{Cost\ of\ goods\ sold}{Average\ Inventory}$	$\frac{7,27,76,966.820}{80,57,112.74}$=9.03	$\frac{4,90,61,327.06}{49,30,650.80}$=9.95	$\frac{3,54,90,181.87}{44,37,991.26} = 7.99$	$\frac{3,37,79,857.52}{49,29,787.48} = 6.85$	$\frac{5,79,81,368.75}{47,53,187.04} = 12.20$
Capital Employed Turnover Ratio	$\frac{sales}{total\ Capital\ Employed}$	$\frac{8,94,73,827.24}{4,54,91,872.68}$=1.97	$\frac{6,26,59,468.82}{4,51,47,515.46} = 1.39$	$\frac{4,69,52,626.01}{4,51,11,758.36} = 1.04$	$\frac{4,53,52,049.55}{4,53,81,553.25} = 1.0$	$\frac{7,26,18,737.61}{4,51,52,326.26} = 1.61$
Total Assets Turnover assets	$\frac{Total\ net\ sales}{total\ Assts}$	$\frac{8,94,73,827.24}{5,48,35,467.95}$=1.63	$\frac{6,26,59,468.82}{5,42,01,108.15}$=1.16	$\frac{4,69,52,626.01}{4,90,54,762.60} = 0.96$	$\frac{4,53,52,049.55}{484,16,562.64} = 0.94$	$\frac{7,26,18,737.31}{4,51,52,326.26} = 1.24$
Return on capital Employed Ratio	$\frac{Net\ profit\ AT}{Total\ Capital}\ x\ 100\%$	$\frac{72,08,239.46}{4,54,91,872.68}$=15.85%	$\frac{44,45,642.78}{4,51,47,515.46}$=9.855%	$\frac{15,39,242.90}{4,51,11,758.36} = 3.41\%$	$\frac{2,69,794.89}{4,53,81,553.25} = 0.59\%$	$\frac{69,70,773.17}{4,51,52,326.26} = 15.44\%$
Operating Ratio	$\frac{Cost\ of\ goods\ sold\ +operating\ Exp.}{Sales}\ x\ 100\%$	$\frac{7,27,76,966.82 + 93,72,405.35}{8,94,73,827.24}$ =91.81%	$\frac{4,90,61,327.06 +81,85,412.14}{6,26,59,468.82}$=91.36%	$\frac{3,54,90,181.87 +78,38,387.97}{4,69,52,626.01} = 92.28\%$	$\frac{3,37,79,857.52 +79,03,540.89}{4,53,52,049.55} = 91.91\%$	$\frac{5,79,81,368.75 +87,90,709.17}{7,26,18,737.61} = 92.95\%$
Gross profit Margin Ratio	$\frac{Gross\ Profit}{sales}$x 100%	$\frac{1,66,96,960.42}{8,94,73,827.24}$=18.66%	$\frac{1,35,98,141.76}{6,26,59,468.82}$=21.70%	$\frac{1,14,62,444.14}{4,69,52,626.01} = 24.41\%$	$\frac{1,15,72,192.03}{4,53,52,049.55} = 25.52\%$	$\frac{1,46,37,368.86}{7,26,18,737.61} = 20.16\%$
Net profit Margin ratio	$\frac{Net\ Profit}{sales}$x 100%	$\frac{72,08,239.46}{8,94,73,827.24}$=8.06%	$\frac{44,45,624.78}{6,26,59,468.82}$=7.09 %	$\frac{15,39,242.90}{4,69,52,626.01} = 3.28\%$	$\frac{2,69,794.89}{4,53,52,049.55} = 0.59\%$	$\frac{69,70,773.01}{7,26,18,737.61} = 9.60\%$