CHAPTER - I

INTRODUCTION

1.1 General Introduction

Nepal is a small developing Himalayan Kingdom situated in South Asia. It is bounded on the north by the Tibetan autonomous region of People's Republic of china and on the other three sides by India. It has an area of 147181sq.km.and runs all along 500 miles from east to west and 80 to 150 miles from north to south.[Cencus:2048;10] Climatically it lies in the Temperate zone with added advantages of altitude. Ecologically the country is divided into three regions running east to west. They are mountains, the hill and the plains. The mountain area lies on altitude varying from 48877 meters to 8840 meters above the sea level embracing of earth tallest mountain peaks

Nepal is one of the least developed countries of the world. More than 90% of total population is still in the rural areas and most of them are not yet getting minimum physical facilities that are necessary for human being because of under developed of those areas and their poverty. They is great challenge to the nation to eliminate the poverty of the country through gradual development of the area and to provide basic needs to the people keeping in view there challenges in nation. Several programs have been launched. The country has a population of 26.4 million with an annual growth rate of 2.2% with the life expectancy of 59.7 years. The density of population is 176.5 per sq. Km and GDP US $386. Literacy rate stands 62.7%, which is among the lowest in the world. [Quarterly Economic Update-2007;12] Geographically, Nepal is blessed and adorned by natural beauty. Today Nepal has become a country of attraction for many tourists from all over the world.

1.2 General View of Public Enterprises

Public enterprises is an institution operating a services of an economic or social character, on behalf of the Government, but as an independent legal entity largely autonomous in its management, thought responsible to the public, through Government and parliament and subject to some direction, by the Government, equipped on the other hand with independent and separate founds of its own and the legal and commercial attributer of a commercial enterprise. [Joshi 2053:3-4]

Public enterprises is an organization which is owned by the public authorities to the extent of 50% or more, is under top management control of the owing public authority and its engaged in activities of a business character and its market output in the shape of goods services for price. Public enterprises have to maintain proper balance between profit motive and service motive.

Public enterprises are autonomous bodies which are owned and managed by the Government and which provide goods or services for a price. The ownership with the Government should be 51% or more to make entity public enterprises. [Laxmi, 4th schand and com.Ltd.:3]

1.2.1 Public Enterprise in Nepal

In case of Nepal "Public enterprises are considered the Government tools for bearing Socio-economic responsibility" The first public enterprises of the world is admitted to the part of London Authority of Britain, which was formed at 1908 A.D. In the context of Nepal Biratnagar Jute Mills was first which was established at 1936 A. D, to generate nations revenue from the export of jute in international market.[Bhattari,2058:213]

Since 1956 Nepal has witnessed and development of public enterprises. His Majesty's Government of Nepal has played a vital role in development process of the country. For the purpose HMG/N makes massive investment to create necessary infrastructure and run some of the large manufacturing industries and to provide essential service to the people. During the different plan period many institution of public enterprises were established and many of them were established with assistance of donor countries. The number of such enterprises in the field of industry, business, service, service and public utility reached above 60.

But in Nepal the corporation has not only failed to achieve their objectives but also have become a heavy burden on the national economy. The main cause of failure of PE's in Nepal are lack of management autonomy, inefficient use of means and resources, short sightedness and weakness on the part of political leadership, lack of competitive ability, production of low quality goods and services, uncontrolled administrative expenses there of motivation in incumbent human resources, adoption of traditional technology and minimum use of professionalism, as the result the Government has adopted a policy of liberal economy giving priority to the involvement of private sector in public enterprises.

Nepal started its planned economic development in 1956 A.D. with the launching of 1st five years plan since then, the number of public enterprises has increased substantially in the production or supply of sugar, cement , cigarettes, agricultural tools, petroleum products and all public utilities. PEs of Nepal can be categorized as,

1. Statutory Corporation and
2. Companies

Among 30 existing PEs, two are Public utility PEs namely (i) Nepal Drinking Water Corporation and (ii) Nepal Electricity Authority.

1.2.2 Role of PEs in Nepalese Economy

Public enterprises in Nepal constitute a vital instrument for the socio-economic development. It enjoys a strategic and crucial position in our mixed economy. Public enterprises were established in many sectors for the overall development of the nation with different in the production or supply of Cement, Brick and Tiles, Sugar, Cigarettes, Petroleum Product and almost all the Public utilities.

The Economy of Nepal is basically a mixed economy, where the public and private sector freely operate in the business environment except in case of defense, which is not open to private sector. There is co-existence of both the public and the private sectors in Nepal for the overall development of the country.

Nepal has adopted mixed economic system where contribution of private and public sectors are co-existed in harmonious and collective way. The private sectors have a predominant role in market oriented and competitive economic activities so that increase in production through efficiency enhancement and resources use and utilization. However, Nepal Government has been involving in some of the specific sectors like infrastructure, essential commodities producing, social warfare, public utilities, national defense and industries that need a huge amount and where private parties do not show any interest particularly.

Nepal is one of the under developed country which is still in its crewing stage of industrial development. So in Nepal PEs are not matter of choice, rather they are a matter of necessity in various sector of economy where private sector has not come forward or are only in limited extent. The public sector has to come into the estates, banking, trading and commercial sectors to a big and small PEs to create industrials bases in the country, to private better goods/services to the people, to generate employment opportunities, to mobilize the domestic resources in to best productive uses and to fulfill the Government plans and objectives, PEs have helped to increase the standard of living, regional balance of developing and they have contributed through import substitutions, export promotion and strengthening the revenue generation of HMG and save foreign currency by reducing import as well as to provide the consumable goods/Service at a fair price.

It is sure that Nepal needs to make fairly extensive use of PEs as a catalytic agent in the process of moving towards development oriented economy at a certain stage in the development process.

1.3 A Brief Introduction of Gorkhapatra Corporation

A hundred years ago during the time of Rana Prime minister Dev Samsher JBR on Jestha 3rd Monday1958 B.S. the first publication of “Gorkhapatra” was published. At that period only 1000 copies of Gorkhapatra were published. After a long travel of 61 years, HMG/Nepal established Gorkhapatra “Gorkhapatra Sansthan Act 2019” and in 25th Ashad 2020 it becomes an autonomic public enterprise.(G.C.Act;2019)

Gorkhapatra was published as weekly newspaper since 29th Asoj, 2000 B.S. for 42 years. Aswin 29, it published two times in a week, since 2003 B.S. Poush 8, it become to be published thrick week and since 2017 Falgun it has been publishing daily. In additional to daily events it has been taking out regularly and Saturday supplement since Ashad 2019 B.S.(G.C.Act,2019)

Gorkahapatra Corporation has been providing the sound contribution through the various ways to the nation according to its motto. Now, the Corporation is happy to find itself in present condition are sincerely grateful with its founders who offered valuable contribution for its establishment process as well as welfare in the critical time to “Rana Rule.” Gorkhapatra Corporation is under control of ministry of communication information. From history of establishment it is continuously facing interference from Government, Cabinet, parliament and political parties. HMG has provided operational autonomy to all public enterprises but in real practice all the decision regarding Corporation is interfered by Government.

The Gorkhapatra Corporation even is not free to publish current news if it is not favors of Government. One Corporation is badly over staff due to political and personal pressures. The main course of poor performance of Corporation is excessive Government and political inference and dominance which give burden to Corporation seriously. For long sustainability the Corporation should provide full autonomy for its internal management.

Publications of Gorkhapatra Corporation

The publication of Gorkhapatra Corporation is listed below:

Table: - 1.1

S.N.	Name of Publication	Kinds of Paper/news	Started Date	Remark
1	Gorkhapatra	Nepali Daily	1958 Baishakh 24	-

2	The Nepalese perspective	English Weekly	2021 Asoj	Closed
3	The Rising Nepal	English Daily	2022 Poush 1	-
4	Madhupark	Nepali Monthly	2025 Jestha	-
5	Yuva Manch	Nepali Monthly	2045 Ashad	-
6	Sunday Dispatch	English Weekly	2047 Baishakh 9	Closed
7	Muna	Nepali Monthly	2047 Poush	-
8	Manoram Apsara	Nepali Monthly	2055 Baishakh	Closed

(sources: Annual Report of G.C)

Manpower Planning of Gorkhapatra Corporation

Gorkhapatra Corporation has large number of employees working under various units. Present status of employees has presented below.

Table:-1.2

S.N.	Department/unit	No. of Staff
1	Management &Board	8
2	Administration Department	71
3	Finance Department	55
4	Editorial Sector	87
5	Production Department	197
6	Art and Photography Department	11
7	Marketing Promotional and Distribution Department	131
8	Business Department	32
9	Press and Engineer Unit	42
10	District Reporter	42

(Sources: Annual Report of G.C.)

1.4 Reason for Selecting Gorkhapatra Corporation

Gorkhapatra Corporation is a utility enterprise and it gives service to the people of the society as well as conveys the various news to the people of the country in cheap price efficiently. It is the main objective of the corporation.

In the context of Nepal, the enterprises, which are running profit from the beginning is difficult, find out. But G C is such enterprise, which is running it provides its service to people as manufacturing. So, it can be taken in the side of manufacturing in some extent.

The cause why, this PE has selected for research work is that it is public utility enterprise and nobody has prepared dissertation of PPC on it. The profit level of the corporation is in the condition of up and down (increase and decrease) and PPC can solve this problem of the corporation in this regard with this thought in my mind. This researcher selected Gorkhapatra Corporation.

1.5 Statement of the Problem

"In spite of the continuity in the adoption of mixed economy in Nepal, the role of the public enterprise has been assuming considerably more and more significance in the Socio-economic development process of the country."[Shrestha 1990;25] Public enterprise should contribute to the Government revenue besides saving theirs own interest. But, they seem to have been established. Although there are many problems existing into the public enterprise in Nepal, the problem of budgeting is common.

Every public enterprise the main problems of enterprises is defective objective setting procedures. There is a big communication gap between top and lower level employees. The other main problems of public enterprises are that they are failed to use latest technology and infrastructure. The present study will try to analyze and examine the profit planning side of Gorkhapatra Corporation. Budgeting the profit planning is an artistic work, without proper planning for profit, it will not just happened it should be managed, for this effective supervision of individual operation and practical administration is necessary. The present situation has indicated that the profit planning either has not been properly formulated or it has not been implemented of Gorkhapatra Corporation. So it is felt that there should be a serious study on present situation of this corporation. On the other hand, the present study will try to analyze and examine the profit planning side of Gorkhapatra Corporation. Budgeting the profit planning is an artistic work, without proper planning for profit, it will not just happened it should be managed, for this effective supervision of individuals operation and practical administration is necessary.

Although Gorkhapatra Corporation is running in Profit for a long year however, it is not well prospered as it ought to be. This study is mainly designed to solve the above mentioned problems by taking into account the budget role in planning the profit. The major problems of application of budgeting programmer in Gorkhapatra Corporation is the conflict in its broad objectives. The present study will try to examine and analysis the practice of profit planning in Gorkhapatra Corporation. Therefore, this study has tried to solve following research questions of Gorkhapatra Corporation.

1. What are the major problems in the existing profit planning followed in G C for developing and implementing?
2. What are the basic cause of variances between the target and actual result in this Corporation/
3. What steps should be taken to improve the problems of profit plans?
4. What is the impact of profit planning over the Corporation's profit?
5. What is strategy should G C implement in order to complete with there competitors?

1.6 Objectives of the Study

This study aims to explore the underlying constraints in the practical and effectiveness of Comprehensive budgeting or profit planning and their impact towards the Gorkhapatra Corporation's profitability. Along with the aforesaid objectives the following functional objectives have been embodied in this study.

1. To examine the present practice and effectiveness of profit planning in Gokrkahpatra Corporation.

2. To evaluate the variance between target and actual performance of Gorkhapatra Corporation.
3. To analyze the preparation of various functional budget of Gorkhapatra Corporation.
4. To suggestions and recommendations on the basis of major Finding.

1.7 Significance of the Study

Gorkhapatra Corporation is a social sector organization which are suffering from poor performance and financial conditions which are not satisfactory. Most of the social sector organizations are in loss. So, this study analyze profit planning its predictable difficulties and gives recommendations by focusing on the case study of Gorkhapatra Corporation.

Profit Planning is such a tool which helps to predict the future and minimized future risks and maximizes output from the scarce resources and means and also helps in the field of managerial decision making in business enterprises. So, profit planning is important for agro-based public enterprises.

This study evaluates the use of different type of functional budgets and corporate planning system for effective implementation of profit planning and control system of Gorkhapatra Corporation. This study is also designed to describe the purpose of different types of budget used, how they are prepared and how these budget facilities to prepare policies and make financial control.

This study also focuses on the budgeting as a key factor of profit planning position of Gorkhapatra Corporation. So, it will help specially to Gorkhapatra Corporation management and shareholders, entrepreneurs, public and future researcher.

1.8 Limitation of Study

As every research has its own limitation, this study is not biased. This present study is limited only to the profit planning of Gorkhapatra Corporation. In the context of Nepal, very few studies and researches have been made in respect budgeting of profit planning of Nepalese public enterprises. This study holds some importance in the since a periodic change required to collect the information about the approach and practice so as to highlight about the application of detailed and systematic approach of profit planning in Nepalese public utility and social enterprises. The present study analyzes the effectiveness of PPC in representative enterprise. The present study will also examine and review the present and historical literature. Besides these above all, the present study will serve the general interest of various people as well as to the researchers of this area. Eventually the present study valuable suggestions and recommendations will serve to the managers making profit plans in the GC, and as well as this study will help to overcome the certain limited or PEs problems regarding budgeting activities. The following consideration have been exclude from the study to bound the scope of the study to a certain level which is necessary.

1. Limited time is available and the thesis will fulfill the partial requirement of the Master of Business Studies.
2. The data have been based on at least five years trend and data are analyzed performance of the Corporation.
3. The study is more specific in profit Planning system, its effectiveness, major problems faced by the enterprises, and suggestion and recommendation for better improvement of Gorkhapatra Corporation.
4. This study is only a case study hence the conclusion drawn from the study does not ensure wide applicability in all types of enterprise running in different situations.
5. Out of various public enterprises in different sectors, this study has chosen only from public utility and social sector i.e. Gorkhapatra Corporation has been selected.
6. The whole study is mainly based on Secondary data and the major detailed on Secondary data and the major detailed information available from the management of Gorkhapatra Corporation.

1.9 Organization of the Study

The project study would be divided into the following five chapters:

1. Chapter One:

It entitles "Introduction chapter" the reading material in this chapter are general background of the study, brief introduction of the companies, statement of the problem, objective of the study, limitation of the study and organization of the study.

2. Chapter two:

This chapter includes the conceptual and the review of related literature written by different authors and researchers as well as the findings of various articles relating to study.

3. Chapter Three:

This chapter consists of "Research Methodology" adopted for the study and includes research design, data collection procedures and data analysis tools.

4. Chapter Four:

This chapter comprises data presentation and analysis.

5. Chapter Five:

This chapter is concerned with the output of the study in the form of summary, conclusion and recommendation. At finally list of bibliography, appendix and viva-sheet tool have been included at the end of the study.

CHAPTER - II

REVIEW OF LITTERATURE

2.1 CONCEPTUAL BACKGROUND OF PROFIT PLANNING

2.1.1 Concept of Profit

Profit is the primary objective of a business. Profit is the signal for the allocation of resources and yardstick for judging managerial efficiency (Kulkarni,1987:18). The reliable measure of the effective performance of a business is profit. Profit the primary is measured of success of the business enterprises. Profits are the acid test to business enterprise performance. Simply, profit is the excess of income over cost of production (Joel, 1992:30).

A business firm or industry is an organization designed to make profit and profits are the primary measure of its success. It is generally accepted that a business firm aims at making profit. (Varshney & Maheshwori, 1986:26)

Simply stating profit is the excess of income over cost of production. But the term "Profit" is very controversial and there are several different interpretation about this. An economist will say that profit is the reward of entrepreneurship for risk taking. A labour leader might say that it is a measure of how efficiently labour has performed and that is provides a base for negotiation a wage increase. An investor will view it as a gauge of the return on his or her money. An internal revenue agent might regard it as a base for determining income taxes. The accountant will define it simply as the excess of firm's revenue over expenditure of producing revenue in given fiscal period (Lynch & Williamson, 1987:35)

Using the accountant measuring stick, management thinks of profit as:

- A tangible expression of the goals it has set for the firm.

- A measure of performance toward the achievement of its goals.
- A means of maintaining the health, growth and continuity of the company (Lynch & Williamson,1987:35).

A view of profit states that, the entrepreneur is special type of labour and profit is a special form of wages. The entrepreneur earns profit for organizing and coordination the other factors of production. Land, labour, capital are used for the purpose of producing goods or services.

Serveral economists have their different views in respect of the term profit. According to F.B. Howely, profit is the reward for risk tasking in business. Schumpeter expressed that an entrepreneur earn profit as rewards for his introducing innovation. J.M. Keynes held the view that profit resulted from favorable movements of general price levels. Robins & Chamberlain opined that greater the degree of monopoly power, the greater the profits made by the entrepreneur (Joshi, 2050:50).

At last it should be noted that profits are residual income left after the payment of the contractual to other factors of production.

Economic theory of profit may be put into the three broad groups:

i. Profit is the reward for bearing risk and uncertainties.
ii. Profit as the consequence of frictions and imperfection in the competitive adjustment of the economy's dynamic change.
iii. Profit as the reward for successful innovation (Joel,1992:33)

It clearly shows the variation between economists in regard the meaning of profit. In general there are four types of production factors i.e. land, labour, capital and Organization. The factors of production help to produce goods and service. But in exchange of their assistance in production process they need incentives. Then the excess of revenue over such incentives is known as profit and profit is always given to organization. Profit is excess of income over cost of production. The expenses made on raw material, labor, interest on borrowed capital, fuel, power are included in cost. The non-production cost item such as, salary that entrepreneur would earns are excluded from conventional accounting profits because these opportunity costs do not appear the books of accounts. But the economists hold the view that these factors should be considered of subtracted to arrive at a net profit. (Joshi, 2050:36). The word “Profit” implies a comparison of operation of business between the specific dates, which are usually separated by an interval of one year.

2.1.2 Concept of Planning

Planning is the first essence of management and all other functions are performed within the framework of planning. Planning means deciding in advance what is to be done in future. Planning starts from forecasting and predetermination of future event. Planning is the whole concept of any business organization. No firm can achieve its predetermined goals and objective in the absence of proper plan. Hence it is lifeblood of any organization which makes efficient run towards the competitive environment.

Planning is essential to accomplish goals it reduces uncertainty and provides direction to the employees by determining the course of action in advance. Budgeting compels management to plan in a comprehensive and coherent way. It is essentially a formalized that planning indicates the responsibility of management and provides. It should be realized that budgeting (Pandey,1991:48).

Planning is the process of developing enterprises objectives and selecting a future course of action to accomplish them. It includes (a) establishing enterprise objectives (b) developing premises about the environment in which they are to be accomplished (c) selecting a course of action for accomplishing the objectives (d) initiating activities necessary to translate plans into action, and (e) current re-planning to correct current deficiencies (Welsh, Glenn, 1990:39).

The planning processes both short and long term is the most crucial component of the whole system. It is both foundation and the bond for the other elements because it is through the planning process that we determine what we are going to do, how we are going to do it and who is going to do it. It operates as the brain control of an organization.

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

The fundamental purpose of management planning is to provide a feed forward process for operations and for control. Planning is generally recognized as the most difficult tack facing the manager and it is one that is very easy to procrastinate. Feedback is also an important ingredient of both re-planning and control. Planning rests upon the view that the future success of an entity can be enhanced by continuous management actions. Planning is partitioned conformably with the operational or organizational subdivisions of the entity. Therefore, planning must encompass an evaluation because they will have significant impacts in the planning of realistic objectives and goals. The development of enterprises objective is the most fundamental level of decision-making in the planning process. The next planning level is known as goal with broad objective brought in to shaper focus by explicitly specifying.

a) Time dimensions for attainment
b) Quantitative measurement
c) Subdivision of responsibilities

The most detailed level of planning occurs when management's operational objective, goals and strategies are established by incorporation in to the profit plan. Planning begins with the setting on general goals proceeds to cost-volume-profit analysis of various alternatives and ends with the proportion of a detailed quantitative plan of action, the budget.

2.1.3 Introduction to Profit Planning

Profit planning is defined as a "comprehensive as coordinated plan, expressed in financial terms, for the operations and resources of an enterprise for some specific period in the future.” When the management plans for profit for a certain period of time, it is called profit plan. “As an estimation and predetermination of revenues and expressed that estimates how much income still be generated and how it would be spent in order to meet investment and profit requirement. In the case of institutional operations it presents a plan for spending income in a manner that does not result in loss.”(Jack & Raymend,199:133). It represents an overall plan of operations, covers a definite period of time and formulates the planning decisions of management.

“Profit planning is a detailed plan of action during a period of one year or less. Profit planning helps a firm’s financial manager to regulate flow of funds, which is a primary concern.”(Panday, 1998:233)

“Profit plan is a short term financial plan. It is an action plan to guide managers in achieving the objectives of a firm. A profit plan is a comprehensive and coordinated. Plan resource of an enterprise for some specific period in future.” (Fremgn, 1973:144)

Profit plan is a financial and narrative expression of the expected result from the planning decisions. It is called the profit plan (or the budget) because it explicitly states the goals in terms of time expectations and expected financial results for each major segment of the entity.(Welsch, Hilton & Gordon, 199:34)

The broad concept of profit planning in few word as, “The profit planning and control means the development and acceptance of objective and goals and moving an organization efficiently to achieve the objectives and goals.”[Welch, Hilton, Gordon, Fifth edition] The term comprehensive profit planning and control is defined as a systematic and formalized approach for performing significant phases of the management planning and control function. Specially, it involves;

1. The development and application of broad and long range objectives for the enterprises.
2. The specification of enterprise goals.
3. A long range profit plan developed in broad terms.
4. A short range profit plan detailed by assigned responsibilities. (divisions, products, projects)
5. A system of periodic performance report detailed by assigned responsibilities.

6. Follow-up procedures.

Profit planning means the development and acceptance of objectives and goals and moving an organization efficiently the achieve objectives and goals. Profit planning is the heart of management. Without proper planning of profit it will not just happen. So, any types of enterprise should systematically plan for profits in proper way. The success of each enterprise in realizing its optimums profit in each year will be determined by the extend to which it establishes its objectives, develops coordinated plans to meet those objectives and exercise control results reach or exceed those planned. This entire process constitutes the budgetary planning and control program. It includes revenues, cost, profit, cash, working capitals, fixed assets, financing and dividends distributions. It extends throughout the entire organization from the chief executive to the front line supervisory levels. Profit planning and control has the ultimate objective of attaining the optimum profit. Profit planning in fact is a managerial technique. It is such a written plan in which all aspects of business operations with respect to a definite future period are included. It is a formal statement of policy, plan, objective and goal established by the top management in respect of some future period. It is a predetermined detailed plan of action developed and distributed as an audit to current operations and as a partial basis for the subsequent evaluation of performance. So we can say that, “profit planning is a tool, which may be used by the management in planning the future course of action and in controlling the actual performance.”(Gupta, 1992:521)

Profit is an outcome of effective and efficient management, which is effected by various factors. Profit planning is that tool which managers all the factors efficiently and effectively. “A profit plan is an advance decision of expected achievement based on the most efficient operation standards of in prospect of time. It is established against which actual accomplishment is regularly compared.”(John,1998:125)

Modern Profit planning encourages action and recognizes the divisional and departmental autonomy and responsibility of managers, motivating them to strive for attainment of the corporate goal. Profit planning is directed to the final objectives of the business and generally includes all of its important elements. Profit planning is especially effective in enabling middle management to help plan profit and control cost. “Profit planning is management’s primary tools to accomplish its objectives.”(Peter and Edward ,1999:36)

Since profit plan is flexible and depends upon the size of the firm, so that the formats and rules regarding profit plan also various according to the nature of business organization. Profit plan is prepared with in the environment of relevant variables and strength and weakness. Organizational broad objectives are defined and they are specified in particular goals. Basic strategies are communicated to the line and staff managers. Generally two types of profit plans are generated for long-term objectives strategic plans and for short-term objectives tactical plans are developed. The type of profit plan depends upon the nature of business entity. Generally for a manufacturing enterprises following plans are prepared:

(1) Sales plan (2) Production plan (3) Raw material Plan (4) Purchase Budget (5) Inventory Budget (6) Labour hours and cost Budget (7) Manufacturing Overhead Budget (8) Administrative expenses Budget (9) Selling expenses Budget (10) Capital expenses Budget (11) Flexible Budget (12) Cash budget (13) Projected income Statement (14) Projected balance Sheet (15) Variance analysis of Performance Report.

“Profit planning is a comprehensive plan expressed in financial term by which an operating program is effective for a given period of time. It includes the estimate of (a) the service activities and project comprising the program (b) the resultant expenditure requirements (c) the resources usable for their support.(Jones, 19981:18)

“ Profit planning thus, becomes a well through out operational plan with its financial implication impressed as both long and short range profit in the form of financial statements, including balance sheet, income statements and cash and working capital projections.”(Mutz/Curry, 1972:85)

2.1.3.1 The Basic Elements of Profit Planning

The basic elements of profit planning are as follows:

1. Basic Comprehensive and Co- ordinated Plans

The profit planning considers all activities and operations of an organization. The budget prepared by different department inside the organization has to be complied or co- ordinated and it is done by profit planning. So before preparing a profit plan all the departments have to be complied at first and that budget is known comprehensive budget or profit planning.

2. It is expressed in Financial Terms

All activities covered by budget are related with funds so the budget has to be expressed in monetary units i.e. Rupee, Pounds, Dollar, Yen etc.

3. It is plan for the Firms Operation and Resources

Budget is a mechanization to plan for the firms all operations or activities. The budget must plan for quantity revenue and express related to specific operations. The planning should be done for revenue and expenses only.

2.1.3.2 Purpose of Profit Planning

Profit planning is a forward planning. It serves basically as a tool for management control; it is rather pivot of any effective scheme of control.

"Profit planning is the principle tools of planning and control offered to management by accounting function."[Welsch, Hilton & Gordon, 1999:38] In fact, profit planning and control is best source of communication and an important tool in the hands of management. The objectives of profit planning may be summarized as under:

1. To state the firms expectation (goals) in clearly formal terms to avoid confusion and facilitate their attainability.
2. To avail a detailed plan of action for reducing uncertainly and for its proper direction of individual and group efforts to achieve goals.
3. To communicate expectation to all concerned with management of the firms so that they are understood, supported and implemented.
4. To co- ordinate the activities and efforts in such a way that the use of resources in maximized.
5. To provide a means of measuring and controlling the performance of individuals and units and to supply information of the basis of which the necessary corrective action can be taken.

- Statement of expectations
- Communication

- Planning

Planning is essential to accomplish goals. It reduces uncertainty and provides direction to the employees by determining the course of action in advance. Comprehensive profit planning and control or budgeting compels management to plan in a comprehensive and coherent way. It is essentially a formalized planning of management intended action and desired result. Formalized planning indicates the responsibility of management and provides on alternative to grouping without direction. It should be realized that profit planning or budgeting is not nearly forecasting, although forecast from the basis of budgeting. Forecasting is the estimate of the future environment within the company will operate. Budgeting or planning on the other hand, involves the determination of what should be done, how the goals may be reaches and what individuals or units are to assume responsibility and to be held accountable. (Pandey,1995:242)

2.1.3.3 Advantage of Profit Planning

The following main arguments are usually given for profit planning and control.

1. It forces early consideration of basic policies.
2. It requires adequate and sound organization structure that is; there must be a definite assignment of responsibilities.
3. It compels all members of management from top down to participate in the establishment of goals and plans.
4. It compels departmental managers to make plans of other departments and of the entire enterprises.
5. It requires that management putdown in fingers what in necessary satisfactory performance.
6. It requires adequate and appropriate historical counting data.
7. It compels management to plan for the most economical use of labour, material and capital.
8. It installs at all levels of management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decision.
9. It reduces cost by increasing the span of control because fewer supervisors are needed.

10. It frees exclusive from many day to day internal problems through predator mind polices and clear cut authority relationship. It thereby provides more excessive time for planning and creating thinking.
11. It trends to remove the cloud of uncertainty that exists in many organization, especially among lower levels of management relative to basic policy and enterprises objectives.
12. It pinpoints efficiency and inefficiency.
13. It promotes understanding among members of management of their co-workers problems.
14. It forces a management to give adequate attrition to the effect of general business condition.
15. It forces a periodic self – analysis of the company.
16. It aids in obtaining bank credit. Bank commonly require a projection of future operation and cash flow to support large loan.
17. It checks progress for lack of progress to wards the objectives of the enterprises.
18. It forces recognition and corrective action.
19. It rewards high performance and seeks to current unfavorable performance.
20. It forces management to consider expected future trends and conditions. (Welsch, Hilton & Gordon,1999:60- 61)

2.1.3.4 Basic Assumptions, Problems and Limitations of Profit Planning

Profit planning and control is a systematic approach to the solution of problems. It helps to serve the management. Still the usefulness of profit planning to very small business could have been circumvented by an early attempt to quality the drams of head strong but sloppy thinking entrepreneurs who never directly faced the uncertainties of their venture.

But there are so many assumption of using profit planning program. Firstly, the basic plans of a business must be measured in terms of money will be available for the need of the business. Secondly, it is possible in a comprehensive why co- ordination every other aspect to establish optimum profit goals. Thirdly, profit planning is preplanning not merely who to do it things workout as forecasted, but also what to do things workout differently from the forecast.

Profit planning and control encompasses a systematic and integrated approach to project planning, to tactical planning and to strategic planning. (Welsch, Hilton & Gordon,1999 : 39) But it is not fully proof; it suffers from certain problems and limitations. The major problems in development of PPC system are: (Welsch, Hilton & Gorden, 1999: 60])

1. It is difficult, if not impossible, to estimate revenues and expenses in our company realistically.
2. Our management has no interest in all the estimates and schedules. Our strictly informal system is better and works well.
3. It is not realistic to write out and distribute our goals, policies, and guidelines to all the supervisors.
4. Profit planning and control, places too great a demand on management time, especially to revise budgets constantly. Too much paper work is required.
5. It takes away management flexibility.
6. It creates all kinds of behavioral problems.
7. It places the management in a straitjacket.
8. It adds a level of complexity that is not needed.
9. It is too costly, aside from management time.
10. The managers, supervisors, and other employees hate budgets.

Management must consider the following limitations in using the PPC system as advice to solve managerial problems:

1. The profit plan is based on estimates.
2. A PPC program must be continually adopted fit in changing circumstance.
3. Execution of profit plan will not occur automatically. Profit plan will be effective only if all responsible executive exert continuous and aggressive efforts to wards their accomplishment.
4. Not a substitute for management; it is totally wrong to think that introduction of PPC is alone sufficient to ensure success and to guarantee future profits.
5. It is not realistic to write out and distribute our goals, policies and guidelines to all it he supervisors.

6. Budgeting places to great a demand on management time, especially to revise budgets constantly. Too much paper work is required.
7. It creates all kinds of behavioral problems.
8. It adds a level of complexity that is not needed.
9. It is too costly, aside from management time.
10. Danger of rigidity, for use fullness, the PPC must be flexible and dynamic in every sense of the word.
11. Proper evaluation, for finding out inefficiencies. Proper evaluation should be made and on the absence of proper evaluation, budgeting will hide inefficiencies. So there should be continuous evaluation of the actual performances and standards also reexamined regularly.

2.1.4 Fundamentals of Profit Planning

Basically, comprehensive profit planning and control offers a systemic, practical and proved approach to the management process properly viewed, profit planning and control is comprehensive system to co- ordinate all aspects of the management process, carefully knitting together the cost ends of management and operations. This all- inclusive concept of the profit planning and control process is frequently minimized or completely overlooked in main of the literature and discussion on the subject.

2.1.4.1 Managerial Involvement and Commitment

PPC program requires management support, confidence, participation and performance orientation. All levels of management, especially top management has to consider following points in order to make PPC program successful (Welsch, Hilton & Gorden, 1999:60)

I. Understand the nature and characteristics of profit planning and control.

II. Be convinced that this particular approach to managing is preferable for their situation.

III. Be willing to devote the effort required to make it operative.

IV. Support the program in all its ramifications and

V. View the result of the planning process as performance commitments.

2.1.4.2 Organizational Adaptation

A profit planning and control program must rest upon a sound organizational structural for the enterprise and clear- cut lines of authority and responsibility. The purpose of organizational structure and the assignment of authority is to establish a framework within which enterprise objectives may be attained in a coordinated and effective way on a continuing basis. The scope and interrelationship of the responsibilities of each individual manager are specified. To increase managerial and operational efficiency, practically all enterprises, except perhaps the very smallest ones, should be structurally disaggregated into subunits. The manager of each subunit should be assigned specific authorities and responsibility for the operational activities of that subunit. These subunits are often referred to as **decision centers** or **responsibility centers**. Although the latter term is widely used, the former is more descriptive of the primary focus that is most fundamental. A responsibility center can be defined as an organizational unit headed by a manager with specified authority and responsibility.

2.1.4.3 Responsibility Accounting

There must be set up the sound basis responsibility accounting system in the profit planning program accounting system must be design to provided financial information separately for each organizational unit, that is by assigned authority and responsibility which are enough generated by accounting system, includes the measurement of actual against objectives, goals and plan. Profit planning and control require a responsibility of accounting system that is one tailored to organizational responsibilities. Within this primary accounting structure, secondary classification of cost, revenues and other relevant of financial data may be used to meet the needs of the enterprise.

2.1.4.4 Full Communication

Communication in the management and operation of an enterprise seems as a, major managerial problems. Communication can be broadly defined as an interchange of thought or information to bring about a mutual understanding between two or more parties; it may be accomplished by a combination of words, symbols, message and subtleties of understanding that conform working together, day in and day out by two or more individuals. Communication may be thought of as the link that brings together the human elements in an enterprise.

The goals and objectives set by management should be well communicated in all levels of management; PPC program can be successful when the communication is done in full. Full communication means making every body of the organization familiar with goals and objectives and to motive all members for their effective accomplishment.

2.1.4.5 Realistic Expectations

Management must be realistic and avoid either undue conservation or irrational optimism. The care with which budget goals and objectives are set of such items as sales, productions levels, costs, capital expenditures, cash flow and productivity determines in large measures the future success of the profit planning and control program. To be realistic, expectations most be made in relation (1) to their specific time dimension and (2) to an assumed (projects) internal and external environment that will prevail during the time span. Within these two constraints, realistic expectations should be made to attain predetermined goals.

2.1.4.6 Time Dimension

Effective implementation of the profit planning and control concept requires that the management of the enterprise establish a define time dimension for certain types of decisions. In viewing time dimensions prospects in managerial planning, a clear- cut distinction should be made between historical considerations. Timing of planning activities suggests that there should be a definite management time schedule established for initiating and completing certain phases of planning process.

2.1.4.7 Management Control Using PPC

The primary purpose of control is to ensure attainment of the objectives, goals and standards of the enterprise. Control has many expression, narrative memoranda, policies and procedures, reports of actual results and performance reports. Comprehensive profit planning and control focuses a performance reporting and evaluation of performance to determine the causes of both high and low performances.

2.1.4.8 Activity Costing

Responsibility of accounting system generally accumulates costs by department and product costing systems of associate costs with units of product or service organizations also frequent- with activities. By discomposing an organization's production process into a discrete set of activities, and then associating costs with each of those activities, management is a better position to determine the costs and benefits of continuing the activities. Moreover, by systematically identifying the activities, throughout the organization, managers can identify redundant activities eliminating activities that are not cost benefit effective, and achieving greater co- ordination among the activities that remain.

2.1.4.9 Zero- Base Budgeting

Zero-base budgeting has received great attention recently as a new approach to the budgeting process. It is method of budgeting in which managers are required to start at zero budget levels every and to justify all costs as if the programs involved were being initiated for the first time. Under zero- base budgeting, every budget is constructed on the premise that every activity in the budget must be justified. Zero base budgeting has been used by private Governmental units both. In zero bases budgeting, there are no "givens". It starts with the basic premise that the budgets for next year is zero and that every expenditure old and new must be justified on the basis of its cost and benefit. In this budgeting the process of alternatives is more rigidly define.

2.1.4.10 Behavioral View Point

Profit planning and control program can only be successful when the people working in the enterprise are motivated. Goal orientation is characteristic of ambitious and competent is characteristic of ambitious and competent individuals who are normally involved in the management process. Such individuals have strong personal goal needs; their performance is enhanced though hierarchy of realistic goals with which they can identify. For implementing the profit planning and control program effectively, there should be a proper co- ordination between the individuals goals needs and an organizational goal needs. From this perspective, behavioral consideration in regard of the rewards, performance, result should be taken intensively.

2.1.4.11 Follow Up

This fundamental holds that both goal and substandard performance should be carefully investigated, the purpose being threefold:

1. In the case of substandard performance, to lead in a constructive manner to immediate corrective actions.
2. In the case of outstanding performance, to recognize it and perhaps provide for a transfer of knowledge to similar operations; and
3. To provide a basis for better planning and control in the future.

2.1.5 Long Range and Short Range Profit Planning

When managers of the various responsibilities center in the enterprise receive the executive management planning instruction and the executive management planning instruction and the projected plans, they began intensive activities to develop their respective strategic and tactical short range profit plans. The strategic long range and tactical short range profit plan are usually developed on currently. It is possible that executive will develop the strategic and tactical profit plan. This approach is seldom advisable because it denies full participation in the planning process by middle managers. Lack of the participation can cause unfavorable behavioral effects. Assuming participatory center has to develop strategic long range profit plan (5 years) and in a harmony with five year plan, a tactical short range profit plan (one year).Certain format and procedural instructions should be provided by a centralized source, normally the financial function to establish the general format, amount of details, and other relevant procedural and format requirement essential for aggregation of the plans of the responsibility centers in the overall profit plans. All of these activities must be coordinated among the centers in conformity with the organization structure. (Welsch, Hilton & Gorden,1999:68)

The format pertain of the long range plan includes the following basic component detailed by each year income statement, cash flow projection, capital expenditure plan and man power requirements, research plan and long range market preparation plan. The strategic plan does not include a formal balance sheet however it is anticipated that covers all the key area of anticipated activity, sales expenses, capital expenditure cost, profit and return on investment.

In order to provide a broad general view of complete short-range profit plan shown here deal primarily with annual result, detailed classification by month responsibility and products. Therefore, these two steps, revision upon receipt of the planning, premises and procedural instructions, each manager in charge of a major responsibility center will immediately initiate. Activities with his own functional with five year plan, a tactical short range profit plan for example a plan might consist of the following part:

- Basic purpose of objectives of the company.
- Marketing plans, manufacturing plans.
- Research development and engineering plans.
- Capital instrument plan.
- Financial projection.

2.1.6 Profit Planning and Planning

Profit planning is the final process in a comprehensive planning network. Business planning does not operate with in any determined time limit but is conditioned time limit but is conditioned by particular requirement of a company's profit planning. Strategic profit plan monitors strategic planning to ensure that if meets the financial requirement of management in terms of sales, profitability and growth. The annual profit plan is changed with the task of realizing the profit potential created by strategic planning.

The planning process of an enterprise would generally involve four fundamental steps.

(1) Establishing the objective.

(2) Determining the broad objectives or goals.

(3) Developing strategies.

(4) Formulating Profit plan.

Following figure present a conceptual view of the linkage between planning and profit planning.

Relation between Planning and Profit Planning

Economic	Entity objectives	Owners
Customer	Broad and long range	Societal
Employees		Outputs

↓

Entity Goals	
Product line	Profitability
Service line	Return on
Share market	Investment

↓

Profit Plans

Structured and quantified

↓

Strategic/Long range profit plan		Technical/ short range Profit Plan
- Broad	- Broad Responsibility	Detailed - short term quantified
- Long term	- Quantified	Responsibility at all levels

(Sources: Welsch, Hilton & Gorden, 1999:68)

2.1.7 Types of Planning

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

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

- Income statement
- Balance Sheet
- Capital expenditure Plan
- Personal requirements
- Research Plan
- Long – Range market penetration plan

Thus the long – range profit plan covers all the key areas of anticipation activity: Sales, expenses, research and development, capital expenditure, cash, Profit return on investment.

"It is possible for the firms to develop these two project plans for all aspects of the operations assuming participatory planning and receipt of the executive instruments, the manager of each responsibility center to develop strategic plan and tactical profit plan. Certain format and normally the financial function should establish the general format, amount of detail, and other relevant procedural and format requirements, essential for aggregation of the plans of the responsibility in centers into the overall profit plan. All these activities most are co- orientated among the centers in conformity with the organization structure. (Welsch, Hilton & Gordon,1999: 80)

Preparation of long – range planning in addition with short range planning is also viewed as a total planning concept of business format companies long term planning in addition to annual budgetary planning is essential to maintain the annual profit at consistently good or improving levels. The ultimate measure of the success of a business is generally based on growth in the volume of the sales increasing return in the volume of the sales increasing return on capital investment, official organization and those are all long- term consideration.

2.1.7.1 Planning Vs. Forecasting

It is not easy to distinguish between planning and forecasting. Forecasting is the prerequisite for planning. Forecasts are the statements of expected future conditions. According to Webster, “to plan a head is the leading definition for forecast. Forecasting is our best thinking about what with happen to us the future in forecasting, we define situation and recognize problems and opportunities. In planning, we develop our objectives practical detail and we correspondingly schemes of action to achieve these objectives.”

Forecasts are the statements of expected future conditions. These expectations depend upon the assumption made. If assumptions are plausible the forecast has better chance of being useful. Forecasting assumptions and techniques vary with the kind of planning needed. Forecasting may be three types. They are:

(i) Intermediate term

(ii) Short term

(iii) Long term

Planning can only be done with forecasting. The distinction between forecasting and planning is not an easy one.

Webster gives “To plan a head” as the leading definition of forecast. Forecasting is out best thinking about what will happen to us in the future. In forecasting we define situations and recognized problems and opportunities. In planning we develop our objectives in practical detail and we correspondingly develop schems of action to achieve these objectives.

A forecast is perdition of future event, condition or situation, where as plan includes a program of intended future actions and desired results. Forecasting predicts the future events in such away that the planning process can be performed more accurately. “A forecast is not a plan, rather it is a statement and or a quantified assessment of future conditions about a particular subject (e.g. sales revenue) based on one or more explicit assumptions." A forecast should always state the assumptions upon which it is based. A forecast should be viewed as only one input into the development of sales plan. The management of the company may accept, modify or reject the forecast, other inputs and management judgment about such related items as sales volume, prices, sales efforts, production and financing . It is important to make a distinction between the sales forecast and the sales plan primary because the internal technical staff should not be expected or permitted to make the fundamental management decision and judgment implicit in ever sales plan. Moreover, the influence of management actions on sales potential in difficult to quality for sales forecasting. Before, the elements of management experience and judgment must hold the sales plan. Another reason for identifying sales forecasting as only one step in sales planning is that sales forecasting are conditional. (Welsch, Hilton & Gordon,1999:172)

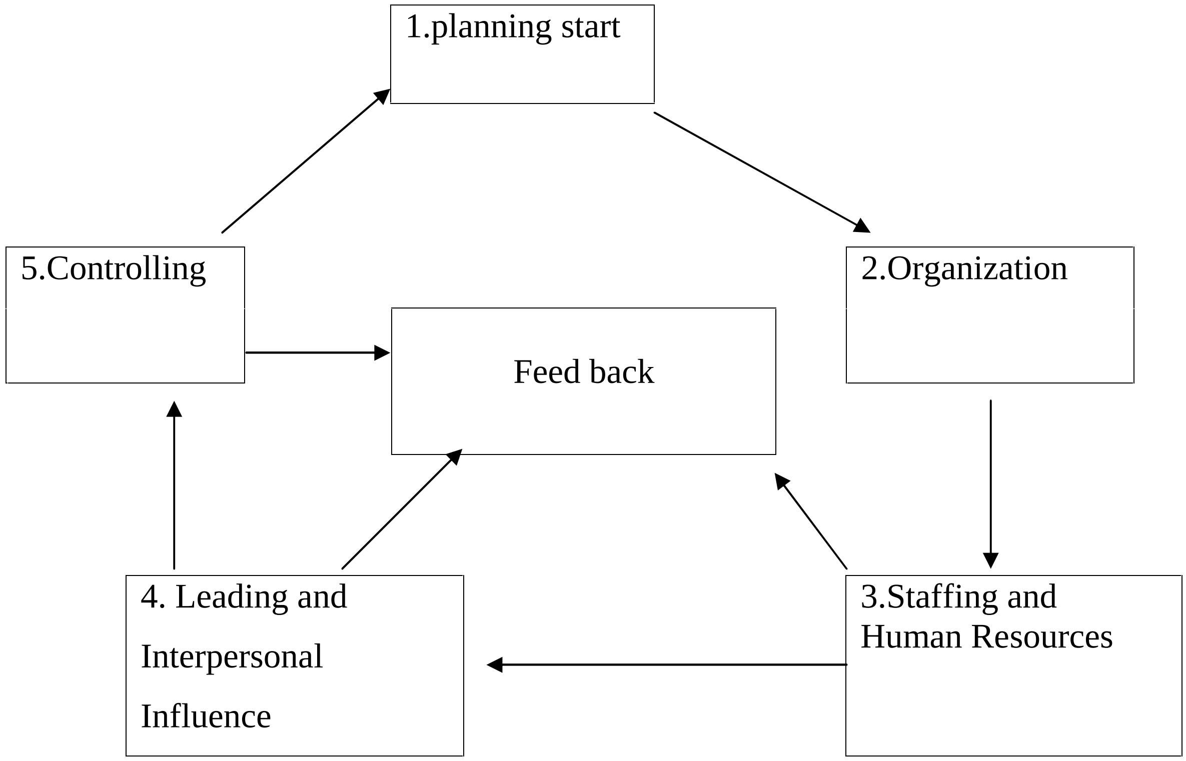
2.1.7.2 Management Planning

Management planning is a continuous process as opposed to periodic endeavor. Since a projection can never be considered as the final product. It must be revised as condition as the final product. It must be revised as condition change and new information becomes available. The function should very in scope and industry with the level of management responsibility than lower management should have definite planning responsibilities. Planning is the first function of management phases of time demands both re- planning and new plans to correct performance deficiencies and to cope with unanticipated events that are unfavorable and to take advantage of new developments.

Management planning is a process that includes the following five phases:

I. Establishing enterprise objectives and goals.
II. Developing premises about the environment of entity.
III. Marketing decisions about courts of action.
IV. Initiating action to activate the plan and,
V. Evaluation performance feedback for re- planning.

Planning is the first function of management such as:-



(Sources: Welsch, Hilton & Gorden, 1999:175)

2.1.8 Fundamentals of Profit Planning and Control.

Basically, comprehensive profit planning and control offers a systemic, practical and proved approach to the management process. Properly viewed, profit planning and control is a comprehensive system to co- ordinate all aspects of the management process, carefully knitting together the lost ends of management and operations. This all- in- collusive concept of the profit planning and control process is frequently minimized or completely overlooked in main of the literature and discussion on the subject. (Welsch, Hilton, & Gordon, 1999: 29)

A sound foundation is necessary to successful implementation of the profit plan program. For this the enterprise should taken certain steps. The following steps into six points for initiating PPC Program.

(i) Commitments by the top management to the broad concept of PPC and a sophisticated and understanding of its implications and operations.

(ii) Identification and evaluation of the controllable and non controllable variables of the environment and the characteristics of the enterprise.

(iii) Evaluation of the organizational structure and assignment of managerial responsibilities and implementation of charges deemed necessary for effective planning and control.
(iv) Evaluation of recognition of the accounting system to ensure that it is a tailored to the organizational responsibilities.
(v) A policy determination must be made in respect to the time dimensions to be used for PPC purpose.
(vi) Development of budget education program to inform management at all levels about: (a) the purpose of the program, (b) the manner in which it will operate, (c) the responsibility of each levels of management, (d) the way of program which can facilitate the performance of each managerial function.

2.1.9 Components of PPC

A PPC program should have all its components that are required to fulfill the objectives, which are supposed to be fulfilled by the PPC program. Glenn A. Welsch, Ronald W. Hilton, Paul N. Gordon has presented the following component of PPC program.

A. The Substantive Plan

i) Broad objectives of the enterprise.

ii) Specific enterprise goals.

iii) Enterprise strategies.

iv) Executive management planning instruction (planning premises)

B. The Financial Plan

i) Strategic long range Profit Plan.

a) Sales, cost and profit projections.

b) Major projects and capital additions.

c) Cash flow and financing.

d) Personnel requirements.

ii) Tactical short range (annual) profit plan.

a) Operating Plans:

Planned Income Statement.

1) Sales Plan

2) Production (or merchandise purpose) plan.

3) Administrative expenses budget

4) Distribution expenses budget.

5) Appropriation type budgets (e.g. research and development, promotion, advertising)

b) Financial Position Plan

Planned balance Sheet

i) Assets

ii) Liabilities

iii) Owner’s equity

c) Cash flow Plan

d) Variable expenses budget

e) Supplementary data

f) Performance report (Including any special report) each month end or as needed.

g) Follow- up, corrective action and re- planning report.

2.1.10 Profit Planning Process

The major process of profit planning is as under:

1) Identification and evaluation of external variables.

2) Development of the broad objectives of the enterprise.

3) Development of specific goals for the enterprises.

4) Development and evaluation of company strategies.

5) Executive management planning instructions.

6) Preparation and evaluation of project plans.

7) Development and approval of strategic and tactical profit plans.

8) Implementation of profit plans.

9) Use of periodic performance report.

10) Implementation of follow – up.

2.1.11 Components of PPC Program

Out line of the components of a typical PPC program (Welsch, Hilton, & . Gordon,1999:201)

A. The Substantive plan

1. Broad objectives of the enterprise

2. Specific enterprise goals

3. Enterprise strategies

4. Executive management planning instructions.(planning premises)

B. The Financial Plan

1. Strategic long- range profit plan:

    a. sales, cost and profit projections

    b. Major projects and capital additions

    c. Cash flow and financing

    d. Personnel requirements

2. Tactical Short- range (annual) profit plan:

    a. operating plan:

    Planned income statement:

    (1) Sales plan

    (2) Production (or merchandise purchase) plan

    (3) Administrative expenses budget

    (4) Distribution expenses budget

    (5) Appropriation – type budgets (e.g., research and development, promotion, advertising)

b. Financial- position Plan

Planned balance sheet

(1) Assets

(2) Liabilities

(3) Owner's equity

C. Cash Flow Plan

C. Variable Expenses Budgets:

Output – expense formulas

D. Supplementary Data:

(e.g., cost- volume profit analysis, ratio analyses)

E. Performance Reports

F. Follow-up, Corrective Action, and Re planning Reports.

2.1.12 Master Budget- Budgeting for Short Range

Budgeting for the short range in concerned with facilitating and controlling the activities of responsibility center on an annual or even month to month basis short range budgeting provides managers with a means for comparing actual operational with budgeted figures and reporting the result of these comparisons to higher- level managers. [John and Son, 2004:482]

The manager budget is the organizations primary short- term budgetary device. This comprehensive budget is often prepared through a standard cycle of events that occur on a specific time table each year. (John and Son,2004:482)

Master budget is a summary budget which in corporate all functional budget an it may taken the form of profit and loss account and balance sheet as at the end of the budget period.(Gupta,1992: 554)

The complete budget for a firm is often called master budget. The master budget consists of many functional budgets. These budgets include a sales budget, production budget and equipment purchase budget and a cash budget. Once all these budgets are completed the master budget of the entire firm is prepared, a master budget is a summary of functional budgets plan and profit or loss during the budget period. (lesher and Flesher,2001:406)

The master budget is the profit and loss statement for the next financial year or other period covered by the budget. [Mcalpine,2001: 30 It may be recalled that a budget with reference to planning and control refers to comprehensive and coordinated budgets generally known as master budget. A master budget normally consists of three types of budget. They are: (1) Operating Budget (2) Financial Budget and (3) Special Decision Budget. Another classification of a master budget is (i) Fixed /Static budget and (ii) Flexible/Variable budget. (Welsch, Hilton & Gordon, 1999:135)

The preparation of master budget is major event in any organization. This complex process involves the efforts of many people from all levels of management. Master budget preparation is a negotiating process in which initial proposals by responsible managers are subjected to be revised as the different components of the budget are brought and reviewed.

2.1.13 Development of Profit Plan

2.1.13.1 Sales Plan

Preparation of sales plan is the starting point for the development of profit plan to those organizations, which are operating, in competitive environment. After having the planning premises of the organization the sales plan is developed. Sales plan is the starting point in the preparation of the comprehensive profit planning and control. All the other plans and budget are dependent up on the sales budget. The budget is usually presented both in units and rupee of the sales revenue or sales volume. A variety of methods are used to forecast the sales for the planning period. Because the preparation of sales plan is based up on the sales forecast. (Welsch, Hilton & Gorden, 1999:210)

The sales planning process in a necessary part of PPC because:

i. It provides for the basic management decisions about marketing and
ii. Based on those decision it is an organized approach for developing a comprehensive sales plan. If the sales plan is not realistic, most if not all of the other parts of the overall profit plan also are not realistic.

The sales plan has three distinct parts are as follows:

i. The planned volumes of sales at the planned sales price per unit for each product
ii. The sales promotional plan and
iii. The sales (or distribution) expense plan

The sales budget itself is an estimate of three main figures:

i. The income that will be earned from sales.
ii. The costs and expenses of making sales
iii. The sales surplus.

The income from sales will depend on the quantity and the price of goods, which will be sold.

The primary purpose of sales plan is as follows:

i. To reduce uncertainly about future revenue.
ii. To incorporate management judgments and decisions in to the planning process.
iii. To provide necessary information for developing other elements of comprehensive profit plan and
iv. To facilitate management control of sales activities.

2.1.13.1.1 Components of Sales Plan

Welch,Hilton & Gorden have mentioned the major four components for a comprehensive sales plan. They are:

1) Management policies and assumption.

2) Marketing plan (Sales and Service revenue)
3) Advertising and Promotion plan.
4) Distribution (selling expenses) plan.

2.1.13.1.2 Sales Plan Vs Forecasting

Sales planning and forecasting are not same. A forecasting is just a statement of future conditions. Sales planning and forecasting often are confused. Although related, they have distinctly different purpose. A forecast is not a plan, rather it is a statement and/or a quantified assessment of future conditions about a particular subject based on one or more explicit assumption. A forecast should always state the assumptions upon which it is based. A forecast should be viewed as only one input into the development of a sales plan. The management of a company may accept, modify or reject the forecast. In contrast, a sales plan incorporate management decisions that are based on the forecast, other input, and management judgments about such related items as sales volume, price, sales efforts, production and financing (Glenn,1990:96). A sales forecast has to be translated into a sales budget and here a number of factors have to be taken into consideration. A sale planning is the function of top management where a sales forecasting is a technical staff function.

2.1.13.1.3 Strategic Vs Tactical Sales Plan

A comprehensive sales plan includes to separate but related plans, the strategic and tactical sales plan. The strategic sales plan is a long-term sales plan and it usually covers 5 to 10 years, where as tactical sales plan has shorter time horizon and usually covers 1 year period. Long-term sales plan are usually developed as annual amounts and use broad groupings of products. Long-term sales plan usually involve in depth analysis of future market potentials, which may be build up from a basic foundation such as population changes, state of the economy, industry projections, and finally company objectives. Short-term sales plan or tactical sales plan is prepared to plan sales for 12 months into the future, detailing the plan initially by quarters and by months for the first quarters. At the end of each month or quarter through out the year, the sales plan is re-studied and revised by adding a period in the future and by dropping the period just ended. The short-term sales plan includes a detail plan for each major product and for groupings of minor products. Short-term sales plan must also have structured by making responsibility for planning and controlling purpose. Short-term sales plan may involve the application of technical analysis.

2.1.13.1.4 Developing a Sales Plan

Welch, Hilton & Gorden suggestion the following steps in developing a comprehensive sales plan:

1. Develop management guidelines for sales planning

2. Prepare Sales forecast

3. Assemble other relevant data:
    a) Manufacturing capacity
    b) Source of raw material and supplies
    c) Availability of manpower
    d) Availability of capital
    e) Availability of alternative distribution channels

4. Develop the strategic and tactical plans. The participation in preparing sales plan depends upon the thinking of management there may be four types of participation while preparing sales plan.

    They are as follows:
    a) Maximum participation
    b) Participation limited to managers only
    c) Participation limited to top management
    d) Technical specialists plus limited participation

5. Secure managerial commitment to attain the goals in the comprehensive sales plan.

2.1.13.1.5 Method of Projecting Sales

Following methods are used for projecting sales

1) Judgmental Methods

a) Sales force composite method
b) Sales division supervisor composite method
c) Executive opinion methods

2) Statistical Methods

a) Economic rhythm method
b) Cyclical sequence method
c) Special historical analogy
d) Cross-cut method

3) Special Purpose Methods

a) Industry analysis
b) Product-line analysis
c) End-use analysis

4) Combination of methods

2.1.13.2 Production Plan

Production planning is the second step of budgeting. Production budget is concern with determining the quantity of the product to be produced each unit of time. Production budget is prepared to co ordinate the sales budget and inventory policy of organization. When preparing production plan, the managers must have an optimum co- ordination between sales, inventory and production levels. An efficient and coordinated production plan is necessary for economical manufacturing.

“The production budget specifies the planned quantity of goals to be manufactured during the budget period. In developing production budget, the first step is a stability policy relative to inventory levels. The next step is the determination of the total quantity of each production that is to be manufactured during the budget period. The third step is to schedule this production budget is the initial step in budgeting manufacturing operation. To plan production effectively, the manufacturing executive must have or over lap, information relative to the manufacturing operations necessary for each product. They must have at hand information relative to the use and capacities of each manufacturing department. The company cost accounts should provide certain historical data essential in planning production quantities and cost. The direct of profit planning and control should provide staff assistance when needed. When the recommended production is completed by the production department it should be submitted to the executive. Committee for appraisal and then to the president for tentative approval prior to its use as a basis for developing the materials, labor and factory overhead budgets.”([Welsch, Hilton & Gordon,1999 :212-213)

Production budget includes the production, finished goods inventory work in process inventory and factory overhead. We can understand the production planning mathematically as where.

Production unit = Planned Sales + Ending Inventory – Initial Inventory

When the production plan has been completed by the production manager. It should be give to the executive committee for evaluation and then to the president for tentative approval prior to its use as a basis for developing the direct materials direct labour and factory overhead budgets.

2.1.13.2.1 Responsibility for Production Planning

The completed marketing plan should be given to the manufacturing executive who is responsible for translating it into a balanced production program consistent with managerial policies and subject to certain constraints. Planning scheduling and dispatching of the actual production through the year are the functions of the production department therefore; it is essential of these functions be performed by the production managers. The managers have first hand knowledge of the plant of personnel capabilities, availability of material and production process. Although responsibility rests directly upon the production managers, top management policies must be considered in such matters as inventory level stability of production and capital additions (plan capacity).

2.1.13.2.2 General Consideration in Planning production and Inventory Levels

To develop the production, manufacturing executives must resolve the problem of coordinating sales, inventories and production so that the lowest possible overall cost results. The importance of coordination of production planning cannot be overemphasized because it affects so many decisions relating to cost, capital commitments, employees, and so on. Decisions required to develop the production plan include the following. (Welsch, Hilton & Gorden,1999: 213-214)

1. Total production requirements (by product) for the budget period.
2. Inventory policies about levels of finished goods.
3. Plan capacity policies, such as the limits of permissible departures from a stable production level throughout the year.
4. Adequacy of manufacturing facilities (expansion or contraction of plant capacity)
5. Availability of direct materials, purchased components, and labour.
6. Length of the processing time.
7. Economic lots or runs.
8. Timing of production throughout the budget period, by product and by responsibility centers.

2.1.13.2.3 Long Range Vs Short Range Production Planning

Planned levels of production are important long – range and short – range issues. To develop a long – range plan (say, five years in the future), broad estimates of production levels are necessary to plan plant capacity requirements(involving capital additions), factory cost structures, personnel requirements, only major increases or decreases in inventories need to be taken into account.

Developing a tactical short – range profit plan requires a different approach because of the need for greater precision and detail. The short – range production plan should be in harmony with the time dimensions used in the short – range profit plan. Thus, the common pattern should be an annual production plan detailed by products and by months or quarters. Also, the production activities should be planned by responsibility centers with in the manufacturing division.(Welsch, Hilton & Gorden1999:21)

2.1.13.2.4 Developing the Production Plan

Production managers must translate the qualities in the sales budget in to unit production requirements for the budget period for each product while considering management inventory policies. The production plan is developed prior to the end of the current year; the beginning inventory for the budget period must be estimated after trimmings the budget production. It should be produced by interim time period. Interim production must be planned to (i) provide sufficient goods to meet interim sales requirements (ii) keeping interim inventory level within policy constraints and (iii) manufacture the goods as economically as possible. An efficient requirements, essential inventories levels and stable production level.

The following formula is generally used to calculate the planned production.

Planned production

Requirements for Sales (units)	×××××
Add: - Desired final inventory of finished goods	×××××
	−−−−−−−
Total required Production	×××××
Less: - Initial Inventory of finished goods	×××××
	−−−−−−−
Planned Production for the year	×××××

2.1.13.2.5 Setting Inventory Policies

In most business, inventories represent a relatively high investment and may have a significant impact on the major functions of the enterprise and its profit. Each of the related functions causes different, and frequently inconsistent, inventory demands. Inventory policies should include (i) establishment of inventory standards such as maximum and minimum levels of turnovers and (ii) the application of techniques and methods that will assure conformity to select inventory standards. Budgeting the requires that inventory levels from month to month. In determining inventory policies for finished goods, management should take care these important factors. (Welsch, Hilton & Gordon,1999:220-221)

1. Quantities (in units) needed to meet sales requirements.
2. Perish ability of items.
3. Length of the production period.

4. Storage facilities.
5. Adequacy of capital to finance inventory production some time in advance of sales.
6. Distribution time requirements.
7. Cost of holding the inventory.
8. Protection against raw material shortage.
9. Protection against price increases.
10. Risk involved in inventory.
    a. Price declined.
    b. Obsolescence of stock.
    c. Casualty loss and theft.
    d. Lack of demand.
    e. Customer returns policies.

There are mainly three types of production policies as under:

i) Stable production Vs unstable inventory policy

In every specified period, fixed production units are to be produced equally while ending inventory of finished goods is to be unstable in this policy; therefore, budgeted sales of the period are unequal.

(ii) Unstable Production Vs Stable inventory Policy

The production units are to be fluctuated or unstable in each period and units of final inventory are to be stable at the end of each period. The number of units produced and budgeted sales are directly related.

(iii) Flexible in both Production and inventory policy

The flexible units are produced as well as flexible units of final inventory are maintained in this approach for specific budget period. Sometime this policy may be beneficial and sometime it may be harmful for the production budget but it reduces. Some disadvantage of both first and second policies to some extent.

These policies of production depend upon the nature of sales and inventory policies. For example, assuming the seasonal sales, it is possible to maintain a stable production level possible to maintain a stable production level only if inventories are allowed to fluctuate inventory with sales. On the other hand, a stable inventory level is possible only if production is allowed to fluctuate directly with sales from the point of view of economic operations, it is generally desirable to keep both inventories production stable, a situation that is impossible given seasonal sales.

In many companies where sales of the primary product are seasonal, production levels are stabilized by developing new products that can be started or that have inverse seasonal patterns. Stabilization of production is desirable for a number of compelling reasons and generally results in significant reduction of cost and improvements in operations.

One potential hazard of significant ups and down in productions is the effect on personal. Periodic layoff and subsequent effort to hire employees tens to lower morale and may discourage competent employees. Such a policy is counter to an important objective to management, which is to provide reasonable job security.

2.1.13.3 Material And Purchase Plan

After the preparation of sales and production budget, the next step is to prepare material purchase budget. When the production budget is completed, the requirements of raw materials and components can be estimated. Production budget also helps to prepare material uses budget. It is through the material uses budget one can determine the time and quantity of material to be purchased. A purchase budget gives the detail of materials purchase to be made in the budget period. (Rathnam,1994:180).

"Raw materials which are to be processed for conversion into finished product are shown in this budget. It well show the units or quantity of different materials to be issued to production centers during the budget period from store. It may also contain information about levels of stock of raw material and their estimated price. This will ensure the purchase of right quality of materials. (Chowdhary,1978:175).

Material budget is a coordination of the required raw material and parts inventory level of raw material and level of raw material and parts that must be purchased. It is prepared after the production plan. The material cost is also considered in planning of materials.

"Direct material is generally defined to include all materials and parts that are internal part of the finished product and can be directly identified with the unit costs of the finished products". [Welsch, Hilton & Gorden, 1999:270]

Material and parts purchase budget has great significance in cost control program. Any surplus and bottleneck f material, both lead to cost maximization. But if there is material purchase budget than the question of excess and shortage of material does not arise. Material plan requires the proper coordination between:

a) Requirements of material and parts for production
b) Raw materials and parts for production
c) Purchase of raw materials

Required unit of materials = (production units × Required unit of material for each unit of production + closing stock of material). To ensure that the appropriate amount of raw material and component parts will be on hard at the required and to plan for the costs of such materials and parts, the tactical short term profit plan should include (1) a detailed budget that specifies the quantity and cost of such material and parts and (2) A related budget of materials and parts usually require the following four budgets. [Welsch, Hilton & Gorden, 1999:275]

1. Materials and parts budget

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

2. Material purchase budget

   This material budget specifies the qualities and timing of each raw material needed for. A plan for material purchases must be developed. This budget specifies the estimated quantities to be purchased and the estimate a cost for each raw material and the reflected delivery dates.

3. Material inventory budget

This budget reports the estimated cost of the materials inventory in terms of quantities and cost. The difference in units between material budget and the purchase is reflected as increase or decrease in the inventory budget.

4. Cost of material used budget

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

2.1.13.3.1 Purchasing Policy Developing Material Plan.

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

i. How much to purchase at a time and
ii. When to purchase

The first question is determined by economic order quantity (EOQ) and can be calculated by using the following formula:

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

Where, A = Annual quantity requirement units
O = Average annual ordering cost
C = Annual carrying cost.

The second question; when to purchase is determined by re-order point it is the time when a purchase is made. The re-order point is reached when inventory level is equal to the quantity needed to sustain production for a period equal to the time to re-order and receive the replenishments and desired safety stock.

Re-Order Point = Replacement Stock + Safety Stock

2.1.13.3.2 Materials and Parts Inventory Policies.

The primary considerations in setting inventory policies for materials and parts are. (Welsh, Hilton & Gordon,1990:144)

1. Timing and quantity of manufacturing needs
2. Economies in purchasing through quantity discounts
3. Availability of materials and parts

4. Lead time (delivery time)
5. Perishability of materials and parts
6. Storage facility needed
7. Capital requirement to finance inventory
8. Cost of storage
9. Expected changes in the cost of material and parts
10. Protection against in shortages
11. Risk involved in inventories
12. Opportunity cost.

2.1.13.3.3 Just-In Time Purchasing

A recent development in materials and parts inventory control is called just in time (JIT) purchasing and manufacturing. Its primary objective is to minimize inventory levels and the resulting costs. In this approach, materials and parts are not purchased until needed for production, thereby minimizing inventory-holding costs. In such an approach, it is critical to anticipate exactly when the materials and parts will be needed for production so that the acquisition can be reflected in the materials and parts budget for profit planning purposes.

2.1.13.4 Planning and Controlling Direct Labour Cost

Planning labour cost refers the area of personnel needs, recruitment, training, job description and evaluation, performance evaluation, union negotiating and wages and salary administration.

Direct labour cost occupies a significant portion of total production cost. So that the labour cost needs systematic planning. The basic reasons for preparing a separate direct labour budget are to provide planning data about the direct labours requirement number of direct labour employees needed, labour cost of each product unit and investment requirements.

Labour costs include all expenditures for employees, top executives, middle management, and unskilled employees. To plan labour costs effectively, the different types of labour cost must be separately considered.

The responsibility for preparing the direct labour budget should be assigned to the executive responsible for the manufacturing function. The cost accounting and personnel department provide support and supplementary information when the manufacturing managers prepare the direct labour budget. It should be given to the budget manager for review and next submitted to the executive committee. When the direct labour budget is tentatively approved it becomes part of the profit plan.

2.1.13.4.1 Developing the Direct Labour Budget

Welsch, Hilton and Gordon: 1990 have mentioned three approaches that are basically used to develop the direct labour budget. These are:

a) Estimate the standard labour hour for each unit of each product. Then estimate average wages rate. The multiplication of standard labour hour per unit and estimated average wages rate per hour will give the direct labour cost per unit of output for the department, cost centre or operation. And the multiplication of planned units of output and the direct labour costs per unit will result the totoal direct labour cost by product

b) Estimate ratios of direct labour cost to some measure of output that can be planned realistically.

c) Develop personnel tables by enumerating personnel requirements for direct labour in each responsibility center.

Generally there are certain approaches to develop standard labour times for each product. These are time studies, motion studies, standard costs, and direct estimate by supervisors and statistical estimate by staff group.

2.1.13.5 Expenses (overhead) Budget or Plan

The next step in PPC is overhead plan. The need for overhead plan arises because to maintain overhead expenses at reasonable level. There are various technique and basis to classify overhead. Among them functional and behavioral classification are most important. Overhead classification is important to plan overhead properly and also to control them.

In general, controlling and planning direct cost is simple than controlling and planning of overhead. It is because direct costs are directly related to level of activity and one can easily trace out the direct cost from total cost. But overhead is resulted from the total of indirect cost. That's why it is impossible to trace out overhead cost from total or per unit cost. So the overhead budget should be planned on department and responsibility centre wise. Only with the help of proper planned overhead budget, it is possible to control over overhead cost.

One should have to understand that there is difference between overhead cost control and overhead cost reduction. The prime responsibility or management is to control over the overhead cost and not to reduce the overhead cost. Cost control means the optimum utilization of limited resource in order to minimize per unit cost by enhancing production level under the same cost burden. Overhead cost control is possible only after the preparation of overhead budget by responsibility centre wise.

2.1.13.5.1 Planning Expenses

Managers should view expenses planning as necessary to maintain reasonable expenses levels to support the objectives and planned programs of the enterprise. Expenses planning should focus on the relationship between expenditure and the benefits derived from that expenditure. The desired benefits should be viewed as goals and sufficient resources must be planned to support the operating activities essential for their accomplishment. Following are the main kind of expenses:

1) Manufacturing expenses
2) Product quality expenses
3) Distribution or selling expenses
4) General administrative expenses
5) Financial and other expenses

2.1.13.5.2 Cost versus Expenses

Two terms, cost and expenses are often used in the same sense. For financial accounting purposes, cost is defined as an expenditure that is entirely recorded as an asset and becomes an expense when it is "used up" in the future. Thus, a cost account is an asset accounts. An expense is defined as an expenditure that is currently consumed or a cost that has been 'used up'. For management accounting purposes, these terms are not rigidly defined. They are used to mean ‘sometimes an asset and sometimes an expense.

Fixed cost

Those items of cost that tend to remain constant in total from month to month regardless of fluctuation in output or volume or work done. Because any cost can change this concept must be applied: (1) to a realistic or relevant rage of output and (2) in relation to a given set of condition.

Variable Cost

Those items of cost that change in total directly with changes in output or volume of work done. The work must be measured in terms of some activity base, such as units completed, direct labour hours worked, sales dollars, and number of service calls, depending on the work of the organizational unit.

Semi-Variable cost

Those items of cost that are neither fixed nor variable, that is, they possess some characteristics of both. As output changes, semi-variable costs change in the same direction but not in proportion there for.

2.1.13.6 Manufacturing Overhead Budget

“Ordinarily manufacturing overhead costs are given considerable attention. Individual cost classifications are examined closely to see the costs react to change in volume or in relationship to other factors. Past record may show that a cost will generally follow a certain pattern of activity. One company may find the certain overhead costs are influenced by indirect labour hours, while another company will base estimates of overhead on direct labour hours of even on material cost or machine hours. (Grad and Jaedick; 1984: 480). Manufacturing overhead is a part total production cost. It is not directly traceable to specific products and jobs manufacturing overhead consults of (i) Direct (ii) indirect labour (including salaries) (iii) all other miscellaneous factor expenses such as taxes, insurance repair supplies and depreciation.

While developing the manufacturing overhead budget the following steps should be taken.

i. Translate the requirements specified in the production plan into activity in each department.
ii. Plan departmental overhead expenses.
iii. Allocate the planned departmental overhead expenses to the production
iv. Allocate the production department expenses to the products.

These four steps help to compute overhead rate per unit. By adding per unit overhead cost, material cost and labour cost, per unit cost of goods manufactured could be computed.

It is a problem in the allocation of manufacturing overhead to produce because it includes many dissimilar expenses. Control responsibility is widely diffused. There are two distance types of responsibility centers producing and service. Producing centers are those manufacturing a department that works directly on product. But services department do not work on the product rather they furnish service to the producing department and to the other service department. (Welch, Hilton & Gordon,1990 :307).

2.1.13.6.1 Selection of Activity Base

The following measures of output (activity) based for two basic types of factory department are frequently used: (Welch, Hilton & Gordon,1990 :307)

1) Producing Department
    a) Unit of output (if only one kind of output)
    b) Direct labour hours
    c) Direct machine hours
    d) Direct labour dollar
    e) Raw materials unit consumed
    f) Process time

2) Service departments:
    a) Repair and maintenance -Direct repair hours (DRH)
    b) Power department -Kilowatt hours (KWH)
    c) Purchase department -Net purchase dollars

d) General factory administration -Total Direct Labour Hour or
No. of employees in the
Factory.

2.1.13.7 Selling and Distribution Overhead budget

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

Fundamentally the top marketing executive has the direct responsibility for planning the optimum economic balance between sales, advertising, and distributions expenses budget. Because of interrelationship between them, sales, advertising and distribution expenses should be viewed as are basic problem. (Welsch, Hilton & Gordon:315)

2.1.13.8 Administrative Expenses Budget

"Administrative expenses include those expenses other than manufacturing and distribution. They are incurred in the responsibility center that provide supervision of and service to all functions. As large portion of administrative expenses are fixed rather than variable, the notion persists that they cannot be controlled. Direction, controlling and administration expenses are included under this budget." (Welsch, Hilton & Gordon,1999:315)

2.1.13.9 Planning Capital Expenditures

Capital expenditures are invested, because they require the commitment of resources today to receive higher economic benefits in the future. Capital expenditures become expenses in the future as their related goods and services are being used to earn higher future profits from future revenues or to achieve future cost saving. (Welsch, Hilton, Gordon, fifth edition: 394-395)

2.1.13.9.1 Capital Budgeting

Investment decision regarding long term assets for increasing the revenue of the organization is known as capital budgeting. It is the process of determining which capital investments will be undertaken. There are three stages of capital budgeting; proposed long term investments , it is the decision making process that determines the type of plant and equipment a firm will own, how much will be invested in such assets, and when the expenditure will be made. Capital investment decisions are among the most, if not the most, important decisions that financial managers must take.

Capital budgeting is the making of long term planning decision for investment and their financial capital budgeting them consists in planning the development of available capital for the purpose of maximizing the long – term profitability of the firm.

Capital expenditure becomes expenses in the future as their related goods and service are being used to earn higher future profits from future revenues or to achieve future cost savings. Therefore, capital expenditures involve two planning and controlling phases: (a) Investments and (b) Expenses. (Welsch, Hilton & Gordon,1999: 394-395)

Capital expenditure budget is the firm's formal plan for the expenditure of money to purchase fixed assets. It is an internal corporate document that lists the allocated investment projects for a given fiscal period. (Glenn,2001:119)

Capital budgeting involves the generation of investment proposals, the evaluation of cash flows, the selection of projects based upon acceptance criterion and finally continual revaluation of investment projects after their acceptance. (Vanhorne,1976: 66)

The vary nature of capital investments make them important. Capital investments involve relatively large dollar amounts. They represent commitments that extend over long periods of time, and once a capital investment has been made, it is hard to undo without making a major sacrifice. (Handerson, Trenneponl & Wert,1984:118 –119)

2.1.13.9.2 The Capital Expenditure Budget Process

Capital expenditures involve the long – term commitment of large amounts of resources, decisions, concerning them have a significant, long – term effect on the economic health of a company phase.

A Process for Planning and Controlling Capital Expenditures,

(Welsch, Hilton & Gorden 1999:394-395)

1. Identify and generate capital additions projects and other needs.
2. Develop and refine capital additions proposal – collection of relevant data about each proposal, including any related alternatives
3. Analyze and evaluate all capital additions, proposals, and altern atives. Emphasis should be given to the validity of the underlying financial and operational data.
4.Make capital expenditure decisions to accept the best alternatives and the assignment of project designation to selected alternatives.
5. Develop the capital expenditures budget:
(a) Strategic plan – Re plan and extend the long – term plan by dropping the past year and adding one year into the future.
(b) Tactical plan – Develop a detail annual Capital expenditures budget, by responsibility center and by time that is consistent with a comprehensive profit plan.
6. Establish control of capital expenditures during the budget year by using periodic and special performance reports by responsibility centers.
7. Conduct post completion audits and follow – up evaluations of the actual result from capital expenditures in periods after completion.

2.1.13.9.3 Evaluation of Investment Decision

Capital expenditure decision means the selection of one alternative from the completing capital expenditures alternatives or projects by the management. While doing such decision focus should be given mainly on tow over riding problems; first investment decision selecting the best alternatives based on their economic worth to the company, and second financing decisions – determining the amount and source of fund needed to play for the selected alternative. These cash constraints may necessarily limit the projects and proposals that can be initiated. There are numbers methods available for making such decisions usually following methods are used for evaluating investment proposals.

A. Non – Discounted Cash Flow Method

1. Pay back period (PBP)

The pay back period is the number of required to recover the initial investment.

$$\text{Pay back Period} = \frac{\text{Initial Investment}}{\text{Annual Cash flow Taxes}}$$

2. Average Rate of Return (ARR)

This accounting measure represents the ratio of the average annual profit after taxes to the investment in project;

$$\text{Average Rate of Return} = \frac{\text{Average Earning After Taxes}}{\text{Initial Investment}}$$

B. Discounted Cash Flow Method

1. Net present value (NPV)

Net present value is the present value of future returns discounted at the firm's cost of capital, minus the cost investment.

$$NPV = \sum_{t=0}^{n} \frac{At}{(1+k)^{t}} - C$$

Where,

K = Cost of Capital

T = No. of Years

C = Initial Cash outlays

A = Expected Cash inflows

2. Profitability Index (P I)

PI is the benefit cost ratio of a project, which is determined by dividing the present value of future net cash inflows by the initial cash outflows by the initial cash outlays.

$$P\ I = \frac{(1+K)^{t}}{A_{0}}$$

Where,

K = Cost of Capital

T = No. of Years

A = Expected Cash inflow

A_0 = Initial Investment at time Zero

3. Internal Rate of Return (IRR)

Recall that the internal rate of return for an investment proposals the discount rate that equates the present value of the expected cash outflows with the present value of the expected inflows:-

$$A_0 = \frac{A_1}{(1+r)} + \frac{A_2}{(1+r)^2} + \cdots\cdots\cdots\cdots + \frac{A_n}{(1+r)^n}$$

Where, R= Internal rate of return

A_0 = Initial Investment at time Zero

A_1, A_2, A_n = Cash inflow at future

Decision Criteria

Methods	Criteria	Results
ARR	Higher the ARR	Accepted
PBP	Lower the PBP	Accepted
IRR	Higher the IRR or (IRR>K)	Accepted
PI	PI > 1	Accepted

2.1.13.10 Planning and Controlling of Cash Flow

The planning and controlling of the cash inflows, the cash flows and related financing is important in all enterprise. Cash budgeting is an effective way to plan and control the cash flows, assess cash needs, and effectively used excess cash. A cash budget shows the planned cash inflows, out flow and ending position by interim periods for a specific time span. Most companies should develop both long term and short term plan about their cash flows. The short term cash budget basically includes two parts: (i) The planned cash receipts (inflows) and (ii) The planned cash disbursement (outflow).

The cash budget focuses exclusively on the amounts and timing of cash inflows and outflows. In contrasts, the other budget focuses on the non cash. The primary purpose of the cash budget is to: (Welsch, Hilton & Gordon,1999:434)

1. Give the probable cash position at the end of each period as a result of planned operations

2. Identify cash expenses or shortages by time periods

3. Establish the need for financing and / or the availability of idle cash for investment

4. Coordinate cash with (a) total working capital, (b) sales revenue, (c) expenses, (d) investments, and (e) liabilities

5. Establish a sound basis for continuous monitoring of the cash position

Cash budget is based on almost exclusively on the other budgets. A comprehensive profit planning and control program establishes the foundation for a realistic cash budget.

2.1.13.11 Performance Evaluation

Performance reporting for internal management use is an important part of a comprehensive profit planning and control system. The performance reporting phase of a comprehensive PPC program significantly influences the extent to which the organization's planned goals and objectives are attained.

To indicate the extensive reporting requirements a business needs and to focus on performance reporting, the following overview of financial reports is presented and briefly explained, (Welsch, Hilton,1999:542)

1. Special External Reports – These are reports to government agencies, regulatory commissions, creditors, investigative agencies, and other group external to the active management. Frequently, these reports are extensive and constitute a significant management attention.

2. Report to owners – This is the traditional annual report to the owners and other special reports prepared to the owners. These reports, by and large, are based on "generally accepted accounting principles" and generally report data that have been subject to an audit by an independent CPA.

3. Internal Reports – These confidential reports are prepared with in the company for internal use only. They do not have to meet the needs of external groups, nor the test of "generally accepted accounting principles," but rather the test of internal management needs. Internal report is sub divided into three different sub classifications:-

(a) Statistical Reports (b) Special Repots (c) Performance Reports

All companies, regardless of their size, have reporting requirements for all the categories listed above. As the size and complexity of the company increase, there is greater need for regimentation of the reporting as suggested above.

Essential features of Performance report / (Performance report should be):-

1. Tailored to organizational structure and locus of controllability.
2. Designed to implement the management- by- exception principle.
3. Repetitive and related to short time periods.
4. Adapted to the requirements of the primary users.
5. Simple, understandable, and report only essential information.
6. Accurate and designed to pinpoint significant distinctions.
7. Prepared and presented promptly.
8. Constructive in tone.

The extent to which the various managers utilize their performance reports depends upon many factors some behavioral and come technical one important is the extent to which the performance reports serve the evaluation and decision – making needs of the user. Communication is a stable problem, and it is enhanced by performance reports, if the different needs and experience of the users are taken into account. A foreman response is different from a vie president.

Top – management personal need reports that give a complete and readily comprehensible summary of the overall aspects of operations and an identification of major events. The summaries must be supported in sufficient detail to facilitate tracing significant deviations to their source.

Middle – management is usually defined as those members of management in change of the major subdivisions of the business, such as sales, production, and finance. Middle management is responsible for carrying out the responsibilities assigned to the subdivisions within the broad policies and objectives established by top management. Middle management is close to and more concerned with operations than top management, although it also has important planning functions. Performance reports for middle management, although including summary data, are also characterized by detailed data on day – to – day operations.

Lower – level management is principally concerned with coordination and control of day – to – day operation. Therefore, control reports should principally be concerned with production and cost control. Reports to supervisions should be detailed, simple, understandable, and limited to items that are directly related to the supervisor's operational responsibilities. [Welsch, Hilton, Gordon, fifth edition: 548]

2.1.13.12 Analysis of Budget Variances

Comparison of actual results with planned or budget goals has been emphasized as an integral part of the control process. A basic feature of performance reports is the reporting of variances between actual results and planned or budget goals. If a variance is significant, a careful management study should lead to remedies through appropriate corrective action by management. There are numerous ways to study or investigate variances to determine the underlying causes. Some of the primary approaches are the following: (Welsch, Hilton & Gorden,1999 :569 – 570)

1. Conferences with responsibility center managers and supervisions and other employees in the particular responsibility center involved.
2. Analysis of the work situation including the flow of work, co ordination of activities, effectiveness of supervision and other prevailing circumstances.
3. Direct observation.
4. On- the – spot investigations by line managers.
5. Investigations by staff groups.
6. Internal audits.
7. Special studies.
8. Variance analysis.

Variance analysis involves a mathematical analysis of two sets of data in order to gain insight into the underlying causes of a variance. One amount is treated as the base, standard, or reference point. Variance analysis has wide application in financial reporting.

Variance is analyzed in the following areas:-

1. Raw material variance
2. Labour variance
3. Overhead variance

4. Sales variance
5. Profit variance

Variance is a deviation between actual and budgeted result. Following are the basic steps in analyzing variances.

1. Setting standards
2. Measurement of performance
3. Analyzing variances
4. Taking corrective action

Variance should be broadly grouped under two categories. Favorable and unfavorable variances, future should be classified as controllable and non – controllable. If unfavorable variance is arises due to controllable causes then related center or managers should be accounted for responsibility.

2.1.13.13 Ratio Analysis

2.1.13.13.1 Role of Ration Analysis in Profit Planning

A ratio analysis is the process of determining and interpreting numerical relationship based on financial statement. Ratio analysis is the powerful tool of company's strength and weakness analysis. Ratio analysis of business enterprise centers on effects to drive quantitative measures or guides concerning the expected capacity of the firm to meet its future financial obligations or expectation. Present and past data are used for the purpose and whatever extrapolations necessary they are made to provide an indication of future performance.

"A comparison of ratios of the some firm overtime is important in evaluating changes and trends in the firm's financial condition profitability.'(Van Horne, 1974: 670)

The relationship between two accounting figures known as simply ratio. It is expressed in mathematical terms. The relationship can be expressed as percent or as a quotient. A ratio is not more difficult to calculate and understand.

2.1.13.13.2 Types of Ratio

Several ratios can be calculated from the accounting data contained in the financial statement. In general following ratios are on practices:-

1. Liquidity Ratios

2. Leverage Ratios
3. Activity Ratios
4. Profitability Ratios

2.1.13.13.3 Relation with Profit Planning

The ratio analysis can be of invaluable aid to management in the discharge of its basic functions of forecasting, planning, co- ordination, communications and control. By an analytical study of the past performance of the business, it helps in predicating and projecting the future. In assists in communication by conveying information, which is pertinment and purposeful to those for whom it is meant. In promotes co- ordination by a study of the effective control of business operation by undertaking and appraised for both the physical and monetary targets. Hence, ratios analysis becomes an integral part of target. Hence, ratio analysis becomes an integral part of profit planning system. (Goyal and M.M.,1997: 496)

2.1.13.14 CVP Analysis

2.1.13.14.1 Concept of CVP Analysis

Cost – volume- profit analysis is the process of examining the relationships among revenues, costs and profits for a relevant range of activity and for a particular time frame. It is one of the most important powerful tools that managers have at their command in short – term planning. It is an analytical tool for studying the relationship between volume, cost, price and profit. CVP analysis can be used for the analysis of break-even volume- break even analysis and contribution margin analysis-for profit planning. This assumption of constant underlying conditions and the short- term relationship have been criticized by the many authors of financial management and accounting. Cost volume and profit analysis is a power full tool in the hands of management for profit planning. The contribution margin analysis provides the best possible answer to the management’s many questions. Most management requires a careful analysis of cost behavior in relationship to output volume and which is possible only through CVP analysis. Besides, CVP analysis deals with how profit and cost change with change in volume.

CVP summarize the effect of changes in an organization's volume of activity on its costs, revenue and profit. The managers of profit seeking organization usually study the relationship of revenue (sales), expenses (costs) and net income (net profit). This study is commonly called cost – volume – profit analysis

2.1.13.14.2 Role and Need of CVP Analysis in Profit Planning

Mostly, planning depends on past and present happening. So profit planning also depends on the past performance and existing present situation usually, profits do not happen, profit are managed and planned. Profit planning for future is possible if the selling price, unit variable cost, fixed cost and sales volume of the required period can be estimated. For such estimation, CVP analysis is greatly helpful in management decision – making especially in cost control and profit planning. So, CVP analysis provides a lot of information and alternatives to have the strategies and utilization of resources. Because CVP analysis answer the following and it is very important in profit planning:

a. What sales volume is necessary to produce an X amount of operating profit?

b. What will be the operating profit or loss at X sales volume?

c. What profit will result if X % increase 'n' the sales volume?

d. What is the additional sales volume required to make good on X % reduction in selling prices so as to maintain the current profit level?

e. What will be the effect in income be the firm achieves a reduction in variable cost (say material and labour)?

f. What will the effect on profit be if the company's fixed cost have increased or decreased?

g. What is the required sales volume to cover the additional fixed charges from the proposed new project?

h. What will be the effect on operating of the firm if sales mixed are changed?

i. What will be the effect on income if there is an increase in FC by an X amount due to new plant but will decrease the labor cost by 'Y' volume per unit?

j. What sales volume will be needed to achieve the budgeted profit?

2.1.13.14.3 Break Even Point Analysis (BEP Analysis)

The Cost – Volume – Profit (CVP) analysis is a management accounting tool to show the relationship between these ingredients (Price, Variable cost, Fixed cost, Volume) of profit planning. It is the study of the effects of output volume on revenue (sales), expenses (cost) and net income (net profit). A widely used technique to study CVP relationship is Break Even Point analysis.

Break even point analysis shows the relationship between the cost and profits with sales volume. Under BEP analysis, we study BEP, which is that point of sales at which total sales revenue generated is equal to total costs incurred for the particular products for a specific period. It indicates no profits no loss condition in sales range. In other way, the company break even sales at which sales revenue equals expenses and it neither gains nor losses from sales of that production quantity. BEP can be computed into rupee value as well as in terms of unit. We can apply three techniques to determine the Break Even Point they are as follows:

A. Graphic technique
B. Equation technique
C. Contribution margin technique

Whichever be the techniques, all give same information regarding the BEP. The graphic approach is more precise in pictorial from where as the equation techniques and contribution technique provide mathematically accurate information determines the reliability of BEP analysis.

2.1.13.15 Completion and Application of the Profit Plan

2.1.13.15.1 Completion of the profit plan

The development of an annual profit plan ends with the planned income statement, the planned balance sheet and the planned statement of cash flows. These three statements summarize and integrate the details plans developed by management for the planning period. They also report the primary impacts of the detailed plans on the financial characteristics of the company. These subs – budgets which have only been tentatively approved, must now be combined by the budget direction to compute equity and cash flows. These are the final step in the development of the detailed plans.

Prior to distributing the completed profit plan, it is generally desirable to restate certain budget schedules so that technical accounting machos, computations, and jargon can be avoided as much as possible. The redesigned budget schedules should be assembled in a logical order, reproduced, and distributed before the first day of the planned budget period. In arranging the schedules to be included in the final profit plan, the budget director should consider management preferences, as well as the principles of effective communication. No one arrangement is best in all situations. As a general rule, however, it is preferable to place the planned financial statements before the supporting sub budgets, such as the sales, expenses, cash and capital additions budgets. The arrangement should emphasize responsibility centers from the top down. (Welsch, Hilton & Gorden,1999:466 -467)

2.1.13.15.2 Implementing the Profit Plan

The final test of whether the effort and cost of developing a profit plan are worth while in its usefulness to management, this poses some fundamental questions. How should the plans be implemented? Should the plans be followed under all circumstances? Should the profit plan be used as a present device? How should it be used by the top, middle and lower levels of management? A profit plan should represent potentially attainable goals, yet the goals should be developed with the conviction that the enterprise is going to meet or exceed all major objectives. Participation enhances both upward and downward communication. This principle is to be effective, when the various executives should have a clear understanding of their implementation responsibilities. (Welsch, Hilton & Gorden,1999: 471 -472)

After distribution of the profit plan, a series of profit plan conference should be held. The top executives comprehensively discuss the plans, expectation and steps in implementation. At this top level meeting, the importance of action flexibility and continuous control should be emphasized. In particular, each manager must understand that the budget is a tool. The profit plan regardless of how well designed and how carefully developed, cannot manage use the profit plan as a guide to action and performance, directed towards attaining or bettering the goals quantified in the annual profit plan, requires continuous management effort and attention.

Budget conferences should be conducted until all levels of management are reached. Managers must clearly understand their responsibilities and how their part of the profit plan fits into the overall company's profit plan. These conferences should induce "profit and cost awareness" through out management and, if conducted properly, will tend to ensure positive support for the objectives. The profit plan provides the manager of each responsibility center an approved operating plan for the centre.

2.2 REVIEW OF RELATED STUDIES

There are many research works made on the topics profit planning and control in Nepalese context. But those previous research had not emphasize the effect of planning in overall profitability. The research work "planning process and its Impact on Profitability" mainly focused on the impact of planning in profitability. As profit planning and control covers major area of planning process in every business organization, the previous researches made in the areas of profit planning and control have made into consideration for the sake of reviewing how profit planning and control were practiced in Nepalese Corporation. Those previous researches have been made on manufacturing and non – manufacturing concern and expect a few most of them are not in depth. An attempt is made here to review some of the researches, which have been submitted in profit planning and control in the context of Nepal.

2.2.1 Mr. Dina Nath Shrestha

Mr. Dina Nath Shrestha (2004) has made a research on "**Profit Planning and Control in craft based organization"**. He focused his study on analyzing the target and achievement of sales and production budget. His study was focused with the following objectives.

a) To analyses the target and achievement of sales and production budget.
b) To highlight the current practice of profit planning and control and its effectiveness.
c) To draw the picture of profit planning prosses adopted with theoretical prospective.

Conclusion:-

a) Functional budgets are prepared on the basic of historical trend.
b) The cost are not separated in the variable, semi-variable and fixed.
c) The executive officer prepare the plan and lower level employees are not involved.
d) There is no system of periodical performance report.

Recommendations:-

a) While preparing the budget the planner or manager should pay attention toward internal and external environment.
b) Cost should be classified into variable, fixed and semivariable, controllable and uncontrollable.
c) Cost volume profit relation should be considerd while developing sales plan.
d) Long term and short term plan should be made by the organization.
e) The organization should prepare periodic performance report.

2.2.2 Mr. Gaukal Prasad Rawali

Mr. Gaukal Prasad (1999) has a significant contribution on the topic **"profit planning and Control"** A Case Study of Gorkhapatra Corporation**.** The study was carried out with the following objectives.

a) To analyze the variance between target and actual performance of the G.C
b) To examine the present planning process adopted in this enterprises.
c) To examine the practice and effectiveness of profit planning in G.C
d) To analysis the various functional budgets adopted in this enterprises.

Findings:-

a) The objective of the corporation is not clear, with regard the profit making. The sales price of the product has been fixed at lower rate than in the production costs, such as Gorkhapatra and The Rising Nepal.

b) G.C. prepares tactical short-term strategic profit plan but it does not prepare the long –term strategic profit plan.

c) G.C. does not fix the target for specific goal for the planned period. Such as growth objective, capacity utilization, return on capital employed etc. are not targeted to achieve some specific level.

d) The plans are prepared top level only. There is no clear – cut boundaries to separate cost into fixed and variables. The cost is roughly classified and this classification is not scientific and appropriate.

Recommendations:

a) G C should revise the pricing policy. The cost of production should be considered while pricing of the publication. It should attempt to control its production cost.

b) G C should develop the long- term strategic plan for every aspects of its operation.

c) Corporation should try to overcome its weakness by using the strengths. G C should have in depth analysis of corporation's strength and weakness.

d) Corporation should analyze its controllable and non controllable variables. External variables exert major influences on the corporation. corporation should modify own self according to external variables. Similiarly internal variables are also clearly identified and analyzed.

e) Corporation should be developed experts to develop planning activities of corporations.

f) Corporation should analyze the CVP while pricing the products.

2.2.3 Mr. Benup Raj Basnet

Mr. Basnet(2004) has made a research on "**Profit Planning and Control system of Nepalese Corporation**; A Case study of Salt Trading Corporation. The major objectives of his study are as follows:

1. To review the different sales plan and its achievements.
2. To measure the performance standard of corporation based on financial standard.
3. To analyze the cost and profit trends of the corporation and provide recommendations based on analysis

Findings

1. Sales trend of STCL shows the positive directions for future which can increase the profitability for future.
2. STCL has no any effective program to achieve desired goals and objectives to overcome the excising problems and challenges.
3. Cost structure of STCL is not classified in accordance to their variability and cash flow planning is not made.
4. STCL has no any effective program to achieve desired goals and objectives to overcome the existing problems and challenges.
5. There is no proper planning of raw material or there is no clear cut and effective policy regarding inventory and purchase of raw material.

Recommendation

a. STCL should formulate clear – cut goal, objectives, policies, long –term plan, strategic program etc.

b. Participate management should be introduced in formulating of plans and policies of the organization. Profit planning manuals should also be communicated to lower level of management. Effective budget education should be provided to improve profit planning system in STCL.

c. Cost Volume Profit relationship should be considered while fixing price and quantity of sales.
d. To improve profit planning system in STCL, trained and qualified manpower should be improved. For this staff should be properly trained. Marketing specialist should be appointed to increase present sales volume and to find new profitable potential uses.
e. Periodic performance reporting system should be followed to take corrective action and to improve the performance. Variance regarding sales, production, material, labor, profit and cost should be diagnosed and identified as controllable and non- controllable.

2.2.4 Mr. Pradip poudel

Mr. Pradip poudel (2004) has submitted thesis on the topic **"Profit Planning in Nepalese Manufacturing Public Enterprises"**. A case study of Royal drug limited (RDL). Main objectives of his study are mentioned below:

a. To examine the existing practice of profit planning.
b. To analyses the different functional budget adopted by RDL.
c. To evaluate the deviation between planned and actual.
d. To sketch the trend of profit and loss.

Finding

a. Authority, duty, responsibility and accountability are not identified between various levels of management.
b. Top-level management doesn't involve lower level management in planning and decision-making.
c. There is not fair system of reward and punishment to employees on the bases of their work and employees of RDL are not careful of their duties and responsibility.
d. RDL has positive correlation between budgeted and actual sale.

e. The actual production is high than target production which indicates the unsound combination of plan and actual.

Recommendation

a. The company should analyses in depth of its strength and weakness part.
b. Management should be given full authority, responsibility and accountability for daily routine and operation.
c. The company should increase their production and sales volume to utilize available capacity.
d. To operate company efficiently employees motivation should be considered.
e. RDL should prepare material purchase budget in detail.
f. Necessary arrangement should be overviewed to increase the production capacity.

2.2.5 Mr. Leela Raj Thapa

Mr. Thapa(2004) has submitted thesis on the topic **"Impact of budgeting on profitability (with special reference of Nepal telecommunication)**. He has collected data from primary as well as secondary sources. Main objectives of his study are mentioned below:

a. To examine the variance between target and actual sales production.
b. To highlight the budgeting activities adopted by NTC.
c. To assess the financial performance of NTC by using BEP analysis and ratio analysis
d. To forecast the future sale and profit trend of NTC.
e. To acknowledge about the NTC's present condition. It's service to the public and its' contribution to the economic development of Nepal.

Mr. Thapa's research concluded that application of profit plan is not realistic and systematic. Plans are prepared on adhoc basics. The company has set the sales target. It has no practice of preparing production budget. Sales budget is treated as production budget.

Finding:

a. NTC prepares short range sales budget, Lon-range sales budget is not prepared in detail.

b. Actual sales achievement is below than budgeted sales in average. It is about 84.18%

c. Correlation between target and actual production is positive. That means actual productions relation with budget production is positive.

d. The corporation has no practice of segregation of cost in to variable and fixed, controllable and non-controllable and no practice of identifying semi variable cost.

e. Cost volume profit analysis are not considered while developing sale plan and fixed assets purchase plan.

f. BEP is increasing each year.

Recommendation:

a. Budgeted sale and budgeted production are two different aspects of profit plan and should be dealt separately.

b. Sale budget should be made in realistic ground, because all other budgets depend upon sales budget. Selling target and achievement should be given more emphasis.

c. It is strongly suggested to establish separate costing department as well as separate costing system so as to segregate cost in to fixed, variable and semi variable, controllable and non-controllable, direct and indirect etc.
d. CVP analysis should be strictly followed while formulating plan. Increasing BEP is not good sign for corporation.
e. Variance should be classified as favorable and unfavorable. NTC should be very well aware about its strength and weakness.
f. Periodic performance report should strictly follow to be conscious toward poor performance and should take the creative action timely.

2.3 RESEARCH GAP

All the studies mentioned above about profit planning and control is basically related to the profit planning system of Nepalese business enterprises. Those studies have pointed out the similar findings. The conclusions of those researches are that there are no proper planning and control system in Nepalese purpose enterprises. Therefore this study is designated to highlight the planning process of G.C. and its impact on profitability. Previous study have not been yet made emphasizing the effect of planning on the profitability. This research work covers time period of five years for the purpose of the trend analysis.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 General

Research work requires a scientific methodology for the study. Research methodology is a systematic, scientific and planned way of collection, analysis and interpretation of data and facts to solve the research problems and accomplish the basic objectives of the study.

The basic objectives of this research is to analyze, examine and highlight the effectiveness of planning in the profitability of G C, it requires an appropriate research methodology. The chapter looks into the research design, the nature and source of data; manner of data presentation and analysis, tools used and research variables.

3.2 Research Design

"Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance………..." [Kerlinger,1984:275] .Research design is a blue print for further research. It is a theory building process. In this research study descriptive as well as diagnostic research design will be used.

The research design of the present study is mainly, related with the quantitative plans, long term planning and accounts of G C. So, analytical as well as descriptive approaches have been considerably adopted to present the data. This study is closely related with the various accounting statements, functional budgets and the actual results of the budget. Those information and data are presented in an analytical method besides these quantitative data presentation the research.

3.3 Population and Sample Design

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

Public enterprises are categories in different categories. One of them is Social Sector Public Enterprises. Under social sector different five public enterprises are operating. They are as follows:-

S.N.	Social Sector PE's	Head office	Selected PE's
1	Culture Corporation		-
2	Gorkhapatra Sansthan	Dharmpath, Kathmandu,Nepal	1
3	Janak Education Material Centre Ltd.		-
4	Nepal Television		-
5	Rural Housing Company Ltd.		-

(Source: Targets&performances of Public enterprises-HMG Ministry of Fiance2004)

From above Gorkhapatra Sansthan is selected as sample because it is a oldest PE's in Nepal.

3.4 Nature and Source of Data

In this study primary and secondary data have been used. The primary data have been taken from questionnaires and interview taking with various employees, officers and staff of G C. The secondary data have been taken from the published and unpublished documents such as books booklets and magazines, publication of Corporation, council of Ministry of finance, National planning Commission, various libraries and website.

3.5 Data Collection Procedure

Most of the secondary data is collected through published voucher, annual reports, website of G C., Published magazine and prospects, previous thesis, relevant books and reports from the secondary sources mentioned earlier.

For primary information: Interview, discussion, direct observation etc are being used.

3.6 Tools Used

The study requires information and data in the form of fact, opinion, idea etc. when necessary data collected from various sources and managed then analyzed and explained as necessary and formulated in proper tables and formats.

Financial tools mainly used are variance analysis, mean, regression line, time series analysis, ratio analysis; CVP analysis, flexible budgets, graphs, diagrams etc have been used as per need.

3.7 Period Covered

This study covered a period of five fiscal years from 2058/2059 to 2062/2063. Data were taken from G C and the analysis is basically made on the basis of these five years data.

3.8 Research Variables

In this research work, the research variables are mainly related with the accounting statement of G C. Moreover, Sales, Capacity utilization, Profit and loss, Total assets, Production, Inventory expenses, Capital expenses, Manpower planning, Cash budget, Balance sheet are the research variables of the present study.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

Profit planning and control is a systematic and formalized approach for accomplishing the planning co-ordination and control responsibilities of management.

This research work is conducted especially to review the practices and effectiveness of profit planning with special pay attention to GC. To accomplish these objectives, this chapter will analyze the various functional budgets and their actual accomplishment in comparison to budgeted amount. Profit planning and control is the formal expression of the enterprises plan, goals and objectives stated in financial term for future destination. A comprehensive PPC continues to be of prime importance in virtually all organizations. Planning involves the control and manipulation of relevant variables i.e. controllable and non-controllable, and it reduces the impact of uncertainly so that the enterprise could be saved from the changes of losses. Profit planning should exploit opportunities by using the limited resources. The heart of management's responsibility is the optimum use of limited resources by using the linear programming and it provides systematic profit planning programme.

There are two types of periodic profit plans prepared in Nepalese public enterprises. One is, long-range profit plan encompassed a time horizon of five year beyond the upcoming year and another, short range (tactical) profit plan is prepared. The strategic long-range profit plans are consistent with the objectives defined.

In case of GC has no practice of preparing long range (strategic) profit plan. Therefore, the analysis of long range profit plan is limited, so this research is mainly focused on the short range profit plan of GC. The short range profit plan is analyzed by taking relevant figures and various functional budget of one figures of one accounting year. However, the main purpose of this chapter is to examine the comprehensive budgeting procedure in GC. To accomplish these objectives, this chapter analyzes the various functional budgets, their actual accomplishment and related variances of the Corporation. Data are analyzed by using statistical tools such as mean, S. D., C.V., Correlation of Co efficient, Regression method and budgeting tools inclusive of as different types of budget, ratio analysis and CVP analysis etc.

GC does not prepare long – range profit plan. So, this study is focused mainly on short – term profit plan. However, the sales, production and other related figure of the previous year are also presented and analysis to know the overall economic and financial trend and to estimate the possible future trend of GC. For this purpose, this study covers the period five years from FY 2058/059 to 2062/063.

4.2 SALES PLAN

The sales plan is the corner stone of business. The primary source of cash is sales for the capital additions, the manpower requirement, the amount of expenses to be planned, the production level and other important operational aspects depend on the volume of sales. Therefore, the sales budget or plan most me realistic.

Preparation of sales budget is the first and important step in developing overall budget process of a firm. Sales are the primary source of cash and all other functional budgets are prepared on the basis of sales budget. Sales budget is prepared by product, interim time period and by sales territory. Generally two types of sales budget are prepared on the basis of time period covered. The long – term sales budget covers the time period of 3 to 5 years. The short – term sales budget covers the time period of one – year accounting period.

4.2.1 Sales Trends and Plan of GC

Following table shows the picture of sales trends (targets and achievement) from FY 2058/059 to 2062/063.

Table No.4.1
Gorkhapatra Corporation
Sales targets and achievement

In Rs.

FY	Sales Targets	Actual Sales	Achievement %
2058/059	16,88,04,000	14,86,43,817.87	88.06
2059/060	16,84,96,000	14,40,13,527.20	85.47
2060/061	15,24,50,000	13,97,59,816.12	91.67
2061/062	16,44,54,000	14,30,03,267.47	86.96
2062/2063	18,98,50,000	16,60,43,473.99	87.47
N = 5	84,40,54,000	74,14,63,902.4	

Average	16,88,10,800	14,82,92,780.4	87.93

(Sources:Annual Report of G.C.)

The above table No. 5.1 shows that the sales targets and achievements in different years are satisfactory to some extent. However, the above table showed that achievements were always below than targets. Targets are set with high expectations but actual sales achievements are only on average of 87.93%

From the above table, it is clear that the high achievement is 91.67 % in the FY 2060/061.It was 88.06%, 85.47%, 86.96% and 87.47% in the FY 2058/059, 2059/060, 2061/062, and 2062/063. This unbalance in sales is the weakness of Corporation's sales planning.

From the analysis of the budgeted and actual sales figure of each year, it is clear that targets are not based on historical data or previous year's sales performance. While preparing sales budget for coming year, previous year's sales performance should also be considered. But in G C sales were budgeted without considering the previous year's sales performance and therefore the gap between the budgeted and actual is found very vague.

In order to find out the nature of variability of budgeted and actual sales of different years, it is necessary to calculate the arithmetic mean, standard deviation and coefficient of variation of budgeted and actual sales figure of G C for the five F Y 2058/059 to 2062/063. The detail calculation of these statistical tools is presented in appendix No-1 and from table no. 4.1.

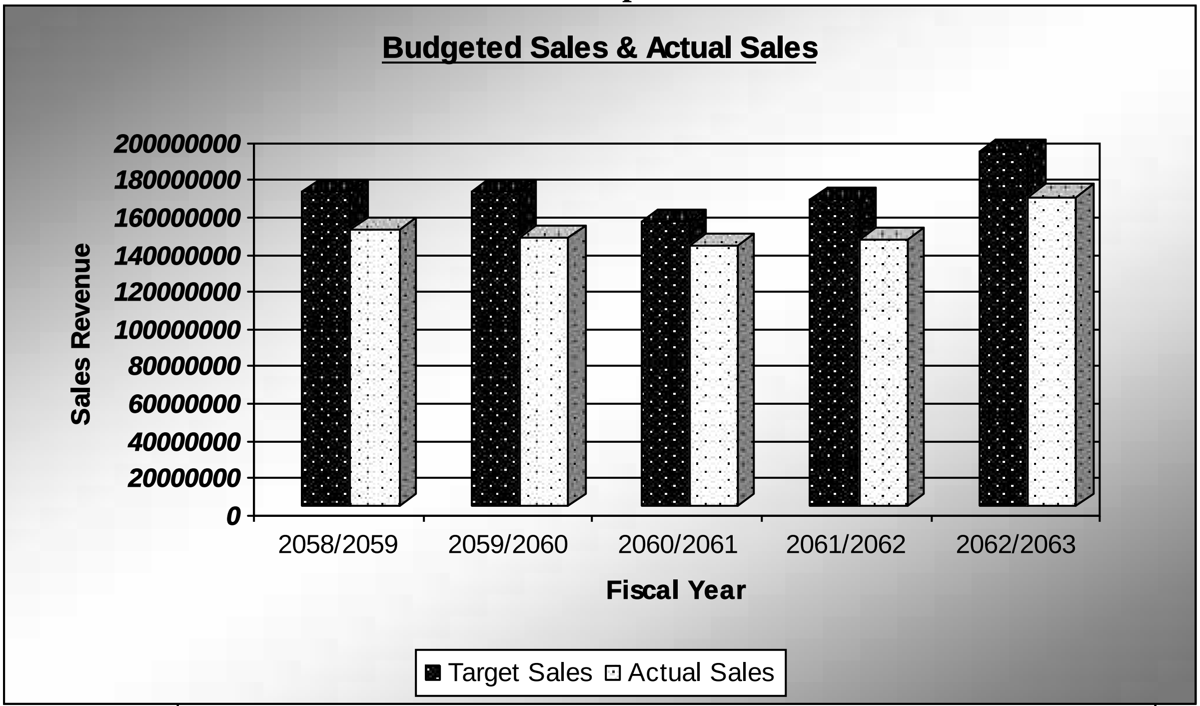
Table No. 4.2

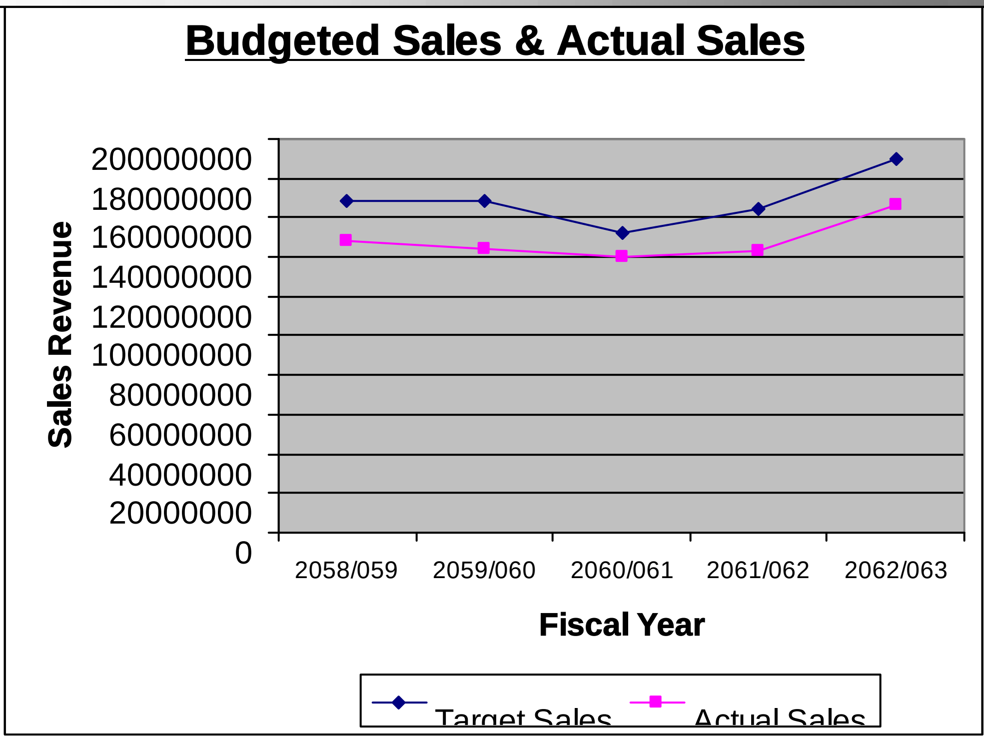
Use of Statistical Tools

Particulars	Budgeted Sales (X)	Sales Achievement (Y)
Mean	168810800	148292000
Standard deviation (σ) Rs	12078000	9319000
Coefficient Variation(CV)	7.15 %	6.28 %

The above analysis showed that sales achievements were inconsistent from year to year than sales target. Budgeted sale are set at high expectations, because actual sales are 87.85% in average of target sales figure. But 87.85% is also poor performance; it is little good performance than other Corporation. Similarly, S.D. and C.V. of sales target are higher than actual sales. The sales achievement and sales target of G C from FY 2058/059 to 2062/063 can be presented in graph and bar diagrams, which is as below:

Graph No. 4.1





The graphical presentation showed that the gap between budgeted and actual sales is in parallels trend. There is no so large gap in the FY 2056/057 than in the other FY.

To find the relationship between sales target and sales achievement, a statistical tool, i.e. correlation of Co – efficient is used. Karl Pearson's Co efficient of Correlation is used and by 'r', for this purpose denotes target figure (x) are assumed to be independent variable and achievement figure (y) are assumed to be dependent variable. It is assumed that achievement will increase as targets increases or vice – versa. It means that there should be positive Co – relation between targets and achievements. Detailed is calculated in Appendix No. 1. The value of 'r' showed that there is high positive correlation between target and achievement sales. The significant of the value 'r' is 0.95.

The probable error of 'r' is 0.0294. Since, 'r' is more than P.E. (i.e. > P.E.). So, it is all significant so perhaps there is evidence of correlation. Hence, analysis of 'Karl Person's Correlation shows that budgeted sales and actual sales have closer relationship.

A regression line also can be fitted to show the degree of relationship between budgeted sales and actual sales and to forecast the achievement with given targets. For this purpose, actual sales achievements have been assumed to be dependent upon budgeted sales.

So, the regression line of achievement 'Y' on budgeted 'X' (or Y on X) is as follows:

$$Y - \overline{Y} = r \times \frac{\pm y}{\pm x}(X - \overline{X})$$

According to the figure from Appendix No. 1

Or; Y – 148292000 = 0.95 × 9319000/12078000 × (X -168810800)

Y – 148292000 = 0.303095177 × (X – 164038200)

Y – 148292000 = 0.733 ×(X – 164038200)

Y = 0.733X – 12733658 + 148292000

Y = 0.733 X +24555416.7

From this regression equation, it is clear that there is positive relationship between budgeted sales and actual sales.

Another statistical tool called Least Square method can also be used to analyze the trend of actual sales and to estimate the possible sales for a given year. A straight line trend by this method will show the relationship between budgeted sales and actual sales of the relevant year under this method, it is assumed that the sales is constantly changing with the change in time and such change can be expressed by the component of time series. To fit the straight – line trend, the time factor is considered as dependent factor upon time.

Where 'X' is the time when fit the straight – line trend and when we can estimate the possible actual sales for given year by calculating the values required to fit the straight – line trend.

Table No: 4.3

Fitting straight – line trend by Least Square

(Rs in "00000")

Fiscal Year	Actual Sales (Y)	X	X^2	XY
2058 /059	1486.44	- 2	4	- 2972.88
2059 /060	1440.12	- 1	1	-1440.12
2060 /061	1397.60	0	0	0
2061 /062	1430.03	1	1	1430.03
2062 /063	1660.43	2	4	3320.86
Total	**∑Y=7137.42**	**∑X=0**	**$\sum X^2$ =10**	**∑XY=337.89**

(Sources: Table 4.1)

Since, FY 2060 /061 is assumed as base year, therefore the value of X is zero in, this year and negative for the year before 2060/061 and positive for the year after 2060 /061. Fitting the straight line trend,

$$Y_C = a + bx$$

Where,

$$a = \frac{\sum Y}{N} = \frac{7414.62}{5} = 1482.924$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{337.89}{10} = 33.789$$

Substituting the value in straight- line equations.

Y_C = 1482.924 +33.789 X

This trend line showed the favorable sales figure for the future. Rs. 3378900 will increase the sales revenue every year if the trend of past years continued in the future.

By using this trend equation, we can estimate the actual sales for fiscal year 2063 / 064 is 3 (2060 /061 is base year)

$$
\begin{aligned}
Y_{2063/2064} &= 1482.62 + 33.789 \times 3 \\
&= 1482.924 + 101.367 \\
&= \text{Rs.}1584.291\ (\text{‘00000’})
\end{aligned}
$$

To conclude the characteristics of sales figure of G C, the following points can be shown as bellow:-

a) Sales forecasting is not accurate. So, target sales are always higher than actual achievement.

b) The mean of target sales is very high than actual achievement of sales.

c) The S.D. of target sales is very high than actual sales.

d) There is high positive correlation between target and actual sales.

e) The regression equation shows that there is high positive relationship between budgeted and actual sales.

f) Straight – line showed the positive trend for future.

4.3 PRODUCTION BUDGET OF GC

After completing the sales plan the second step of profit planning and control is the production budget. Production budget specifies the planned quantities of goods to be manufactured during the budgeted period. Production budget try to meet planned sales and planned inventory levels of finished goods during budget period. Production plan can be categorized into two parts:

i. Pre-production and
ii. Production activities.

Pre-production activities consist of those functions that must be performed before production and this phase ensures all the required resources for production at the right time and at the right quantities. On the other hand, production activities are the conversion of these input resources into desired final product. While developing the production plan, factors that affect in production planning should be identified and appropriate production plan should be developed.

In equation, production planning can be expressed as below,

Production unit = Planned sales + Closing stock – Opening stock of finished goods.

This equation shows production plan should be based upon sales plan should be based upon sales plan and inventory policy of the enterprise. But products or publication of G C are perishable so desired ending inventory and beginning inventory of finished goods are showed not used in production plan of G C i.e. this equation is not appropriate for production plan of G C. The following equation should be applied in G C.

Production Plan = Sales Plan

In G C, the practice of preparing production plan is different from the theoretical prescription in some extent. The determinant factory of production is the availability of market as reveal as it has been observed. So, the production markets availability.

G C has a number of publications, which are grouped under daily and monthly. G C's publication is sold at different prices. The past trends of production of G C are as follows:

Table No:-4.4
Production Target and Achievement of G C

From Fiscal Year 2058/059 to 2062 /063

FY	Yearly		
	Target	**Actual**	**%**
2058/2059	25056550	24056550	96
2059/2060	25060000	23585400	94.11
2060/061	26550000	26098365	98.29
2061/062	27040000	26285500	97.20
2062/063	23075000	21197050	91.86

(Sources:Annual Report of G.C.)

During the analysis period, it can be observed that the highest achievement of target production of Daily paper (i.e. Gorkhapatra and The Rising Nepal) was 98.295in FY

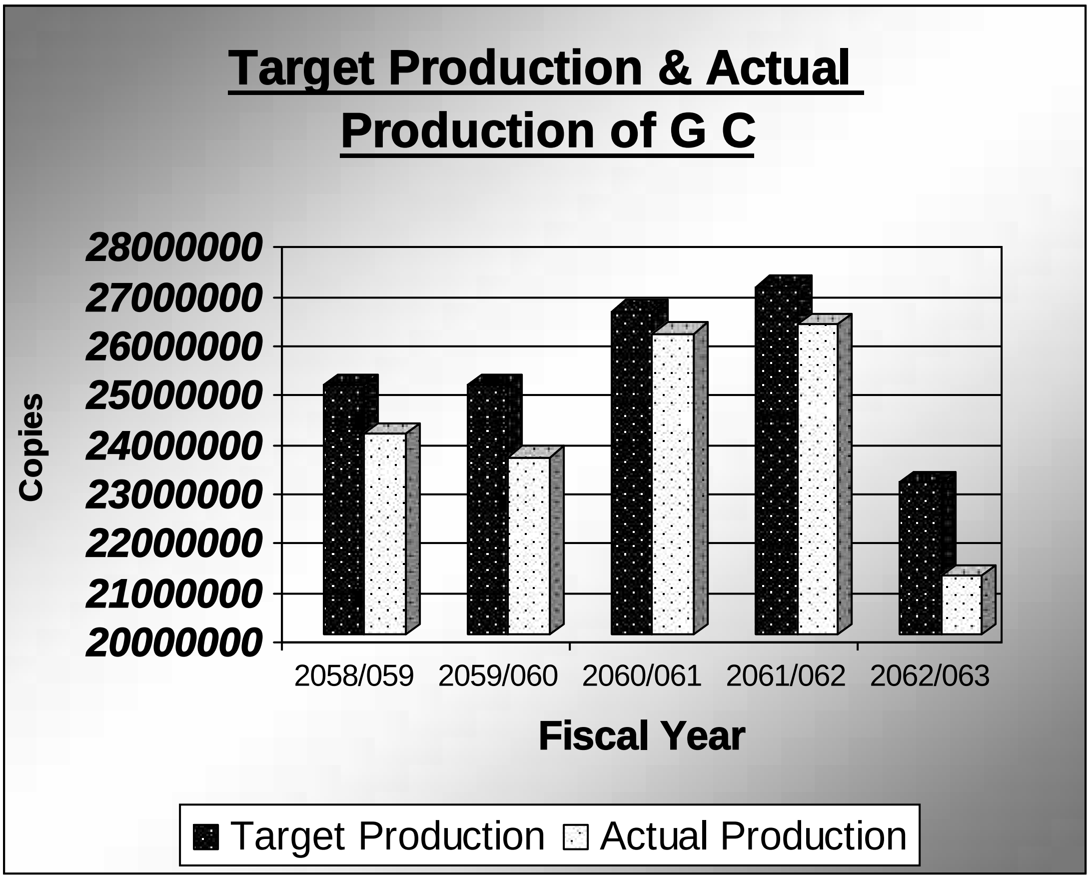
2060/061 where as the lowest achievement were 91.86% in FY 2062/063. Similarly, achievement of target production of Daily paper was 91.86%, 97.20%, 94.11% in FY 2062/063, 2061/062 and 2059/060 respectively.

The production plan can also be analyzed with the help of Graph and Bar diagrams as follows:

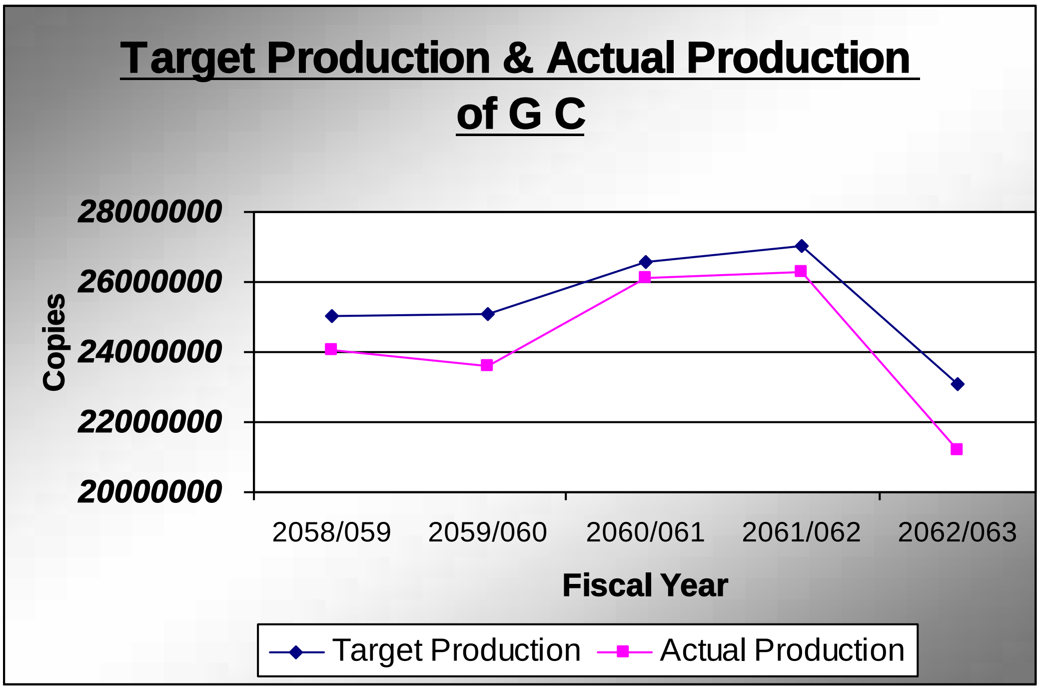
Graph:-4.3

Target and Actual Production of G C from F Y 2058/059 to 2062 /063

Production Target & Achievement of G C.



Graph No. 4.4



The above graphical presentation showed that actual production is variable than actual production, but some products are more variable.

To find out the nature of variability of production target and actual production of different fiscal years, arithmetic mean, standard deviation and co – efficient of variation are to be calculated. The detail calculation of these variables is presented in appendix – 2 and summarized as under.

Table No:-4.5

Use of Statistical Tools

Statistical	Budgeted Production (X)	Actual Production (Y)
Mean	25356300	24244500
S.D.	1388600	1863300
C.V.	5.47%	7.68%

The above analysis showed that the budgeted production are more variable than actual production. The S.D. and C.V. of actual production is not very higher than budgeted production. The value of correlation coefficient (i.e. r = .97) indicates that there is high positive relationship between targeted and actual production. Since the value of Correlation Co-efficient ‘r’ is greater than the probable error of ‘r’ (i.e. PE = 0.0178), it can be said that there is perfect correlation between budgeted and actual production. (See appendix No. 2)

4.4 PLANNING MANUFACTURING OVERHEAD OF G C

After the production plan has been completed, expenses budgets should be developed for each responsibility center in the organization. Manufacturing overhead is that part of total production cost is not directly identifiable with specific of products or jobs. Manufacturing overhead consists of indirect materials, indirect labour and all other miscellaneous factory expenses; such as taxes, insurance, depreciation, supplies, utilities and repairs.

G C has not prepared estimated manufacturing expenses budget and doesn’t practice to allocate these cost to products. The corporation has record the expenses incurred under the head of manufacturing expenses separately during every year. The following table shows the total actual manufacturing expenses incurred in G C under different five year.

Table No: - 4.6

Manufacturing Expenses of G C

From FY 2058 /059 to 2062 /063

Fiscal Year	Amount (in Rs)
2058/2059	101294536.98
2059 /060	10,28,91,573.02
2060 /061	10,14,71,422.10
2061 /062	10,09,54,276.63
2062/063	10,85,98,164.64

(Sources:Annual Report of G.C.)

The above table showed the increasing trend of manufacturing expenses. The manufacturing expenses of the year 2058/059, 2059 /060, 2060 /061, 2061 /062 and 2062 /063 are cover the 68 %, 71 %, 72.60 %, 70.59% and 65.40 % of respectively sales. It indicates the unsatisfactory position of the Corporation. The manufacturing expenses of G C are very high because of poor expenses planning, break down inefficient machines, bad political situation, frosted employees, lack of proper supervision and regulation, high repairs cost etc.

The details of expenses incurred employees under the head of manufacturing expenses are presented in the following table for two years.

Table No:-4.7

Detail Manufacturing Expenses of G C

For F Y 2061 /062 and 2062 /063

Particulars	Fiscal Year Amount (in Rs)	
	2061 /062	2062/2063
Salary	26922762.67	27939980.13
Dashian	2014176	2034800
Bidako Satta Bhatta	4070954.53	3774711.83
Additional Fund	2430536.66	2442691.18
Upadan	4338814.64	1847167.82
Donation	60000	-

Medical treatment exp.	2570186	2534744.71
Life insurance	3178909.52	3202757.93
Overtime	572250	540842
Other Allowance	537811.50	483735
Clothes expenses	1475700	1427300
Night allowance	319681.50	351915
Transportation allowance	260250	2000
Special allowance		2104776
Health expenses	674831	814131
Clothes expenses	3200	
Pad Purti Baithak Bhatta	-	
B.O.D. meeting Bhatta	-	
Sub committee meating	2400	
D. & travel allowance allowance	219348.72	74630.75
Telephone, Telex & Fax	700507.09	903253.73
Postage tickets	-	
Electricity charge	980124.33	925879.38
Water	-	
Insurance	-	10535
Bank commission	125	
News charge	1549117.95	1540507.50
Wages	25650	8706
Telephone installation charge	2000	
Other service charge	317750	591507.03
Transportation expenses	43019	104
Hospitality	195040	182955
Program expenses	239396	75304
Bishesh Awashar expenses	51427.64	313987.50
Bhaipari Aaune	20384	17350
Storage rent	-	
News transportation	-	

Complex repairing	-	
Machine repairs	143780	773448.28
Vehicle repairs	26400	
Others repairs	104926	129373.30
Booklets	201430	195805.62
Books	2238	6600
Stationery	343279.19	444510.85
Electricity goods	53126	16905.50
T.P. Roll	67300	43170
Other goods	692017.09	779971.81
Petrol	205466.32	310705.87
Kerosene	40320	36080
Other Fuel	402013.63	464772..80
Aa.Sa.Cha.pu	51300	21800
Article remuneration	4806705	4447622.30
Audit fee	-	
Newsprint paper	30146769.78	39932511
Booklets paper	1106077.45	616886.12
Job Box Paper	20267	374027.23
Staff training expenses	-	
Advertisement Promotion	-	
Marketing promotion	-	
Advertisement commission	42436.04	71001
News paper sales commission	-	
Ink	1623007.82	1550710.30
Graphic Art film	683703.29	30980
Almonium Plate	2480396.26	1861315.3
Photo graphic machine	213724.30	84810.12
Blanketed	59608.50	89060.5
Chemical	558805.49	384779.81
Print expenses	232716.83	173699.64

Other print commodity	107000.05	99837.26
Aaplikhan	-	
Image setter film	1655720.92	1487507.44
Interest expenses	-	
Depreciation	-	
Telephone Directory expenses	1107387.92	24000
Loss on sales on assets	-	
Total	**100954276.63**	**108598164.64**

(Sources: Annual Report of G.C.)

The above table showed that G C has high manufacturing expenses, which covers the more than 65 % of sales. There is not a system of allocating indirect manufacturing cost according to product. The Corporation should apply product costing and identifications of expenses controllability with each responsibility center manager.

4.5 MATERIALS PURCHASE TREND OF G C

In the production process, most of the Corporation use material directly or indirectly. Direct material is generally defined to include all materials that constitute an integral part of finished product and can be directly identified with the cost of finished product. Direct material cost is usually viewed as a variable cost, which varies in production to change in production output or volume. Indirect material is generally defined as materials used in the manufacturing process but directly tractable to each product.

G C used to purchase various raw materials with in the country as well as from outside the country (e.g. India, Japan, Russian). As the Corporation used a large number of raw materials to publish newspapers and magazines, only very important raw materials have been taken into consideration such as: Newsprint, Almunium sheets, Ink, Film sheets and Chemicals as a whole. The following table shows the materials expenses budget for F Y 2058 /059 to 2062/ 063.

Table No: - 4.8

Raw material Expenses of G C

Fiscal Year	Amount (in Rs.)
2058 /059	48621377.71
2059 /060	50416870.77
2060 /061	50735711.05
2061 /062	50880955.41
2062/2063	54299082.3

(Sources:Annual Report of G.C.)

The above table showed that total material cost is in increasing trend every year. Planning does not expose the meaning of reduction rather better relationship between expenditure and benefits derived from that expenditure. This derived benefit should be maximized or optimized so far budget in G C is that costs are not diagnosed as controllable and non controllable which means the expenses budget or expenses control programs is not so effective.

4.6 PLANNING ADMINISTRATION, SELLING AND DISTRIBUTION EXPENSES OF G C

Administration expenses include those expenses other than manufacturing and distribution. They are incurred in the responsibility centers that provide supervision of and service to all functions of the enterprises, rather than in the performance of any one function. Because, large portions of administrative expenses are fixed rather than variable, the notion persists, that can not be controlled.

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

Distribution expenses are not product costs and should not be allocated to specific products. A separate distribution on expenses plan should be developed for each responsible center in the distribution function.

G C has not prepared the estimated administration selling and distribution expenses budget. So, it is impossible to compare the actual expenses with budgeted amount. But the company clearly recorded the actual expenses incurred under the head of administrative, selling and distribution expenses. There is no adequate transparent policy regarding administration, selling and distribution expenses in G C. The following table shows the total actual administration, selling and distribution expenses of G C for different five years.

Table No: - 4.9

Administrative, Selling and Distribution, Expenses of G C

For F Y 2058 /059 to 2062 /063

Fiscal Year	Amount (In Rs)
2058 /059	46422453.56
2059 /060	42083986.95
2060 /061	46393226.04
2061 /062	44969181.73
2062/2063	51218174.13

(Sources:Annual Report of G.C.)

The above table clearly indicated that the corporation's administrative, selling and distribution expenses are fluctuated. The administrative selling & distribute expenses are high in F y 2058 /059, 2060 /061, 2062 /063 and low in 2059/ 060, 2061 /062 but we must consider the sales quantity before compare it and competition of different types of mass communication.

The detail of expenses incurred under the head of administrative, selling & distribution expenses are in the following table for two years.

Table No: - 4.10

Detail Administrative Selling & Distribution Expenses of G C

For F y 2061/062 and 2062 /063

Particulars	Amount (in Rs)	
	2061 /062	2062/2063
Salary	18338614.31	18318674.17
Dashian	1466047	1442821
Bidako Satta Bhatta	3007303.60	2843385.4

Additional Fund	1691920.24	1633292.03
Upadan	2064565.64	3602899
Donation	30000	60000
Medical treatment exp.	1940955.10	1921880.95
Life insurance	1991730.57	2088847.85
Overtime	1414125.71	1343143.37
Other Allowance	989398.43	947827.66
Clothes expenses	12153000	1188700
Night allowance	64038.50	378500
Transportation allowance	-	-
Health expenses	454017.16	559635.92
Special allowance	-	1424072
Clothes expenses	21025.10	
Pad Purti Baithak Bhatta	58300	107130
B.O.D. meeting Bhatta	94500	136000
Sub committee meeting	35065	282026..86
D. & travel allowance allowance	266890.32	344507.49
Telephone, Telex & Fax	643632.23	540565.52
Postage tickets	38461	48452
Electricity charge	626482.65	567167.76
Water	704683.44	665167.08
Insurance	24732.86	419422.16
Bank commission	84187.22	78248.76
News charge	-	1779
Wages	73921	131312
Telephone installation charge	-	1800
Other service charge	810780.41	1103051.66
Transportation expenses	23933	32380
Hospitality	402948.01	493508067
Program expenses	540326.65	855166.19
Bishesh Awashar expenses	351040	244571

BhaipariAaune	100513.72	50020
Storage rent	502258.50	679774.8
News transportation	2229387.12	3572257.71
Complex repairing	59571.39	355033.05
Machine repairs	6955	1900
Vehicle repairs	365067.42	332868.94
Others repairs	80932.81	187446.17
Booklets	102119.75	109873.4
Books	42076	29480
Stationery	261298.16	333459.31
Electricity goods	28020.40	79235.5
T.P. Roll	-	-
Other goods	375274.99	401735.84
Petrol	745910.51	865091.64
Kerosene	-	-
Other Fuel	133903.08	152591.01
Aa.Sa.Cha.PuS.	58200	62201
Article remuneration	-	-
Audit fee remuneration	60000	60000
Newsprint paper	-	-
Booklets paper	-	-
Job Box Paper	-	-
Staff training expenses	28500	7000
Advertisement Promotion	-	92000
Marketing promotion	-	202.15
Advertisement commission	172562.23	281032.09
News paper sales commission	71705.50	95771.43
Ink	-	-
Graphic Art film	-	-
Almonium Plate	-	-
Photo graphic machine	-	700

Blanketed	-	-
Chemical	-	3000
Print expenses	-	213.64
Other print commodity	-	-
Aaplikhan	-	-
Publicity	76000	-
Total	**44969181.73**	**51218174.13**

The above table shows that administrative, selling & distribution expenses cover the 31.45 percent and 30.85 percent of sales amount of F Y 2061 /062 and 2062 /063 respectively. It shows that expenses are very high. If expenses can not be managed effectively expenses will increase and profit will decrease in the future period.

The G C's planning manager should follow following aspects of planning administrative, selling and distribution expenses.

(I) Planning and Co – ordination

(II) Control of administrative, selling and distribution expenses.

4.7 PLANNING HUMAN RESOURCES

Labour is one major elements of production. Manpower is such power, without it no company can operate. Effective planning and systematic control of labour cost is essential to achieve the organizational goals. Human resources planning refer the area of personnel needs, recruitment, performance appraisal, union negations and remuneration administration.

In the broad sense, labour cost includes all expenditures for employees, top executives, middle level management, staff officers, editorial officers, supervisors and skilled as well as unskilled employees. The direct labour budget includes the estimate of direct labour requirements the necessary to produce the types and quantities of output planned in the production budget.

G C has temporary and permanent staffs working in the Corporation. They are paid as salary as a monthly basis. Because of lack of labour budget of G C. G C has large number of employees working under various units. Present status of employees has presented below.

Table No: - 4.11

Manpower Plan of G C

Department / unit	No. of Staff
Management & Board	8
Administration Department	71
Finance Department	55
Editorial Sector	87
Production Department	197
Art and Photography Department	11
Marketing Promotional and Distribution Department	131
Business Department	32
Press and engineer unit	42
District Reporter	42
Total	**636**

(Sources: Human Resources Planning of G.C.)

From the above table, it is clear that the total number of employees working in the Corporation is 636. All these employees are fixed salaried staff. The number of officer level employee and administration employee are high. So, most of the expenses are paid to them. So, G C has not any effective program to increase the productivity of manpower. This Corporation has not any measure motivational measurement, punishment and reward for proper performance. So, most of the personnel are frustrated.

4.8 PLANNING OF CAPITAL EXPENDITURE

Capital expenditure plan is often called capital budgeting. It is the process of planning and controlling strategic and tactical expenditures for the expansion and contraction of investments in operating assets. Capital expenditures involve generally huge amount assets such as fixed assets, plants, building, equipment, machinery etc. in order to earn future revenue or to reduce future cost. In capital expenditure plan enables management to plan the amount of resources that should be investment in capital additions.

G C is not preparing long – term capital expenditure budget. It prepares short – term budget but there is not a systematic budget procedure in the context of capital additions. The following table shows the short – term capital plan of G C for the year 2061 /062 to 2062 /063.

Table No: - 4.12

Gorkhapatra Corporation

Capital Expenditure

S.N.	Particulars	Amount	
		2061 /062	**2062/2063**
1.	House Storage	6665683.35	109181.48
2.	Machine	-	6700
3.	Still Furniture	63925	68230
4.	Wood Furniture	31050	112244.17
5.	Other equipment	119003.36	216361.91
6.	Photo Graphic machine	87681.82	112898.22
7.	Office equipment	20000	11363.64
8.	Vehicles	3350	99425.36
9.	Computer	599814.39	344111.99
10.	Building	-	-
	Total	**7590507.92**	**1080516.77**

(Sources: Annual Report of G.C.)

From the above table it is clear that the Capital expenditure for the year 2062/063 is significantly less than the previous year i.e. 2061/062 by Rs 6509991.15

Generally, capital expenditure budget is prepared by interim time periods, by preparing this, Corporation can plan its cash requirements in time, but G C does not prepare its capital expenditures by interim time periods. Total amount is budgeted for whole year and capital assets are purchased according to the necessary of the Corporation.

4.9 CASH FLOW IN G C

Cash budget demonstrates cash flows. It shows the planned cash inflows and outflows, beginning and ending cash balance of the company.

Cash budget is extremely useful tool for cash planning, which embraces arranging new loans and borrowing, replacing the existing debts, cash outlays, capital expenditures and loan payment etc.

Preparation of cash budget is the responsibility of the company treasurer. The preparation of cash budget is relatively simple matter in a undertaking with a information needed for the preparation of cash budget. Planning cash inflow and outflows helps to verify the beginning and ending cash position for the budget period. Cash shortage will disturb the operations and excess cash remains idle, without contributing anything towards the enterprise profitability. The corporation should consider other functional budget in the process of preparing cash budget.

The major sources and application of Cash flow statement for the F Y 2061 /062 and 2062 /063 of G C are as follows:-

Table No: - 4.13

Detailed Cash Flow of G C

For F Y 2061 /062 and 2062 /063

(Indirect method)

	Particulars	Amount (in Rs)	
		2061 /062	2062/063
A	**Cash flow from operating activities**		
	Net profit (loss) during the year	(9140755.79)	(898853.90)
	Adjustment:-		
	Depreciation	621892.93	6129212.37
	Loss on Assets	-	-
	Operating loss before working capital change	(2921772.86)	(5230358.47)
	(Increasing)/Decrease in inventories	18884975.69	(23866278.58)
	(Increasing)/Decrease in Sundry Debtors	(4732625.11)	(3225579.71)
	(Increasing)/Decrease in Loan &Advance	848104.62	582316.95
	(Increasing)/Decrease in Liabilities	(202184.41)	4924090.43
	Net Cash from operating activities	**11876497.93**	**16355092.44**
B	**Cash Flow from Investing Activities**		
	Sale of fixed assets	49376.31	4811.34
	Purchase of fixed assets	(924827.57)	(1080516.77)
	Net Cash from investing activities	**(875448.26)**	**(1075705.43)**
C	**Cash Flow From Financing Activities**		
	Borrowing of Bank loan	-	18807033.21
	Re-payment of Bank loan	(16567900.08)	-
	Net Cash from Financing activities	**(16567900.08)**	**18807033.21**
	(Increase)/Decrease in Cash &Cash equivalent	(5566850.41)	1376235.34
	Opening balance of Cash &Cash equivalent	35020064.41	29453214.00

	Closing balance of Cash &Cash equivalent	**29453214.00**	**30829449.34**

(Sources: Annual Report of G.C.)

From the above table it is clear that net cash from operating activities in F Y 2061 /062 and in F Y 2062 /063 is positive . Similarly, net cash from investing activities is negative in F Y 2061 /062 and 2062 /063, from financing activities is negative in F Y 2061 /062 by Rs 16567900 because of re-payment of Bank loan and positive in F Y 2062 /063 by Rs 18807033.21. The closing balance of cash is increase in F Y 2062 /063 with compared to F Y 2061 /062.

4.10 PROFIT AND LOSS ACCOUNTANT OF G C

Budgeted profit and loss A/C is prepared after preparing all functional budgets; budgeted P/L A/C indicates the possible future profit & loss for the accounting year. G C prepares the profit and loss A/C at the end of fiscal year to know the profit or loss situation of the corporation. G C is suffering from huge amount of loss every year. Actual profit and loss A/C of the of the corporation for the F Y 2061/062 and 2062/063 is presented in the following table:

Table No: - 4.14

Detailed Profit & Loss A/C of G C

For the Year ended 2061/062 and 2062/063(in Rs)

Particulars	2061/062	2062/063

A. Income from sale of News Paper	143003267.47	166043473.99
B. Cost of manufacturing expenses	(100954276.63)	(108598164.64)
C. Gross profit (loss) A-B	**42048990.84**	**57445309.35**
D. Administrative, Selling & Distribution	(44969181.73)	(51218174.13)
E. Interest expenses	(5364092.97)	(4153458.35)
F. Depreciation	(6218982.93)	(6129212.37)
G. Operating Profit (loss) C-D-E-F-G	(14503266.79)	(4055535.50)
H. Other income	5294872.87	3156681.60
I. Profit on sale of assets	67638.13	-
K. loss on sale of assets	-	-
L. P/L before Staff Bonous	**(9140755.79)**	**(898853.90)**
M. Staff Bonous	-	-
N. Net Loss	**(9140755.79)**	**(898853.90)**
O. Balance of Profit / (Loss) B.F.	49430352.42	40289596.63
P. Profit / (Loss) Transferred to B S	**(40289596.63)**	**(39390742.73)**

(Sources: Annual Report of G.C.)

The comparative profit and loss A/C of G C, which has been shown above, clearly showed that the Corporation is suffering from huge amount of loss.

At the end of Ashad 2062, the net loss amount of this Corporation was Rs. 9140755.79 but it was decreased by Rs 8241901.89 and become total loss of Rs. 898853.90 for the year 2062 /063. The amount of profit transferred to balance sheet at the end of Ashad, 2063 was Rs. 39390742.73

The following table shows the five years profit and loss trend of G C since F Y 2058 /059 to 2062 / 063

Table No: - 4.15

Profit & loss Trend of G C

Fiscal Year	Amount(Rs)
2058/2059	353188.17
2059 /060	(24499551.97)
2060 /061	(11001327.08)
2061 /062	(9140755.79)
2062/063	(898853.90)

(Sources: Annual Report of G.C.)

During the year analysis period i.e. F Y 2058 / 059 to 2062/ 063, the Corporation incurred the profit in 2058 / 059 then the Corporation suffering huge amount of loss every year from 2058 / 059.

The huge loss of G C is the effects of poor planning and control of management. There is no proper care with competition of communication. There is great problem of excess burden of fixed expenses, huge administrative, political pressured, careless of management, no responsible for their duty, low productivity of manpower due to lack of proper training, unnecessary expenses to overall profitability of the Corporation.

4.11 BALANCE SHEET OF G C

Balance sheet is the statement of assets and liabilities of a firm. It shows the overall financial condition of the firm. G C prepares its balance sheet at the end of each financial year but it does not prepare the projected balance sheet for coming fiscal year. The balance sheet of G C is presented in the following table:

Table No: - 4.16
Balance Sheet of G C
As at 32 Asadh, 2062 and 2063

Particulates	2061 / 062(in Rs)	2062/063(in Rs)
Authorized Capital:		
300000 ordinary share @ Rs 100	30000000	30000000
Issued Capital:		
250000 ordinary share @ Rs 100	25000000	25000000

Paid – up Capital:		
115166 ordinary share @ Rs 100	11516600	11516600
Reserve and Surplus:		
Provision Fund	2698825.62	2698825.62
Profit and Loss A/C	40289596.63	39390742.73
Long Term Loan:		
Secured loan	43861933.16	62668966.37
Total	98366955.41	116275134.72
Current Liabilities and Provision	100121256.61	105045347.04
Total	**198488212**	**221320481.70**
Fixed Assets:	41160469.72	36106962.78
Current Assents, Loan & Advance:		
Stock	2242821.35	26109099.93
Sundry Debtors	89070837.87	92296417.58
Cash at hand and Bank	29453214.00	30829449.34
Advance and Loan	36560869.08	35978552.13
Total	**198488212**	**221320481.70**

(Sources: Annual Report of G.C.)

4.12 PERFORMANCE EVALUATION AND MANAGEMENT CONTROL

Performance reporting for internal management is used in an important part of a compressive profit planning and control system. The performance – reporting phase of a comprehensive PPC program significantly influences the extent to which the organization's planned goals and objectives are attained. For all firms regardless of the sizes have reporting requirements to show their overall performance.

In Nepal, Nepalese public enterprises have no certain systematic and deep approach to performance evaluation because related managers have no deep knowledge about the PPC. Being the Government owned enterprise; G C does not care of their performance. For performance evaluation, various techniques and criteria can be used in enterprises.

Out of various techniques and criteria, the following method and criteria is employed to evaluate the performance of G C.

(a) Financial Ratios.
(b) Variance analysis.
(c) Identification of Cost variability.
(d) Flexible Budgeting.
(e) Cost volume profit Analysis.

4.12.1 Financial Ratios of G C

Financial statements describe the position of the firm at a certain period of time. However, the real value of financial statements lies in the fact they can be use in predicating the firms future earning. Ratio analysis is a powerful tool of financial analysis. A ratio is mathematics expressions and as the relationship between two or more figures.

The following table shows the comparative financial ratios of G C:

Table No:-4.17

Financial Ratios of G C

Ratios	2058/059	2059/060	2060/061	2061/062	2062/063
Current ratio	1.57	1.59	1.77	1.57	1.76
Quick ratio	1.02	1.17	1.18	1.21	1.17
Debtor turnover ratio	1.99	1.78	1.65	1.61	1.80
Total assets turnover	0.82	0.72	0.62	0.63	0.75

Gross profit Margin	0.32	0.28	0.27	0.294	0.35
Net profit Margin	0.0024	(0.0 17)	(0.0790	(0.06)	(0.05)

(Sources:Income Statement & B/S of G.C.)

I. Current Ratio: - Current ratio is the ratio of current assets to current liabilities. This ratio indicates the short – term assets financial strength of the enterprise. It is expressed as follows:

$$\text{Current ratio} = \frac{CurrentAssets}{CurrentLiabilities}$$

A high current ratios indicates excessive investment in current assets leading to under utilization of enterprise resources and hence low profitability. On the other hand a low current ratios indicates that the company may not be able to meat its short – term obligation. It is considered to satisfactory when current ratio is 2:1. In the context of G C the current ratio was in strong in 2060/061 and 2062/063 than other fiscal year. However, all year's current ratio is below than standard. It indicates that the Corporation has not short term to pay the current liabilities.

III. Quick Ratio: - Quick ratio is the ratio of liquid assets to current liabilities. Quick assets are these assets, which are rapidly converted into cash such as cash balances, bills receivable, sundry debtors and short term investment. It considered to be satisfactory when quick ratio is 1:1. It can be calculated as follows:

$$\text{Quick Ratio} = \frac{QuickAssets}{CurrentLiabilities}$$

G C has been satisfactory quick ratio in the fiscal year from 2058/059 to 2062/063.

III. Debtor Turnover Ratio: - Debtors turnover is found by dividing sales by debtors. Debtors turnover indicates the number of times debtors turnover each year. Generally, the higher the value of debtor turnover, the more efficient is the management of credit. The debtor turnover ratio of G C in above table shows too lower that indicates the management are not being collected rapidly.

IV. Total assets Turnover Ratio:- This ratio measures the efficiency of utilizing fixed assets towards contribution of sales. Higher the fixed assets turnover ratio indicates better business performance and lower ratio indicates inefficient utilization of fixed assets. It can be calculated by using following formula:

Total Assets Turnover Ratio = $\frac{Sales}{TotalAssets}$

It is clear from the above table that G C is not successful in utilization its total resources to generate adequate sales and profit. Total assets turnover is also decreasing year by year. So, it shows the effectiveness of G C also decreasing continuously.

V. Gross Profit Ratio: - This ratio establishes a relationship between gross profit to net sales and shows the efficiency of management to earn profit through sales. It can be calculated by using following formula:

Gross profit Margin = $\frac{Gross\,\mathrm{Pr}\,ofit}{NetSales}$

From the above table, gross profit margin on sales is varying from 29% to 35% means costs of goods sold to sales are 71% to 65%. Either the wastage are high or the selling process are set below than requirement due to Government of Nepal's policy and circular.

VI. Net profit Ratio: - Net profit ratio measures the relationship between the net profit and sales of the enterprise. It can be calculated by using following formula:

Net profit margin = $\frac{Net\,\mathrm{Pr}\,ofit}{Sales}$

From the above table, net profit margin is positive in 2058/059 and negative in remaining year. It is because G C has been suffering from the excess burden of fixed cost, manufacturing expenses and administrative, selling and distribution expenses.

4.12.2 Identification of Cost Variability

Identification of variances of cost is necessary in planning and control of the cost. Thus, the knowledge of cost behavior is very important. Generally, cost behaviors in two ways relation to the volume output. First it does not change with the change in out put and second it changes proportionately with the change in output. Cost can be classified as following.

(I) Fixed cost: - Costs which are constant in total, for certain period of time say year to year of month regardless of fluctuating in output or volume of production.

(II) Variable cost: - Those cost or expenses, that are change in total directly proportionately which changes in output.

(III) Semi – variable cost: - Those cost which are neither fixed nor variable because they are some feature of both.

In the context of G C, it hasn't mentioned any clear – cut basis about cost classification as fixed and variable cost by applying the function and variability nature of cost. So, there is rough practice of classification the expenses in variability and fixed components are as under.

Table No:-4.18

Gorkhapatra Corporation

Cost Behavior

Based on F Y 2062/2063

Cost items	Behavior	Amount
1. Depreciation	Fixed	6129212.37
2. Administrative cost	Fixed	30730904.48
3. Production cost 40%	Fixed	21719632.92
Total Fixed cost	Fixed	58579749.77
Raw material purchase	Variable	54299082.3
Selling & distribution	Variable	20487269.65
Production cost	Variable	32579449.38
Total Variable cost	Variable	107365801.3

(Sources: Income Statement of G.C.)

From the above table, we can say all cost is roughly classified. There is not expressed semi – variable cost and not certain rules and regulation of cost classifications. G C does not use scientific method to classify the cost.

4.12.3 Flexible Budgeting in G C

A flexible budget estimates cost at several level of activities. It is the presentation of estimated cost at several level of activity. Flexible expenses budget is complementary to tactical profit plan, it helps to provide expense plan for tactical profit plan and expenses plan adjusted to actual output for comparison with actual expenses in periodic performance report. This means that all costs must be identified as how they behave with a change it volume whether they vary or remain fixed.

G C does not prepare its flexible budget. On the basis of the cost and other data of F Y 2062 /063, a flexible budget of G C has been presented below. To prepare this budget sales revenue has been assumed to remain unchanged i.e. variable cost ratio 0.645 is remaining constant and total fixed cost will remain constant. To prepare the flexible budget, all costs must be identified generally by its nature.

The following table presents the flexible budget of G C at 50% to 110% of capacity utilization for the F y 2062 /063.

Table No: - 4.19

Flexible Budget of G C (In Rs)

Particulars	Activity level in Percentage				
	50	**70**	**90**	**100**	**110**
Sales Revenue (in Rs)	85000000	119000000	153000000	170000000	187000000
Less:- Variable cost @ 69.17%	54825000	76755000	98685000	109650000	120615000
Contribution Margin	30175000	42245000	54315000	60350000	66385000
Less:- Fixed Cost	58579749.77	58579749.77	58579749.77	58579749.77	58579749.77
Net Profit / Loss	**(28404749.77)**	**(16334749.77)**	**(4264749.77)**	**1770250.23**	**7805250.23**

4.12.4 Cost – Volume – Profit Analysis

The analysis of relationship between cost, volume and profit is known as Cost – Volume and profit is known as Cost – Volume – Profit analysis. CVP is an analytical tool for studying the relationship between volume, cost price and profit. It is also an important tool use for the profit planning in a business. Cost volume – profit analysis is a management accounting tool to show the relationship between these ingredients of profit planning.

The CVP analysis of G C is based on the following assumptions:

i) C V P structure is based on the accounting data of F Y 2062 /063 of G C.

ii) The selling prices, Variable expenses volume ratio and fixed expenses per annum are assumed to be remaining constant.

iii) Activity base is selected in terms of sales rupees and incomes but income from advertise is also include.

iv) Fixed cost included operational and non- operational fixed cost.

v) Non – operating income and non – operating expenses are assumed be remaining constant.

vi) Computations are made on total basis, not in product wise.

vii) Inventories are non include (because Products of G C are perishable)

Computation and presentation of BEP and CVP analysis of GC based on FY 2059 /060 are as under:-

Table No:-4.20

Income Statement of GC

For the year 2060 /061

Particulars	Amount (Rs)
Sales Revenue	166043473.99
Less:- Variable Cost	107365801.3
Contribution Margin	58677672.6
Less:- Fixed Cost	58579749.77
Net Profit before non operating expenses	97922.83

a. Variable Cost Volume Ratio (V/C Ratio):-

$$\text{V/V Ratio} = \frac{\text{Total variable cost}}{} = \frac{107365801.3}{} = 64.66\ \%$$

Total Sales 166043473.99

The V/C ratio 0.6466 shows that the proportion of variable cost is Rs. 0.6466 to each Rs. of sales volume.

b. Profit Volume Ratio (P/V Ratio):-

P/V Ratio = 1 – V/C Ratio

= 1 – 0.6466

= 0.3534

By the help of P/V Ratio can V/C ratio, we can calculate the break even (BEP) point of the G C.

c. Break – Even Point (BEP in Rs)

$$\text{BEP (In Rs)} = \frac{\text{Fixed Cost}}{\text{P /V Ratio}} = \frac{58579749.77}{0.3534}$$

= Rs 165760469.1

This result shows G C will be in break even point at the sales revenue of Rs 165760469.1only.

d. Margin of Safety of Budgeted year 2061 /062

Margin of Safety = Budgeted Sales – BEP Sales

= 189850000 – 165760469.1

= Rs 24089530.9

The above positive margin of safety indicates that the budgeted sales will recover the company for BE Sales.

e**. Profit at Budgeted Year 2061 / 062**

= Margin of Safety of $_{2061/062}$ × P / V Ratio

= 24089530 × 0.3534

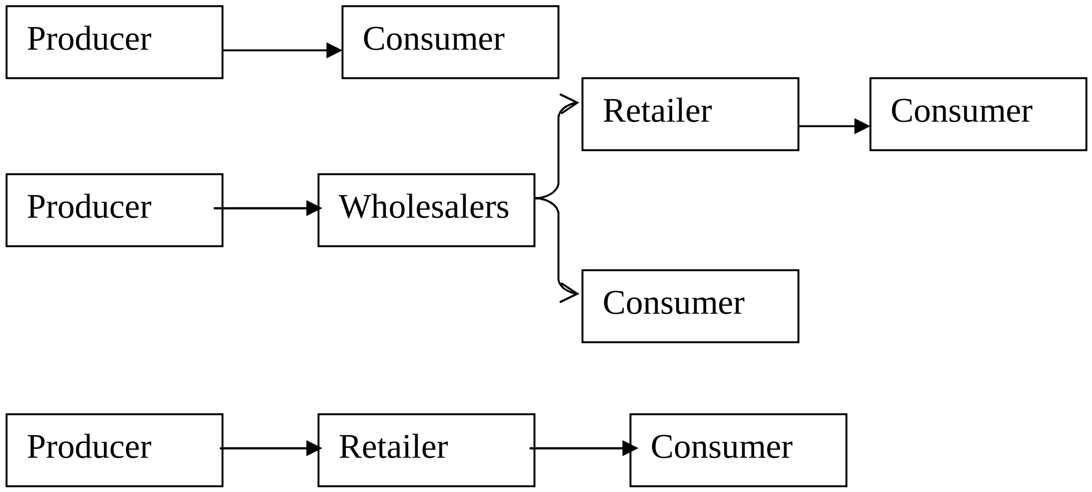
= 8513240.22

Therefore if the present cost structure remains constraint and the sales revenue will be according to budget then the profit F Y 2062 /063 will be Rs 8513240.22.

From the above analysis; it is clear that G C achieve its BEP during the analysis period. The fixed cost and non operating expenses is very high, which caused huge loss every year.

4.13 MARKETING PLAN OF G C

G C supplies publication directly to various stationary, consumer and various channels also follow. The publication of Gorkhapatra Corporation is continuously going down popularity as shown by the decreeing in sales volume because G C has not adopted the latest technology and strategy. The distribution channels usually followed by G C for marketing are as follows:



For sales promotion, G C is doing through the medias like; own news paper, Radio Nepal, Nepal Television etc. It has direct contract with stationery stores also for sales. Generally, G C face competition with national market and other publication like; Kantipur Publication, Apka publication etc. G C follows cost plus pricing method for Yuva Manch, Madhupark, Muna but Gorkhapatra and The Rising Nepal sold at below cost.

4.14 MAJOR FINDINGS

After detail analysis of primary as well as secondary data and various fundamental budgets, their achievement, CVP analysis, analysis of variance, ratio analysis and flexible budget showed that G C has been suffering from various internal and external problems in the process of formulating and implementing profit plans. The Corporation has been running at loss. The planner or budget maker sums more ambitious since the achievement is too low. The techniques of budget preparation seen to be unsystematic, unscientific and imperfect. The flexible budget showed that the Corporation would be in positive profit even if 110 percent capacity utilization. Similarly, the analysis of ratios shows that the financial performances of the Corporation were very poor. The future picture of the Corporation from the viewpoint of profit will not be bright unless and until heavy fixed cost, administrative expenses and the other cost of production are reduced.

The major findings, after the detailed analysis of planning process of G C can be pointed out below.

i. The objective of the organization is not clear, with regard to profit making. The sales price of the products has been fixed at lower rate than in the production costs, such as Gorkhapatra and The Rising Nepal.

ii. GC prepares tactical short – term strategic profit plan but it does not prepare the long – term strategic profit plan.

iii. G C does not have systematic and effective control mechanism and no effective maintenance system.

iv. G C has not practice of participatory management system, the decision making power in G C is concerned only with the top level management.

v. G C has unnecessary and unproductive expenditure and investment, which lead the Corporation running into loss.

vi. For the purchase or acquiring of raw materials mainly the Corporation used two processes i.e. Tender and Quotation. More than two lake’s purchase the Corporation apply global tender otherwise used quotation.

vii. For the quality the Corporation purchase the main raw materials from foreign and other subsidiary materials from domestic market i.e. Newsprint paper from Russia, Ink Black and Color from India and Singapore, Aluminum Sheet and Chemical Font and Wash from India, Film Role from Japan and Stationary from domestic market.

viii. There is under utilization of available capacity in G C .

ix. There is no clear – cut boundaries to separate cost into fixed and variables. The cost is roughly classified and this classification is not scientific and appropriate.

x. Due to the various causes along with the main cause of political instability, the Corporation will not operate in its full capacity.

xi. The G C can not meet the Break – even sales; it is running in heavy loss.

xii. There is no purchasing committee to purchase the raw materials. Purchasing manager plays the key role to purchase on the basis of store ledger record.

xiii. The corporation should not apply scientific tools and techniques for EOQ, ROL, safety stock, lead-time, ABC analysis etc.

xiv. The Corporation has kept 4 months lead-time for newsprint and 45 days for other main raw materials haphazardly without any calculation of requirement.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

Planning is the primary essence of management and all other functions are performed with in the frame work of planning. Management must plan for future financial and physical requirements just to maintain profitability and productivity of the business concern. The main objective of planning in business is to increase the chances of making profit.

Profit planning is a main part of an overall planning process and is an area in which financial function plays major role. Profit planning is one of the most important management tools used to plan and control business operations. Profit planning is an artistic work. The format of profit planning or budgeting is neither predetermined nor rigid. This varies with the nature of data, size of transactions, and the person who develops the formats. Undoubtedly, it should be neat, clear and comprehensive.

The effective operation of a business concern resulting into the excess of income over expenditure fully depends upon the extent that management follows in proper planning, effective Co- ordination and dynamic control. Comprehensive profit planning and control or budgeting continuous in virtually organizations. Profit plans can be broadly divided into two groups as functional plan, direct labor plan an expenses plan. Functional plan includes Cash flow plan, Capital expenditure plan, projected income statement and projected balance sheet. Profit planning and control process does not finish in this point. It is a continues process when the actual events or transaction occurred that the process of variance analysis is started.

Time dimension is another important consideration in profit planning. Profit plans are prepared for two time dimensions, strategic long – range plan for five or ten years and tactical short range plan for one fiscal year.
An effective implementation and continuous follow cap system is very important for budgeting or profit planning and control system. Use of functional budgets as a tool of

profit planning and widely applied techniques profit planning and control system but due to the back ward condition of industrialization in Nepal, this concept is not widely used.

Nepalese public utility enterprises, G C has been taken as reprehensive public utility enterprise. This study has been tried to analysis and examines the practice, procedure and techniques of preparing various functional budgets. This study also has tried to answer of certain question started in the statement of the problem.

The present study has examined the planning process and its impact on profitability. G C has been taken for this purpose as representative public enterprise.

As the basic objective of this study is to examine the effect of planning or profitability of G C, this study has tried to analyze and examine the practice, procedure and techniques of various functional budgets. It also has tried to answer the questions started in the statement of the problem. For this, various budgets accounting and financial statements have been analyzed using suitable statistical and financial tools. Both primary and secondary data has been used in this study. Statistical tools like mean, standard deviation, co efficient of variation, regression, and time series have been applied in analyzing data. For financial analysis; financial ratios, CVP analysis, Variance analysis and flexible budgets have equally been used.

Detailed presentation of data relating to G C consist of presentation of targets and actual for long – term period, targets and actual for short – term period, making system and qualitative aspects.

Related Literature has been reviewed consist various books and reports, periodicals, articles, Government official Publications and unpublished dissertations. A general concept of profit planning has been given in conceptual framework.

The study has been organized in Six Chapters consisting of introduction, Conceptual Framework, Literature review, Research methodology, Data presentation and analysis and Summary, Conclusion and Recommendation.

5.2 CONCLUSION

After analyzing in detail the present practice of budgeting and profit planning of G C, this study has drawn the following conclusions:

I. The objective of the Corporation is not clear, with regard to profit making and market penetration. The sales price of the products has been fixed at lower rate than in the production costs, such as Gorkhapatra and The Rising Nepal.

II. G C does not fix the target for specific goal for the planned period. Such as growth objective, capacity utilization, return on net capital employed etc. are not targeted to achieve some specified level.

III. The plans are prepared from top level only. There is no better communication between the top level and lower level management regarding the Corporation's goals and objectives.

IV. G C does not prepare the long – term strategic profit plan but it prepares tactical short – term profit plan that is usually referred as budget. Time period covered by the budget is one fiscal year. G C does not fix the target for the budgeted period. For example; growth objective, capacity utilization, return on net capital employed etc. are not focused.

V. G C has not adequately considered controllable and non – controllable variables affecting the corporation. They has no in depth analysis of the Corporation's strength and weakness. This research work shows the following strength and weakness of this corporation.

(a) Strengths:

i. Goodwill
ii. Experienced staffs

(b) Weaknesses:

i. Competition with Kantipur Publication and International Media Network Nepal (PVT) Ltd.
ii. High procedure cost.
iii. Lack of space for work.
iv. Poor management.
v. Lack of corporation plan.

VI Different statistical tools show the positive relationship between planned sales and actual sales.

VII Corporation has not had production plan.

VIII Actual production is made in accordance with the actual sales. Therefore, production activities are not done according to the budgeted production but this done according to the recent data of actual sales.

IX The Corporation is suffering from excessive fixed cost and non – manufacturing expenses. But the Corporation is not sensitive towards costs reducing program.

X G C has not a system of periodical performance reports. Corporation is not seriously conscious to it poor performance.

XI G C does not prepare direct labor budget. All personnel are paid monthly wages and salary. All expenses on salary and wages are planned in administrative expenses budget.

XII Cash budget, capital expenditure, direct labor budget were not prepared systematically. EOQ was not followed while purchasing the new materials budgets were prepared just to fulfill the formalities but these were not used effectively for profit planning process.

XIII Since the Corporation is operating below the break – even point, it is almost impossible to bring the Corporation into the track without massive reduction on expenses and proper implementation of planning procedure.

XIV The management of G C changes, according to changes of political changes of Government. So, G C is suffering by Government change (political change).

XV Distribution channels of the Corporation are adequate. It has four channels of distribution or marketing system.

XVI G C can improve its profitability by utilizing its idle capacity and effective cost control program. Actual production is below than planned production. The production budget is prepared on the basis of sales budget but actual productions are made in accordance to actual sales.

XVII The expenses are not diagnosed as controllable and non controllable expenses. Thus there are not effective cost control programs.

XVIII Flexible budget showed that G C will be in loss even at 110% capacity level which indicates that the Corporation will not be able to eliminate loss and make profit until implements the cost reduction program.

XIX Planning department of G C has no adequate authority to decide and create new ideas to formulate various plans.

XX G C has been suffering from the under utilization of available capacity.

XXI Gorkhapatra Corporation is facing competition from other publication. But there is lack of special program to face the competition. G C has adopted the policy of lowering the price of its publication in relation with, the price of the competitor's publication to win the competitor.

XXII The G C has no satisfactory achievement of specific goals that were targeted. Achievement of goals is low according to following reasons:-

i. Corporation market.

ii. Poor management.

iii. Too much income sources from others sources, such as advertisement and other pointing services.

iv. Lack o f Co – ordination between the lower and higher level staff and departments.

5.3 RECOMMENDATIONS

After the detail analysis of profit planning process of Gorkhapatra Corporation, it is found that the Corporation has not followed the profit planning system systematically and properly that impact negatively in overall profitability. The study has finally come up with the following recommendations to develop, implement and improve the process of profit planning in G C.

(1) The corporation should clearly define its goals and objectives whether it has to provide service or it should earn profit. After the clear cut objectives the Corporation should take steps accordingly to achieve them.

(2) The G C should try to operate in its full capacity. So that, it should control it's cost and maximize the profit. To operate in its fully capacity the Corporation should increase its productivity by providing regular training; motivation and applying performance pay system to its staff. In this way the hardworking employees can be rewarded and task avoided ones can be taken into action.

(3) There should be controlled the operating as well as non – operating expenses to increase the net profit of G C. The unproductive expenses should be reduced by management and administrative staffs of G C.

(4) G C should be prepared sales budgets on the realistic ground. Sales forecasting should be made after analyzing all variables that affect the market of the Corporation; effective program should be introduced to study the market.

(5) G C should revise the pricing policy. The cost of production should be considered while pricing of the publication. It should attempt to control its production cost.

(6) G C should develop production plan by interim time periods.

(7) Cost reduction is only the way to increase the Corporation's profitability. Therefore cost reduction program should be introduced for each responsibility centers. There is excess burden of administrative and office expenses. Such expenses should be evaluated on the basis of the achievements.

(8) G C should be developed planning experts to develop planning activities

(9) For effective control of cost and expenses, the principle of flexible budget is important. G C has not use flexible budget at present. So, it should prepare flexible budget at present. So, it should prepare flexible budget for various volume of activity.

(10) G C should develop periodical performance reports about activities of Corporation.

(11) G C should have to consider break – even analysis while preparing sales plan and adopt contribution margin approach to improve profitability.

(12) The study has found that there is a serious lack of professional management in G C. So, moves should be made to establish a skilled management to make sure that realistic plan are set and effectively implemented with continuous follows ups.

(13) Programs to improve the employee productivity should be made effective. Incentive plan to raise employee morale and motivation should be developed. Employees should be rewarded and punished on the basis of their work performance.

(14) G C should manage effective sales promotion activities.

(15) G C should try to overcome its weakness by using the strength. G C should have in – depth analysis of Corporation's strength and weaknesses.

(16) For the proper Co-ordination with in organization line and staff authorities and responsibilities should be clearly defined. This will considerably help to solve the problem of conflict between departmental.

(17) G C needs to classify costs in scientific manner i.e. variables, semi – variable and fixed, so that cost can be better analyzed, effectively planned and controlled.

(18) When developing the tactical profit plan, the expenses for each responsibility center should be carefully assessed. After the production plan has been completed, expenses budgets should be developed for each responsibility center in the organization. Classification of an expenses item as controllable and non – controllable must be made with in a specific framework of responsibility and time.

(19) G C is in loss mainly due to excessive non – manufacturing costs and excessive idle capacity. Management should initiate rigorous measures to avoid this situation. Cost reduction program should be formulated and applied and present cost – capacity structure should be changed, efforts to reduce fixed costs should be made.

(20) G C should decide and make policy about research and development, productivity, capacity utilization and costs control.

(21) Profit planning manuals should be communicated from top to lower levels. All personnel should be made to participate on decision – making and planning process.

(22) Capital expenditure should be planned in advance and discounted cash flow techniques should be applied to evaluate the proposals.

(23) Finally, in the G C a systematic approach should be made towards comprehensive profit planning. Systematic approach can considerably contribute to increase the strength and the profitability of the Corporation.

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APPENDIX – 1
Sales Plan of G C
Target & Actual Sales (Rs in '00000')

F Y	Budgeted Sales (x)	Actual Sales(y)	U = (x- $\bar{x}$)	V = (y- $\bar{y}$)	U^2	V^2	UV
058/059	1688.04	1486.44	-0.068	3.51	.004624	12.3201	-.23868
059/060	1684.96	1440.13	-3.148	-42.79	9.909904	1830.9841	134.70292
060/061	1524.50	1397.60	-163.608	-85.33	26767.58	7281.2089	13960.67064
061/062	1644.54	1430.03	-43.568	-52.9	1898.171	2798.41	2304.7472
062/063	1898.50	1660.43	210.392	177.5	44264.794	31506.25	37344.58
N =5	∑X= 8440.54	∑Y= 7414.64			72940.46	43429.17	53744.46

(I) Calculation of Arithmetic Mean

We have,

$$\overline{X} = \frac{\sum X}{N} = \frac{8440.54}{5} = 1688.108 \times 100000 = Rs.168810800$$

$$\overline{Y} = \frac{\sum Y}{N} = \frac{7414.64}{5} = 1482.92 \times 100000 = Rs.148292000$$

(II) Calculation of Standard Deviation (σ)

We have,

$$\pm x = \sqrt{\frac{1}{n} \times \sum u^2}$$

$$= \sqrt{\frac{1}{5} \times 72940.46}$$

$$= \sqrt{14588.092}$$

= 120.78 (in '00000')

$$\pm y = \sqrt{\frac{1}{n} \times \sum v^2}$$

$$= \sqrt{\frac{1}{5} \times 43429.17}$$

$$= \sqrt{8685.83.}$$

= 93.19 (in '00000')

(III) Calculation of Coefficient of Variation (C.V.)

We have,

$$\text{C.V. of X} = \frac{\pm x}{\bar{x}}$$

$$= \frac{12078000}{168810800}$$

= 7.15%

C.V. of Y $= \dfrac{\pm y}{\bar{y}}$

$= \dfrac{9319000}{148292000}$

$= 6.28\%$

(IV) Calculation of Correlation Coefficient (r)

$$r = \frac{\sum uv}{\sqrt{\sum u^2} \times \sqrt{\sum V^2}}$$

$$= \frac{53744.46}{\sqrt{72940.46.} \times \sqrt{43429.17}}$$

$$= \frac{53744.46}{270.07 \times 208.40}$$

$$= \frac{53744.46}{56281.687}$$

$=0.95$

(V) Calculation of probable Error

$$\text{P. E.} = \frac{0.6745}{\sqrt{N}} \times \left(1 - r^2\right)$$

$$= \frac{0.6745}{\sqrt{5}} \times \left[1 - (0.95)^2\right]$$

$$= \frac{0.6745}{2.236067978} \times (1 - .9025)$$

$$= 0.30164557 \times 0.0975$$

$= 0.00294$

APPENDIX – 2
Production Plan of G C
Target & Actual Production

(Copies in '0000')

F Y	Budgeted Prod^n (x)	Actual Prod^n(y)	U = (X- $\bar{X}$)	V= (Y- $\bar{Y}$)	U^2	V^2	UV
2058/2059	2505.65	2405.65	-29.98	-18.8	898.80	353.44	563.62
059/060	2506	2358.4	-29.63	-65.91	877.94	4344.13	1952.91
060/061	2655	2609.84	119.37	185.38	14249.30	34365.74	22128.81
061/062	2704	2628.55	168.37	204.10	28348.45	41656.81	34364.32
062/063	2307.5	2119.70	-228.13	-304.75	52043.29	92872.56	69522.62
N=5	∑X=12678.15	∑Y= 12122.27			$\sum U^2$= 96417.68	$\sum V^2$ =173592.68	∑UV= 128532.28

(I) Calculation of Arithmetic Mean

We have,

$$\bar{X} = \frac{\sum X}{N}$$

$$= \frac{12678.15}{5}$$

= 2535.63×10000

= 25356300 Peaces

$$\bar{Y} = \frac{\sum Y}{N}$$

$$= \frac{12122.27}{5}$$

= 2424.45×10000

= 24244500 peaces

(II) Calculation of Standard Deviation (σ)

We have,

$$\pm x = \sqrt{\frac{1}{n}\sum u^2}$$

$$= \sqrt{\frac{1}{5}} \times 96417.68$$

= 138.86×10000

= 1388600 copies

$$\pm y = \sqrt{\frac{1}{n}\sum v^2}$$

$$= \sqrt{\frac{1}{5} \times 173592.68}$$

$= 186.33 \times 10000$

$= 1863300$ copies

(III) Calculation of Co – efficient of variation (C.V.)

$$\text{C.V. of X} = \frac{\sigma X}{\overline{X}} \times 100$$

$$= \frac{138.86}{2535.63} \times 100$$

$= 5.47\%$

$$\text{C.V. of Y} = \frac{\sigma Y}{\overline{Y}} \times 100$$

$$= \frac{186.33}{2424.45} \times 100$$

$= 7.68\%$

(IV) Calculation of Correlation Co – efficient (r)

$$r = \frac{\sum uv}{\sqrt{\sum u^2 \times \sqrt{\sum v^2}}}$$

$$= \frac{128532.28}{\sqrt{96417.68 \times \sqrt{173592.68}}}$$

$$= \frac{128532.28}{310.511 \times 416.644}$$

$=0.97$

(v) Calculation of Probable Error

$$\text{P.E.} = \frac{0.6745}{\sqrt{N}} \times \left(1 - r^2\right)$$

$$= \frac{0.6745}{\sqrt{5}} \times \left[1 - \left(0.97^2\right)\right]$$

$= 0.0178$

APPENDIX – 3
Detailed Profit & Loss A/C of G C
For the Year ended from 058/59 to 062/063 (In Rs)

Particulars	058/59	059/060	060/061	061/62	062/063
(a) Income from sale NewsPaper	148643817.87	144013527.20	139759816.12	143003267.47	166043473.99
(b) Cost of Manufacturing Exp.	(101294536.98)	(102891573.02)	(101471422.10)	(100954276.63)	(108598164.64)
(C) Gross Profit(loss)	**47349280.89**	**41121954018**	**38288394.02**	**42048990.84**	**57445309.35**
(d)Adm.,Selling,	(46391238.80)	(42083986.95)	(46393226.04)	(44969181.73)	(51218174.13)
& Distribution	(361665.47)	(1849587.7)	(6335217.79)	(5364092.97)	(4153458.35)
(e) Interest exp.	(766500)				
(f) Assets Written off	(2640919.80)	(1363970.39)	-	-	-
(g)Depreciation	-	(2552406049)	(5285921.61)	(6218982.93)	(6129212.37)
(h) Gratuity	-	-	-	-	-
(i) Operating profit (loss) (c-d-e-f-g-h)	415114.94	(25329600.56)	(19725971.42)	(14503266.79)	(4055535.50)
(j) Other income	3226158.12	4195036.79	9228798.98	5294872.87	3156681.60
(k) Gain (loss) on sale of assets	31214.76	33408.59	(505154.64)	67638.13	-
P/L before Provision for bonus	**383900.18**	**(2499551.97)**	**(11001327.08)**	**(9140755.79)**	**(898853.90)**
(L) Staff Bonus	30712.01	-	-	-	-
(M) Net Profit /Loss	353188.17	(2499551.97)	(11001327.08)	(9140755.79)	(898853.50)
(N) Balance Profit /(Loss)	62578043.30	62931231.47	60431679.50	49430352.42	40289596.63
(O) Profit /(Loss) Transferred to B/S	**62931231.47**	**60431679.50**	**49430352.42**	**40289596.63**	**39390742.73**

APPENDIX – 4
Balance Sheet of G C
As at 32 Ashad, From 058/59 to 062/63
(In Rs)

Particulars	2058/059	2059/060	2060/061	2061/2062	2062/063
Authorize Capital:					
300000 ordinary Shares@ Rs 100	30000000	30000000	30000000	30000000	30000000
Issued Capital:					
250000 ordinary Shares Rs 100	25000000	25000000	25000000	25000000	25000000
Paid –up Capital:					
115166 ordinary Shares @100	11516600	11516600	11516600	11516600	11516600
Reserve and Surplus:					
Provision Fund	2698825.62	2698825.62	2698825.62	2698825.62	2698825.62
Profit & Loss A/C	62931231.47	60431679.50	49430352.42	40289596.63	39390742.73
Secured Loans:					
Citizen Investment Fund	-	20000000	22500000	24418500	24500000
Nepal Arab Bank	6769680	3300000	-	-	
Nepal Bangaladesh Bank	-	-	34800000	-	
NepalBangaladeshBank(fix)	-	-	2530000	19000000	16000000
Nepal Investment Bank	-	756233.32	599833.24	443433.16	28168966.37
Total	**83916337.09**	**98703338.44**	**1240756111.2**	**98366955.41**	**116275134.72**

Fixed Assets:	18175616.60	40060070.40	46504004.39	41160469.72	36106962.78
Current Assets, Loan and Advance:					
Stock	8991090.33	5490213.15	21127797.04	2242821.35	26109099.93
Sundry Debtors	73660689.55	80641670.32	84338212.76	89070837.87	92296417.58
Cash at hand and Bank	30197968.91	36270682.98	35020064.41	29453214.00	30829449.34
Advance and Loan	47787200.16	35461459.94	37408973.70	36560869.08	35978552.13
	160636948.95	157864026.39	177895047.91	157327742.30	185213518.98
Current Liabilities & Provision	94896228.46	99220758.35	100323441.02	10012156.61	105045347.04
Net Current Assets	65740720.49	58643268.04	77571606.89	57206485.69	80168171.94
Total Assets	**83916337.09**	**98703338.44**	**124075611.28**	**98366955.41**	**116275134.72**

APPENDIX – 5
Detailed Cash Flow of G C
For FY From 058/59 to 60/61
(Indirect Method)

Particulars	**Amount (in**		
	059/60	**060/61**	
Cash flow from operating activities			
Net profit (loss) during the year	(2499551.97)	(11001327.08)	(9
Adjustment:-			
Depreciation	2552406.49	5285921.61	
Assets Written off	1363970.39	-	
Profit(Loss) on Assets	(33408.59)	504154.64	
Operating loss before working Capital Change	(1383416.32)	(5211250.83)	(2
(Increasing)/ Decrease in inventories	3500877.18	(15637583.89)	1
(Increasing)/ Decrease in Sundry Debtors	(6980980.67)	(3696542.44)	(4
(Increasing)/ Decrease in loans & advance	12325740.22	(1947513.76)	
(Increasing)/ Decrease in liabilities	4324529.89	1102682.67	(
Net Cash from operating activities	**14553582.84**	**(25390208.25)**	**1**
Cash Flow from Investing activities			
Sale of Fixed assets	151569.12	404265.38	
Purchase of Fixed assets	(25918991.21)	(12638275.62)	(
Net Cash from investing activities	**(25767422.09)**	**(12234010.24)**	**(**
Cash flow from Financing activities			
Borrowing of Bank loan	17286553.32	36373599.92	
Re – payment of Bank loan	-	-	(
Net Cash from Financing activities	**17286553.32**	**36373599.92**	**(1**
Increase /Decrease in Cash & Cash equivalent	6072714.07	(1250618.57)	(5
Opening balance of Cash & Cash equivalent	30197968.91	36270682.98	3
Closing Balance of Cash & Cash equivalent	**36270682.98**	**35020064.41**	**2**

APPENDIX – 6

<u>Gorkhapatra Corporation's Structure</u>