A STUDY ON

PROFIT PLANNING AND CONTROL GORAKHKALI RUBBER UDHYOG, NEPAL

By:

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has been prepared as approved by this Department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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DECLARATION

I here by declare that this thesis entitled "A STUDY ON PROFIT PLANNING AND CONTROL GORAKHKALI RUBBER UDHYOG, NEPAL" submitted to Post Graduate College Biratnagar Nepal, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the master's Degree in Business studies under the supervision of Dr. Shayam Bd. Katuwal post Graduate campus, Biratnagar.

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ABBREVIATIONS

a	=	Fixed Value
b	=	Variable Value
B.S.	=	Bikram Sambat
C.V.	=	Coefficient of Variance
DDC	=	Dairy Development Corporation
e.g.	=	Example
e.t.c	=	Etcetera
FY	=	Fiscal Year
GRUL	=	Gorakhkali Rubber Udhyog Limited
HMG/N	=	His Majesty Government/Nepal
i.e.	=	That is
IRR	=	Internal Rate of Return
k	=	Cost of Capital
Ltd.	=	Limited
mm	=	Millimetre
No.	=	Number
NPV	=	Net Present Value
NTC	=	Nepal Telecom
PEs	=	Public Enterprises
PPC	=	Profit Planning and Control
Pvt.	=	Private
r	=	Correlation Coefficient
Rs.	=	Rupees
SOEs	=	State Owned Enterprises
TCN	=	Timber Corporation of Nepal
TU	=	Tribhuvan University
Viz.	=	Namely
&	=	And

CHAPTER- ONE

INTRODUCTION

1.1 Background of the Study

Profit planning and control is a systematic and formalized approach for performing significant phase of the management. It is an important approach developed to facilitate the management process like as planning, organizing, staffing, controlling etc. A profit plan is a detail expression of the expected result from the planning decision.

Profit planning involves two aspects, viz. profit and planning. Profit is the primary objectives of business in view of the heavy investment which is necessary for the success of enterprise. Profit in the accounting sense tends to become a long-term objective which measures not only the success of product but also its development in market. Similarly, planning means deciding in advance what is to be done in future. It is a method of thinking out acts before hand. Planning is the basic function of profit realization and a plan is a projected course of action.

Generally two type of profit plan are generated; for long-term objectives strategic long-range plan and for short-term objective, tactical short-range profit plan are developed. A comprehensive profit planning and control facilitates every enterprise to calculate realistic profit and return on investment.

”A profit plan is a comprehensive and coordinated plan, expressed in financial terms, for the operations and resources of an enterprise for some specific period in the future.” (Fremgen; 1973: 144) Theoretically profit plan is a well established theory which deals on organization to ultimate success. Therefore profit planning is primarily applicable to the management function like planning, managing and controlling.

“Usually, Profits do not just happen, profit are managed” (Lynch & Williamson; 1983: 99), when management plans its profit performance that is known as profit planning. Profit planning is a part of overall planning process of an organization.

A comprehensive profit planning and control can be used in the same context as business budgeting, managerial budgeting and budgeting. A profit planning and control is “a systematic and formalized approach for performing significant phases of the management planning and control functions.” (Welsch, et al.; 1999: 10)

The concept of comprehensive PPC encompasses a systematic and integrated approach to project planning, to tactical planning, to strategic planning. In developing these plans many budget schedules are prepared to plan for each phase of company’s operation. The final step in the planning process is to complete the profit plan by combining the component schedules and preparing planned financial statements, planned statement of financial position. Income and cash flows are prepared in order to determine the implications of the company’s plans for its future financial condition. Therefore comprehensive PPC is viewed as a process designed to help management, effectively perform significant phases of the planning and control function. In this way, PPC has been developed to facilitate effective performance of the management process which is a major improvement approach of the organization and has the ultimate objectives to achieve the optimum profit for the organization.

The PPC model involves;

- Development and application of broad and long range objectives of the enterprise.
- Specification of enterprises goals.
- Development of strategic (long range) profit plan in broad terms.
- Specification of tactical profit plan detailed by assigned responsibilities.
- Establishment of a system of periodic performance reports detailed by assigned responsibilities.

- Development of follow up procedures.

The formats of profit plan or budgeting are neither predetermined nor rigid. These vary with the nature of data, size or the transactions and person who develops the formats. But undoubtedly, it can be said that whatever may be the type of format, it should be neat, clear, clean and explanatory.

In the context of Nepal, the history of comprehensive and systematic budgeting is not so long. The first government budget was introduced in 2008 B.S. Business Budgeting in the complete and systematic manner was a rare case of Nepalese Commercial and Industrial sector. But now, it has become the lifeblood of every business organization.

1.1 Public Enterprises at glance

"Public Enterprise is an institution operating a service of an economic on social element, on behalf of the government but an independent legal entity, largely autonomous in its management thought responsible to the public, through government equipped on the other hand with independent and separate funds of its own and the legal and commercial attributes of a commercial enterprises." (Industrial Policy;1998: 7)

Nepal has agriculture based economy. Though more than 80 percent population makes its living from agriculture, the sector still has not been able to cater the needs of increasing population. The per capita income is merely US$ 310.

Nepal had a late start in development. Industrialization started only after it got exposure in the world in 1951, after the democratic movement. For this purpose planned development was started in 1956 with the first five-year plan. Fifty years down the road since the execution of the first five-year plan, about 62 different public enterprises in manufacturing, financial and service, trading and public utility sector have been set up. But now there are only 36 on the scene as some of them closed and others were handed over to the private sector. Among them, there are 10 PEs in manufacturing sector. These public enterprises were set up with various social objectives, like creating employment opportunities, catering the people with quality goods and services, mobilizing resources. Apart from these, there were economic motives. They were supposed to contribute to the state coffers also besides their sustained growth.

Public enterprises in Nepal constitute a vital instrument for the socio-economic development of the country. It enjoys a strategic and crucial position in our mixed economy. They have been established in many sectors for the overall development of the country with different goals and objectives. Since 1956, Nepal has witnessed growth and development of public enterprises. Nepal Bank Limited, a commercial bank was the first public enterprise to have a separate legal entity in Nepal.

There has been a huge investment and government further eased this by thrashing new conducive policies. But still the process has not gained the desired momentum. Despite various attractive policies, the return on investment is not satisfactory. Overstaffing, low labor productivity and gross inefficiency in capital utilization plagued the performance of state-owned enterprises. Out of 36 public enterprises, only 19 earned profit in the last fiscal year 2062/63. Besides, inability of state-owned enterprises to adapt to changing business environment has also been identified as another reason for poor performance. The government received just Rs.3.35 billion from the entire PEs which is around 5.62 percent of the equity investment it pumped into them. This shows how the government money goes down the drain. There could be various reasons behind, which need to be investigated so that corrective measures could be taken to improve their condition.

1.2.1 Role of Public Enterprises in Economic Development

A rapid economic development requires huge expenditure on various sectors of the economy. The private sector is either unable to invest huge amounts or unwilling because the return from such investments may be uncertain or long delayed. Hence, economic development has to depend almost entirely on public enterprises. Public enterprises, therefore, play a vital role in economic development of a developing country like Nepal.

“Public enterprises promote economic development in the following ways:

a. **Economic Overheads:** Economic development is handicapped in underdeveloped countries on account of the lack of the necessary infrastructure. Economic overheads like the roads and railways, irrigation and power projects are essential for speeding-up economic development. Money for these things cannot come out of private sources. Public enterprises have to build up the economic overheads.

b. **Balanced Regional Growth:** It is considered desirable to bring about a balanced regional growth. Special attention has to be paid to the development of backward areas and underdeveloped regions. This requires huge amounts for which reliance has to be placed on public expenditure.

c. **Development of Agriculture and Industry:** Economic development is regarded synonymous with industrial development but agricultural development provides the base and has to be given top priority. Government has to incur lot of expenditure in the agricultural sector, e.g., on irrigation and power, seed farms, fertilizer factories, warehouses, etc., and in the industrial sector by setting up public enterprises like rubber industries, pharmaceutical factories, dairy processing industries, etc. All these enterprises are calculated to promote economic development.

d. **Exploitation and Development of Mineral Resources:** Minerals provide a base for further economic development. The government has to undertake schemes of exploration and development of essential minerals, e.g., coal and limestone. Public enterprise has to play its role here too.

e. **Subsidies and Grants:** The government gives grants to local authorities to induce them to incur some desirable expenditure. Subsidies have also to be given to encourage the production of certain goods especially for export to earn much-needed foreign exchange." (Dewett & Varma; 1998: 475)

f. **Employment:** The PEs are contributing substantially to increase in employment in the country. Currently the number of employees in PEs is 31599. (Economic Survey; 2005 : 202)

g. **Revenue:** The major portion of government revenue is fulfilled by public enterprises. This revenue comes from sales, income, excise and other taxes. They now contribute large amounts of taxation revenue to the government.

Thus, public enterprises play a vital role in economic development of every country. It is required to create and maintain conditions essential for economic growth. It must improve climate for investment and provide incentives for savings. The public enterprises create the necessary environment for the expansion of private enterprise and initiative.

1.2 Gorakhkali Rubber Udyog Limited

Road transport plays a crucial role for the development process of Nepal. The rapid construction of road networks led to significant demand for automobile along with tyre and tube for vehicles. For the fulfillment of increasing demand for tyre and tube, Gorakhkali Rubber Udhyog Limited (GRUL), was established as public limited company on combined effort of Government of Nepal (20.89%), Salt Trading Corporation Ltd.(21.61%), Nepal Oil Corporation (5.38%) and other renowned companies and corporations on Jestha, 2041 B.S. (June 1984) according to the Company Act, 2021 B.S. under the technical assistance of

China Chemical Construction Corporation. The factory is situated at picturesque confluence of Marshyangdi and Daraundi river of Majuwa Deurali of Gorkha district and corporate office in Kalimati, Kathmandu. Late King Birendra Bir Bikram Shah Dev formally inaugurated the industry on Marga 25, 2049 B.S. (Dec.10, 1992). Though the industry commenced its trial production from Chaitra 2048 B.S.(Aug.1992), commercial production began from Shrawan 2049 B.S.(Aug.1992). GRUL collects necessary raw materials mainly from India and also from Australia, U.S.A., Germany, Malaysia and Korea. The industry's markets are India, Srilanka, Bangladesh and won nation Nepal in early days of production but now its market is confined within Nepal only.

GRUL has normal production capacity of 88,000 units of truck tyre sets, 41,276 non truck tyre sets and 24,225 units of extra tubes. Existing truck tyre market in entire Nepal is approximately about 96,000 sets (tyre, tube and flap) per annum. GRUL's share in the market was approximately 31% in year 2005/06. GRUL is targeting to increase its market share to 40% in year 2006/07 with proposed capacity utilization at 50%.

GRUL is now jointly owned by Nepalese public enterprises, private sector, general public and Asian Development Bank. GRUL has authorized capital of Rs.699.9 millions, issued capital of Rs.480 millions and paid-up capital of Rs.435.822 millions. The shares of GRUL are listed in Nepal Stock Exchange and are traded in the secondary market. The company also issued preference shares from 2058 B.S.

GRUL is tyre and tube producing industry in Nepal; contributes in solving unemployment problem of the country by employing directly 450 people. Besides tyre and tube of truck, bus and car, the company is planning to produce tyre and tube of motorcycle in near future. The major products of GRUL are as follows:

- Tyre
- Tube
- Flaps

- Retread Rubber
- Retread Cement

Globalization has increased the competition. So as to overcome or to avoid competition, industry has signed up an agreement with M/S MCorp Global, UAE on 18th January 2004 for marketing, management and technical support. To achieve the target, GRUL with expertise/support from MCorp Global, UAE shall be formulating strategies to capture truck tyre market segment;

- Introduction of new breed like TARZAN, JUMBO.
- Introduction of new tyres for LCVs.
- Improvement in quality with technical collaboration with Modi tyres.
- Enlargement of Dealers, Exclusive Dealers and Sales Counters.
- Intensive Consumer Campaign and contact by arranging consumer meeting so that GRUL will be nearer to actual consumer and create additional demand.
- Separate department for “After Sales Service” has been established and full support team is already in place. This type of facility is not at present offered by any other company in Nepal.
- Competitive market price.

1.3 Statement of the Problem

Most of the Nepalese manufacturing PEs have been suffering from the problem of poor performance. So, the reasons for the poor performance have to be studied. There may be various and different reasons for the poor performance of manufacturing PEs such as ignorance of objectives, low capacity utilization, communication gaps between managerial levels, preparation of long range and short range plan on ad-hoc basis, political instability, lack of tackling accountability and responsibility. Such reasons should be investigated and should be taken corrective actions for the improvement of their performance and PPC appears as cure of such problem.

“Public Enterprises are established to develop infrastructure service needed for national development, to fulfill the demand of the people of the country, to increase export opportunities, to help in controlling price situation, to create employment opportunities, to increase government revenues, to improve balance of trade situation by increasing export and so on. So, the government of Nepal is investing a huge amount every year in the PEs. However, the PEs are found to be operating unsatisfactory and their financial position is far from satisfactory” (World Bank Report; 2006: 17)

GRUL is one of the biggest industry in the country providing employment to 450 people directly. Although being the only tyre and tube producing industry in country, it is suffering from heavy loss every year from the time of its operation. A large amount has been invested from various sector; therefore, the successful operation of the industry is very much important. The success of any business largely depends upon the planning procedure of such company. Poor performance is the outcome of poor planning, controlling and decision making. If the business suffers from continuous loss then it becomes necessary to review the profit plan.

Thus, the research has been basically designed to solve the problems of GRUL by taking into account the budget’s role in planning the profit. The major tasks which are to be taken into consideration to solve GRUL its problem have been listed below:

- What are the fundamental principles adopted in short-term and long-term planning of GRUL?
- What are the major factors affecting profit planning in GRUL?
- What are the main roles of functional budgets and its relation in profit planning in GRUL?
- What is the present practice of the overall profit planning?
- What should be its profit planning and control system?
- What steps should be taken to improve profit planning system in GRUL?

1.4 Objective of the Study:

The basic objective of this study is to examine the practice and effectiveness of comprehensive profit planning and control system in GRUL. The specified objectives are:

a. To examine the present planning process adopted by GRUL on the basis of budgeting.
b. To analyze the various functional budget prepare in GRUL.
c. To sketch the trend of profit and profit planning in GRUL.
d. To recommend measures to be encountered with the identified profit planning problem.

1.5 Significance of the Study

Profit planning process will significantly contribute to improve the profitability as well as the overall financial performance of an organization with the help of the best utilization of resources. Accomplishment of objectives in every organization depends upon the application of resources. The resources are scarce and the organization should use scarce resources profitably. Also the financial performance of an organization depends purely on the use of its resources. Budgeting is the key to productive financial planning, so all the profit oriented organization should adopt profit planning tool while managing their physical and financial targets. If the planning process of an organization is effective and result oriented, the pace of development naturally step forward.

In the context of Nepalese Public Enterprises suffering from loss, this study holds some importance. In this regard, the present study will highlight the application of detailed and systematic budgeting in GRUL. The study will also evaluate the use of different type of functional budgets and corporate planning system for effective implementation of PPC system in GRUL.

This study is more important for GRUL because it provides necessary theoretical as well as contemporary situation conceptions to make appropriate decisions in this regards. It may help GRUL to take the corrective actions in any aspect related to the profit planning. The study will highlight and analyze the problems and prospects in budget application and implementation. The study will also examine and review the present and historical literature. Besides these, the research paper will help the general interest and minimizes curiosity of various people as well as help to overcome the certain limited problem regarding budgeting activities.

In brief, the significance of this study has been listed below:

- The management as will as the policy makers of GRUL will be benefited by obtaining different information and knowledge regarding profit plan as well as the shortcomings taken place in GRUL while practicing profit plan.
- The investors and other stakeholders will also get the information regarding the profit plan adopted in the enterprise and profitability of the company.
- The general public can get a clear picture of GRUL.
- The study also provides necessary recommendation for overall improvement of the organization.

1.6 Limitations of the Study

The scope of the study has been made limited by the following factors:

- Only five years data are analyzed covering from the fiscal year 2058/59 to 2062/63.
- Mostly secondary data are used.
- The comprehensibility and accuracy of this study are depended upon the data availed from the management of GRUL.
- The analysis is concentrated in some managerial, financial and accounting aspects and it does not cover other areas of the enterprises.

- The study covers GRUL only as a unit of analysis.
- It deals mostly with tactical planning.

1.7 Chapter Scheme

The whole study has been designed into five chapters:

Chapter I: Introduction

This chapter includes introduction of profit planning and control, public enterprise at glance, brief introduction of GRUL, statement of problem, objective, significance and limitation of the study.

Chapter II: Review of Literature

The second chapter consist of conceptual framework and review of literature under which the term profit, plan, its process, development and implement procedure etc. have been described as well as previous related research works have also been reviewed.

Chapter III: Research Methodology

In the third chapter the research methodology followed to achieve the purpose of this study has been designed which includes research design, period covered, nature and source of data, tools used to analyze the data and research variables are described.

Chapter IV: Data Presentation and Analysis

The fourth chapter includes the presentation and analysis of data made availed from GRUL regarding the development and the practice of profit plan in the company.

Chapter V: Summary, Conclusion and Recommendation

This is the last chapter of this dissertation which consists of summary of the study, major findings and the recommendation for improving the process and practices of profit plan to the company.

CHAPTER-TWO

REVIEW OF LITERATURE

2.1 Profit

“Profit is the primary objective of a business. No company can survive long without profit. Profit is the ultimate measure of its effectiveness and in a capitalist society, there is no future for a private enterprise which always incurs losses. Profit is a signal for the allocation of resources and a yardstick for judging managerial efficiency.” (Kulkarni; 1985: 310)

“Profit is commonly used as the income received by the organizer of entrepreneur out of the total revenue after making payments to other factors of production and business expenses. Payments to other factors may be included in total cost of production. Hence profit is equal to the different between total revenue and total cost of production incurred during a specific period.” (Kulkarni; 1985: 326)

Profit is a controversial term. Different peoples have different opinion regarding it. According to *Lynch and Williamson*, “usually profit does not just happen, profit is managed.” *Schumpter* opines that an entrepreneur earns profit as reward for his introducing innovations. *J.M.Keynes* views that profit results from favorable movements of general price levels. *Mrs. Joan Robinson and Chamberline* opine that greater the degree of monopoly power, greater the profit made by the entrepreneur. There are several different interpretations of the term profit. In economics, profit may be defined as the net income of a business after all other costs- rent, wages and interest etc, have been deducted from the total income. In financial term, profit may be defined as viable return from any investment. Profit may be short run or long run, before or after tax, total profit or profit per share, gross profit or net profit, PBDIT or PBT or PAT. In business term, profit may be defined as the monetary difference between the cost of producing and marketing goods or services and the price subsequently received for those goods or services.

“Profit is the amount of revenue earned above the expenses incurred to operate the business.” (Anthony; 1960: 245) The word profit implies a comparison of the operations of business between two specific dates which are usually separated by an interval of one year. “It should be noted that profit is residual income left after the payment of the contractual rewards to other factors of production.” (Joshi; 2050: 170)

“The accounting concept of company profit is a concept of net business income. The sales transactions of a period are regarded as bringing new assets into the business and a profit results if there are in excess of the assets leaving the business in the same period. Profit is thus the surplus income that remains after paying expenses and providing for that part of capital that has been consumed in producing revenue.“ (Willsmore; 1986: 28)

“Profit in the accounting sense tends to become a long term objective which measures not only the success of product but also of the development of the market for it.” (Kulkarni; 1985: 188)

“*Williamson* defines the term profit in views from management as follows:

a) An intangible expression of the goals it has set for the firm.
b) A measure of the performance towards the achievement of its goals.
c) A means of maintaining the health growth and continuity of company.” (Lynch & Williamson; 1983: 245)

Finally, it can be concluded that profit is the excess of revenue over the expenditures. To measure how efficiently any business organization is operating, the amount of profit earned is one of the most important key factors.

2.2 Planning

Planning is the first function of management. It is performed continuously because the passage of time demands both re-planning and making new plans. Planning is generally recognized as the most difficult task facing the manager. The fundamental purpose of management planning is to provide a feed forward process for operations and for control. Planning is the feed forward process to reduce uncertainty about the future. The planning process is based on the conviction that management can plan it's activities and condition the state of the enterprise that determines it's destine.

"Planning is the process of developing enterprise 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." (Welsch, et al.; 1999: 3)

"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 events. The primary purpose of planning in business is to increase the chance of making profit. The budget is the primary operation planning document. Committed performance budgets are called profit plan. Each manager and subordinates has authority in varying degrees to make the decisions, the results of which will nearly accomplish or better his budgetary targets." (Gray & Johnston; 1997: 27)

All planning involves anticipation of future course of actions (events) and therefore bears an elements of uncertainty in respect of it's success. "Planning is the conscious recognition of futurity of present decision." (Drucker; 1959: 338) Planning is essential to accomplish goals. It reduces uncertainty and provides direction to the employees by determining the course of action in advance. Formal planning indicates the responsibility of management and provides an alternative to grouping without direction. “Planning is the feed forward process to reduce uncertainty about the future. The planning process is based on the conviction that management can plan its activities and conditions of the state of the enterprise that determine its destiny.” (Pandey; 1979: 554)

“Planning may be broadly defined as a concept of executive action which embodies the skills of influencing and controlling the nature and direction of change. Planning is pervasive and continuous executive function involving complex decision and action.” (McFarland; 1964: 72) Some author defines planning as all the thinking that takes place prior to action or decision. *Hardwick and Landuyt* present an interesting view of “planning as ‘games man ship’ or the employment of strategy in the pursuit of goal.” (Hardwick and Landuyt; 1961: 188-189) This view places special value on creativity, innovation and imaginative thought.

Defined in its simplest term, “planning is the determination of anything in advance of action. It is essentially a decision-making process that provides a basis for economical and effective action in the future. Effective planning sets the stage for integrated action to take place, reduces the number of unforeseeable crises, promotes the use of more efficient methods and provides the basis for the managerial function of control thereby assuring focus on the organization objective.” (Flippo; 1984: 49)

2.2.1 Types of Planning

Planning is generally recognized as the most difficult task facing the manager, and it is one on which it is very easy to procrastinate. It clearly indicates that planning is a decision making process of the highest order. It requires management time, dedication and a systematic approach.

In usual practice management of the most organizations usually uses two categories of planning. These are as follows:

- Strategic long term plan
- Tactical short term plan

a) Strategic Long Term Plan:

A long term planning is one that attempts to forecast conditions for a considerable future period. This period may be usually for a coming calendared fiscal year.

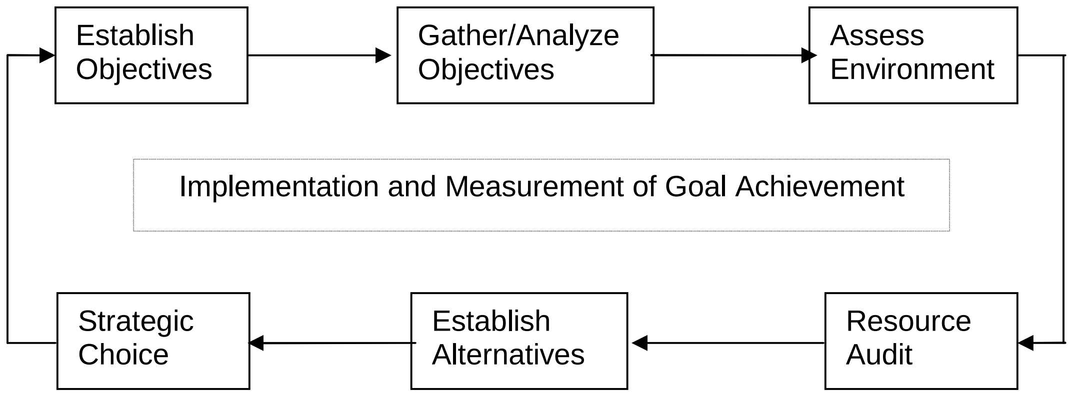
“The long range plan is broad and shows summary data part of the long range plan is more or less informal as represented by tentative commitments made by the executive committee in its planning sessions. The formal portion of the long range plan includes the following basis components detailed by each other, income statement, balance sheet, cash flow projection, capital expenditures plan personnel requirements, research plan and a long range market penetration plan. Thus, the long-range plan covers all the key areas of anticipated activity: sales, expenses, research and development, capital expenditures, cash, profit, and return on investment.” (Welsch, et al.; 1999: 132)

“Strategic planning does not predict the future, but for a manager, it can (1) assist in coping effectively with future contingencies, (2) provide and early opportunity to correct inevitable mistakes, (3) help in making decisions about the right things at the right time, and (4) focus on what actions to take in order to shape the future as desired.

Strategic planning consists of six distinct steps, which are depicted on below figure:” (Terry & Frankline; 1996: 155-156)

Figure : 2.1

Strategic Planning Format



b) Tactical Short Term Plan

A tactical planning is done at all levels and involves directing the organization's activities to achieve overall strategic objectives consistent with the organization's mission and policies. A short term plan is less formal and detail than long range plan, which usually covers more than three months. It is used by the management as a substantial part of long range and medium range planning.

"The short-range planning is selected to conform to fiscal quarters or years. Because of the practical needed for conforming plans to accounting periods and the some what arbitrary limitation of the long range to three to five years is usually a base as has been indicated on the prevailing belief that the degree of uncertainty overlong period makes planning of questionable value." (Koontz & Donnell; 1964: 37)

"Tactical planning to support strategic planning provides a charter as it related to the future of the enterprise. From practical experience it is reasonable that not everything will to as planned. But by means of strategic and tactical planning, it is possible for employees to understand the various activities of the company and how their individual jobs relate to the overall objectives, growth, direction and profitability of the firm." (Terry & Frankline; 1996: 163)

“The distinction between strategic and tactical planning is related to three dimensions, which may be outline as follows: (Keller & Ferrara, “Mgmt. Accounting”, p.389)

DIMENSIONS			
Classification	**Time**	**Scope of actives**	**Orientation**
Strategic	Long term	Board view of Activities	Objectives and goals
Tactical	Short term	Detailed view of Activities	Means to attain goals

2.2.2 Corporate Planning:

Corporate planning is concerned with objective determination and developing means to achieve the objective. It may encompass both short term and long term planning. Corporate planning is done for company as a whole on a continuous basis for making present entrepreneurial decision systematically and with the best possible knowledge of their probable outcome and effects, organizing systematically the efforts and resource needed to carry out these decisions and measuring the result of these decisions against the expectation through organized systematic feedback.

“Corporate planning is determining the long term goals of a company as a whole and then to generate plans designed to achieve these goals bearing in mind probable change in its environment.” (Robertson; 1968: 11) “Corporate planning is the systematic process of setting corporate objectives and making the strategic decisions and developing the plans necessary to achieve these objectives.” (Higgine; 1980: 4)

“Business or corporate planning is reassuring out how a business will get where it wants to go. It is largely a mental process of thinking before doing (look before leap). The essence of corporate planning is to see opportunities, compact the threats or face the risk as the case may be.” (Sherlakar; 1983: 3)

Business enterprise and its environment are mutually interdependent and interacting with each other continuously. A business organization thrives in the world of resources, opportunities. It can survive and grow only when it continuously adapts and responds in time to changes in the environment and it is possible only through corporate planning.

2.3 Control

Once the planning is determined, it must be carried out under control. Controlling shares management activity and for this, managers compare actual performance against the planned performance and fined out the deviations taking remedial steps to remove the deviations. Immediate action should be taken to remove the deviations to make an improvement in the performance because promptness is the essence of an effective control.

“Controlling means evaluating the firm’s activities against the plan and deciding what should be done if the plan is not being followed.” (Lynch & Williamson; 1995: 18) Similarly, “Controlling is the measurement and correction of performance in order to make sure that enterprises objectives and the plans devised to attain them are accomplished. (Koontz & Donnell; 1964: 45)

Control is the process of ensuring that actual activities confirm to planned activities. Control help in correction. Therefore, planning and controlling are the major functions of management.

According to *Welsch*, controlling involves:

- Establishing goals and standards.
- Comparing measured performance against the established goals and standards.
- Reinforcing successes and correcting short comings. (Welsch; 1996: 47)

Control provides timely information that may prompt the revision of goals. The purpose of control is achieved with setting standards, comparing predicted and actual results against these standards and taking corrective actions.

Planning and controlling are interdependent and thus closely related with each other because a manager cannot control unless he has planned a course of action for effective and smooth managerial behavior into proper profit and progress on behalf of company, firm or enterprise. Under this condition to be applied, both planning and controlling are mutually inseparable.

2.4 Profit Planning and Control

Comprehensive Profit Planning and Control or simply a Profit Planning and Control is a new term in the literature of business. Though it is a new term, it is not a new concept in management. The other terms, which can be used in same sense, are comprehensive budgeting, managerial budgeting, and simply budgeting. The Profit Planning and Control can be defined as process/techniques of management that enhance the efficiency of management. The term comprehensive PPC is defined as a systematic and formalized approach for performing significant phases of the management planning and control function.

“PPC represents an overall plan of operations, providing guidelines to management and acting as single light for the management. It enables the management to correct its policy. PPC covers a definite period of time and formulates the planning decision of management. PPC is a written plan in which all aspects of business operations with respect to a definite future period are included. PPC is a formal statement of policy, plan, objective and goal established by 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. Thus, we can say that profit planning is a total, which may be used by the management in planning the future course of action and in controlling the actual performance.” (Gupta; 1996: 521)

PPC is the estimation and predetermination of revenues and expenses that estimates how much income will be generated and how it should be spent in order to meet investment and profit requirement. In case of institutional operation, it presents a plan for spending income in a manner that does not result in a loss. (Ninemeirer & Schmidgal; 1984: 133)

PPC is management’s primary tool to accomplish its objectives, because it (Pyle & Larson; 1984: 36):

- Provides a disciplined approach to the solution of business problems.
- Develops throughout the organization an atmosphere of profit-mindedness, encouraging an attitude of coat-consciousness and maximum asset utilization.
- Coordinates the operating plans of the diverse segments of the business into a single, comprehensive plan.
- Encourages a high standard of performance by stimulating competition, providing a sense of urgency and serving as an incentive to perform more effectively.
- Affords the opportunity to appraise systematically every facet of the business as well as examine and restate periodically its basic policies and guiding principles.
- Aids in directing capital and effort into the most profitable channels.
- Provides yardsticks or standards to measure performance and gauge the managerial judgment and ability of the individual executive.

Thus, PPC is an integral part of the management; with the help of it any enterprise can earn realistic profit/return on investment. It is a financial and narrative expression of the expected results from the planning decision. By using PPC technique one can easily achieve the desired goals. PPC is flexible and depends upon the size and nature of the firms.

2.4.1 Purpose of PPC

A comprehensive profit planning and controlling is a systematic and communicating the firm's expectation and accomplishing management in such a way as to maximize the use of resources available to an organization over a particular span of time. It serves basically as a tool for management control. The maximum objective of PPC is to assist in systematic planning and in control the operations of the enterprise. In fact it is best source of communication & an important tool in the hands of management.

"The purpose of budgeting or PPC may be summarized as follows:

a) To state the firm's expectations (goals) in clear, formal terms to avoid confusion and to facilitate their attainability.
b) To communicate expectation to all concerned with the management of the firm so that they are understood, supported and implemented.
c) To provide a detailed plan of action for reducing uncertainty and for the proper direction of individual and group efforts to achieve goals.
d) To coordinate the activities and efforts in such a way that the use of resources is maximized.
e) To provide a means of measuring and controlling the perfo9rmance of individual and units and to supply information on the basis of which the necessary corrective e action can be taken." (Pandey; 1979: 288)

2.4.2 Advantages of PPC

"Profit planning is a management tool; it is a way of managing. Many benefits are derived from budgeting, although it is a means not an end in itself. Budgeting is a feed forward process, it makes and evaluation of the variables likely to affect future operations of the enterprise. It predicts future with reasonable precision and removes uncertainty to a great extent." (Pandey;1979: 307)

“The following are some of the more significant advantages of budgeting:

a) It forces early consideration of basic polices.
b) It requires adequate and sound organization structure that is there must be definite assignment of responsibility for each function of the enterprise.
c) It compels all members of management, from the top down, to participate in the establishment of goals and plans.
d) It compels departmental managers to make plan in harmony with the plans of other departments and of the entire enterprise.
e) It requires that management put down in figures what is necessary for satisfactory performance.
f) It requires adequate and appropriate historical accounting data.
g) It compels management to plan for the most economical use of labor, material, and capital.
h) It instills at all levels of management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decisions.
i) It frees executives from many day-to-day internal problems through predetermined policies and clear-cut authority relationships. It thereby provides more executive time for planning and creative thinking.
j) It tends to remove the cloud of uncertainty that exists in many organizations, especially among lower level of management, relative to basic policies and enterprise objectives.
k) It pinpoints efficiency and inefficiency.
l) It promotes understanding among members of management of their co-workers problems.
m) It traces management to give adequate attention to the effect of general business conditions.
n) It forces a periodic self-analysis of the company.
o) It aids in obtaining bank credit, banks commonly require a projection of future operations and cash flows to support large loans.
p) It checks progress or lock of progress toward the objectives of the enterprise.

q) It forces recognition and corrective action (including rewards).
r) It rewards high performance and seeks to correct unfavorable performance.
s) It forces management to consider expected future trends and conditions." (Welsch, et al.; 1999: 60-61)

2.4.3 Problems and Limitations of PPC

"Profit planning and control is a systematic approach to the solution of problems. But it is not full-proof; it suffers from certain problems and limitations. The major problems in developing a PPC system are:

a) Seeking the support and involvement of all levels of management.
b) Developing meaningful forecasts and plans, especially the sales plan.
c) Educating all individuals to be involved in the PPC process and gaining there full participation.
d) Establishing realistic objectives, policies, procedures and standards of desired performance.
e) Applying the budgeting or PPC system line flexible manner.
f) Maintaining effective follow-up procedures and adopting the budgeting system whenever the circumstances change." (Pandey; 1979: 308)

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

a) The profit plan is based on estimates.
b) A PPC program must be continually adapted to fit changing circumstances.
c) Execution of a profit plan will not occur automatically: profit plans will be effective only if all responsible executives exert continuous and aggressive efforts toward their accomplishment.

d) Not a substitute for management: it is totally wrong to think that the introduction of PPC is alone sufficient to ensure success and to guarantee future profit.
e) It is not realistic to write out and distribute our goals, policies and guidelines to all the supervisors.
f) Budgeting places too great demand on management time, especially to revise budgets constantly. Too much paper work is required.
g) It creates all kinds of behavioral problems.
h) It adds a level of complexity that is not needed.
i) It is too costly, aside from management time.
j) Danger of rigidity: for usefulness, the PPC must be flexible and dynamic in every sense of the word.
k) Proper Evaluation: to find out the inefficiencies proper evaluation should be made, on the absence of proper evaluation, budgeting will hide inefficiencies. So there should be continuous evaluation of the actual performances, standards also should be reexamined regularly." (Welsch, et al.; 1999: 60-62)

2.5 Budget as a tool of PPC

It is well recognized that an enterprise should be managed effectively and efficiently. One systematic approach for attaining effective management performance is budgeting. Budgeting is an integral part of management. It helps to regulate flows of fund which is primary function of the enterprise. Several authors and experts have defined the term 'budgeting' in their own ways. It has different meaning for different person and for different purpose. However, the general concept is more or less the same.

"Budget, as a tool of planning and control is closely related to the broader system of planning and control in an organization. Planning involves the specification of the basic objectives that will guide it. In operational terms, it involves the step of setting objectives, specifying goals, formulating strategies and expressing budget. A budget is a comprehensive and co-ordinate plan expressed in financial terms for the operations and resources of an enterprise for some specified period in future." (Khan and Jain; 2000 : 296)

"A budget is a quantitative expression of a plan of action and an aid to coordinate and implement. Budget may be formulated for the organization as a whole or for any sub-units. Budgeting includes production, sales, distribution and financial aspect of an organization. Budget program are designed to carry out variety of function, planning, evaluating performance, coordinating activities, implementing plans, communication, motivating and authorizing action." (Horngreen, et al.; 1997: 123)

Edward and Hines have mentioned four main purpose of budget and all may be reflected in any one budget. "First a plan setting out the proposal and decision of those running the organization, second a forecast of the result expected, third an authorization the instrument where by supreme governing body sanctions the raising revenue or incurring the expenditure and finally a yardstick of what expenditure of revenue ought to be if the organization is working efficiently." (Edward & Hines; 1959: 19)

Hence, it can be said that the main purpose of budgeting is "to ensure the planned profit of the enterprise. So it is considered as a tool for planning and controlling the profit. One of the primary objectives of an annual budget is to measure the profit expectation for the next financial year with due regard to all the circumstances favorable and unfavorable that can influence the trading prospects." (Jones & Frentin; 1978: 17)

2..6 Components of PPC

“Components of PPC are bones of an enterprise which help it operate properly, efficiently and effectively. The components of PPC as stated by Welsch are thus:” (Welsch, et al.; 1999: 74)

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:

- Sales Plan
- Production (or merchandise purchases0 plan
- Administration expense budget
- Appropriation-type budgets (e.g. research and development, promotion, advertising)

b. Financial Position Plan

Planned balance sheet

- Assets
- Liabilities

- Owner's equity

C. Variable Expense Budgets:
   Output-expense formulas

D. Supplementary Data:
   (e.g. Cost-volume profit analysis, Ratio analysis)

E. Performance Reports (including any special reports) - each month-end and as needed.

F. Follow-up, Corrective Action, and Replanning Reports

2.7 Fundamentals of Profit Planning

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

To ascertain maximum usefulness from PPC, tasks or activities involved in fundamental of PPC should be carried out effectively because implementing these is a complex endeavor. Some of the important fundamentals are:

a) Managerial Involvement and Commitment

"Managerial involvement entails managerial support, confidence, participation, and performance orientation. In order to engage competently in comprehensive profit planning and control, all levels of management, especially top management, must (1) understand the nature and characteristics of profit planning and control, (2) be convinced that this particular approach to managing is to preferable for their situation, (3) be willing to devote the effort required to make it operative, (4) support the program in all its ramifications, and (5) view the results of the planning process as performance commitments. For a comprehensive profit planning and control program each member of management, starting from the president, the impetus and direction must come from the very top." (Welsch; 1996: 34)

b) Organizational Adaptation

"A profit planning and control program must rest upon sound organizational structure for the enterprise and a clear-cut designation of lines of authorities and responsibilities. The purpose of organizational structure and the assignment of authority are 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 management and operational efficiency, particularly all enterprises, except perhaps the very smallest ones, should be structurally disaggregated into organizational subunits. The manager of each subunit would be assigned specific authority and responsibility for the operational activities of that subunit. These subunits are often referred to as decision centers or responsibility centers. Responsibility centers are further classified in respect to the extent of responsibility as follows:

i. <u>Cost center</u>: A responsibility center for which a manager is responsible for the controllable costs incurred in the sub unit but is not responsible, in a financial sense, for profit or investment in the center. The lower-level and smaller-responsibility centers tend to be cost centers.

ii. <u>Revenue center</u>: A responsibility center for which the manager is responsible for revenue. Sales districts are often designated as revenue centers.

iii. <u>Profit center</u>: A responsibility center for which the manager is responsible for the revenues, costs, and profit of the center. Planning and control focuses on the center's profit figure.

iv. <u>Investment center</u>: In an investment center, the manager is responsible for revenue, costs, profit and the amount of resources invested in the assets used by the center. Planning and control focuses on the return on investment earned by the center." (Welsch, et al.; 1999: 46-47)

c) Responsibility Accounting

In order to set-up profit planning and control on a sound basis, there must be a responsibility accounting system, that is, one tailored first and foremost to the organizational responsibilities. "Within this primary accounting structure, secondary classification of costs, revenues, and other financial data that are relevant may be utilized in accordance with the needs of the enterprise. A responsibility accounting system can be designed and implemented on a relevant basis regardless of the other features of the accounting systems standard cost systems, direct costing systems, and so on. When the accounting system is established on a responsibility basis, the historical data generated become especially pertinent for planning and control purposes." (Welsch, et al.; 1999: 41)

2.8 Profit Planning Process

PPC process encompasses the application of a number of related management concepts through a variety of approaches, techniques and sequential steps. It integrates the managerial functions of planning, leading and control. The planning process should involve periodic consistent and in depth re-planning so that all aspects of operations are carefully reexamined and reevaluated.

Table : 2.1

Overview of PPC Process

Management Function	**Sequential phases of the PPC Process**	**Primary Responsibility**
Planning	1. External relevant variables- identity and evaluate.	Executive Management
	2. Broad Objectives of the business- develop or revise.	
	3. Specific enterprises goals- develop consistent with item 2 above.	
	4. Enterprise strategies- specify major trusts to attain the objectives and goals.	
	5. Ex management planning instructions- specify planning premises (or guidelines) for managers (based on item 1-4 above).	
	6. Project plans- develop and evaluate for each project.	Middle Management
	7. Strategic profit plan (long range)- develop for 3, 5 or 10 years.	
	8. Tactical profit plan (short range)- develop for upcoming year.	
Leading	9. Implementation of profit plans- implement throughout the budget year.	All Mgmt. Levels
Controlling	10. Performance reports- prepare monthly reports by responsibility.	All Management Levels
	11. Follow up- Provide feedback, take corrective action and re-plan.	

According to Welsch, Hilton and Gordon; sequential phases of PPC process are as under:

a) Identification and Evaluation of External Variables

Every business organization should identify it's relevant variables that will have a direct or indirect impact on the enterprise. "These variables may be controllable or uncontrollable. Most of the external variables are not controllable in short range time duration. Management must have a plan focusing on how to manipulate the controllable and non controllable variables." (Welsch, et al.; 1999: 74-75) This phase of analysis includes an evaluation of the present strength and weakness of the enterprise.

b) Development of the Broad Objectives of the Enterprise

After identifying the relevant variables and finding the strength and weakness of organization, executive management can specify broad objectives in efficient manner.

While developing the broad objectives, mission, vision and essential characters of the enterprise are expressed. "The purposes of the statement of broad objectives are as follows:" (Welsch, et al.; 1999: 76)

- To define the purpose of the company.
- To clarify the philosophy character of the company.
- To create a particular climate within the business.
- To set a guide for managers so that the decision they make will reflect the best interests of business and justice to those concerned.

c) Development of Specific Goals for the Enterprise

In this phase, the broad objectives of enterprise are specified into sharper focus. These specific goals are definite, measurable, quantitative and narrative. "These goals should be developed by executive management as the second component of the substantive plan for the upcoming budget year. Executive management should exercise leadership in this planning phase so that there will be realistic and clearly articulated framework with in which operation will be conducted toward common goals.” (Welsch, et al.; 1999: 77-78)

d) Development and Evaluation of Company Strategies

“Company strategies are the basic thrust, ways and tactics that will be used to attain planned objectives and goals. These strategies may be short term or long term. Some actual examples of basic strategies are given under:” (Welsch, et al.; 1999: 78)

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

Developing strategies is to find best alternatives for attaining the planned broad objectives and specific goals. While developing strategies, executive management must focus on identification of the critical areas that influence the long range success of the enterprise.

e) Executive Management Planning Instructions

“This phase involves communication of the substantive plan to middle and lower management levels. It explains the broad objectives, enterprise goals, enterprise strategies and any other executive management instruction needed to develop the strategic and tactical profit plans. It is also called the statement of planning premises or the statement of planning guidelines. For this purpose communication is essential.” (Welsch, et al.; 1999: 79)

f) Preparation and Evaluation of Project Plans

“Project plans encompass variable time horizon because each project plans has different time dimensions. Example of project plans are improvement of present products, new and expanded physical facilities, entrance into new industries, exist from product and industries, new technology and other activities that can be separately identified for planning purposes. In planning for a project, the time span considered must normally be the anticipated life span of the project. Projects approved must then be times (or scheduled) into strategic and tactical profit plans.” (Welsch, et al.; 1999: 79)

g) Development and Approval of Strategic and Tactical Profit Plans

After receiving the executive management planning, instructions and project plans, managers of the various responsibility centers in the enterprise can begin intensive activities within his or her responsibility center to develop their respective strategic and tactical profit plans. “Certain format and procedural instruction should be provided by a centralized source, normally the financial function to establish the general format, amount of detail and other relevant procedural and format requirements essential for aggregation of the plans of the responsibility centers into overall profit plans. All of these activities must be coordinated among the centers in conformity with the organization structure.

When, the two profit plans are being completed, it should be approved, disapproved or revised after presenting either by (a) executive management or (b) by managers of responsibility centers to the higher level of authority.” (Welsch, et al.; 1999: 80)

h) Implementation of Profit Plan

After developing and approving the profit plan, it should be implemented to attain enterprise objectives and goals. "Effective management at all levels requires that enterprise objectives, goals, strategies and policies should be communicated and understood by subordinates. There are many facts involved in management leadership. However, a comprehensive profit planning program may aid strategies developed through significant participation establish the foundation for effective communication. The plan should have been developed with the managerial conviction that they are going to be met or exceed in all major respects. If these principles are effective in the development process, the various executives and supervisors will have a clear understanding of their responsibilities and the expected level of performance." (Welsch, et al.; 1999: 84)

i) Use of Periodic Performance Reports:

Periodic performance reports are needed after implementing the profit plan. "These performance reports are prepared by accounting department on monthly basis. Also some special performance reports are prepared more often on an 'as needed' basis. These performance reports (a) compare actual performance with planned performance and (b) show each difference as a favorable or unfavorable performance variation." (Welsch, et al.; 1999: 85)

j) Use of Flexible Expense Budget:

Though flexible budget is completely separate from the profit plan; it is used to complement it. "Flexible budget concept applies only to expenses. It gives realistic information about expenses that make it possible to compute budget amounts for various output volumes or rates of activity in each responsibility center. To do this, flexible budget provides a formula for each expense in each responsibility center." (Welsch, et al.; 1999: 86)

k) Implementation of Follow Up:

"Follow up is an important part for effective control because reports are based on assigned responsibilities; they are basis for effective follow up actions. It is important to distinguish between cause and effect. The performance variations are effects (the results), the management must determine the underlying causes. The identification of causes is primarily a responsibility of line management. The causes of favorable and unfavorable performance variances should be given immediate priority. In case of unfavorable variances, the alternative for corrective action must be selected and then implemented." (Welsch, et al.; 1999: 87)

2.9 Development of Profit Planning and Control

The development of profit planning and control involves the preparation of following plan or budgets:

2.9.1 Sales Plan or Budget

The sales budget is the foundation for planning in a business organization. The all other planning is based on it. Each and every activity of a business depends upon the cash and sales are the main sources of cash. So the sales planning/budget can be prepared for a definite future period by showing unit of sales and value of sales in total. It lays down a comprehensive plan and programmed for sales department.

"The sales plan should be worked out on a sound and reasonable detailed basis. It should reflect seasonal influences and any anticipated irregularities in sales. It should be broken down not only into time period but also into geographical or responsibility areas by the use of sales quotas. A well developed sales plan is generally build upon a quota basis in the first places. So that the double check by individual quota on total plan is inherent in the building. In a multi-plan situation where there is a choice of manufacturing product item in more than one plant, the geographical distribution of sales is special important for production planning." (William; 1980: 502)

The sales plan is the foundation for periodic planning in the firm because particularly other enterprise planning builds on it. The primary source of cash is sales; capital addition needed, the amount of expenses to be planned, the manpower requirement, the production level and other important operational aspect depend on the volume of sales. Therefore, "sales planning process is a necessary part of PPC because (a) it provides for the basic management decisions about marketing, and (b) based on those decisions, it is an organized approach for developing a comprehensive sales plan." (Welsch, et al.; 1999: 171)

"A sales plan is a forecast of what the company can expect to sell during a budget period. It is a forecast of total sales expressed and incorporated in quantities and money. A sales budget is the starting point in which other budgets are also based. All other budgets such as Production budget, Purchase budget, Labor budget, Overhead budget etc. are affected by sales budget. Therefore, sales budget can be referred as a nerve centre or backbone of the enterprise.

While preparing a sales budget, the following factors should be considered:

- Past sales figures.
- Assessment and reports by salesman.
- Seasonal fluctuation.
- Proposed management policies.
- Availability of materials.
- Analysis of the potential market (Market research)
- Extent of competition.
- Government policies and regulations.
- General trade prospectus.
- Economic conditions of the country.
- Sales force size.

The sales budget may be prepared as per the proforma given below:" (Dangol & Dangol; 2062: 271-272)

Table : 2.2

(i) Sales Budget, by Product and by Month

(For……..Months Ending……..)

Month	Product I		Product II		Total	
	Units	Rs.	Units	Rs.	Units	Rs.
Total						

Table : 2.3

(ii) Sales Budget, by Territory and by Month

(For……..Months Ending……..)

Month	Area I		Area II		Total	
	Units	Rs.	Units	Rs.	Units	Rs.
Total						

Table : 2.4

(iii) Sales Budget, by Product, by Territory and by Month

(For……..Months Ending……..)

Month	Product I						Product II						Total
	Area I		Area II		Total		Area I		Area II		Total		Sales
	Unit	Rs.	Unit	Rs.	Unit	Rs.	Unit	Rs.	Unit	Rs.	Unit	Rs.	Value
Total													

“Sales budget itself is an estimate of three main figures:

- The income that will be earned from sales.
- The loss and expenses of making these sales and
- The sales surplus, the income from sales will depend on its quantities and price of the goods which will be sold.” (Halshall; 1974: 57-58)

“The primary purpose of sales plan are:

- To reduce uncertainty about future revenues,
- To incorporate management judgments and decisions into the planning process (e.g., in the marketing plans),
- To provide necessary information for developing other elements of a comprehensive profit plan, and
- To facilitate management’s control of sales activities.” (Welsch, et al.; 1999, 172)

Sales Planning Vs Sales Forecasting:

“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 (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 a sales plan. The management of a company may accept, modify, or reject the forecast. In contrast, a sales plan incorporates management decisions that are based on the forecast, other inputs, and management judgments about such related items as sales volume, prices, sales efforts, production, and financing.

A sales forecast is converted to a sales plan when management has brought to bear management judgment, planned strategies, commitments of resources, and the managerial commitment to aggressive actions to attain the sale goals. Thus, sales forecasting can be considered as only one step in preparing sales plan." (Welsch, et al.; 1999: 172)

Strategic Sales Plan Vs Tactical Sales Plan:

A comprehensive sales plan includes both strategic and tactical sales plan. Both sales plan must be prepared in comprehensive profit plan.

a) Strategic Sales Plan: It is known as long-range sales plan. Usually, it is 5 or 10 years strategic sales plan. It is to be developed as annual amount. Usually, it requires depth analysis of future market potentials, which may built up from a basis foundation such as population changes, state of economy, industry, and projection and company objectives. The effects of long-term stratifies are also brought to bear on the long-term sales plan on the long-term sales plan. They would affect in such are as pricing, development of new product line, innovation of product, expansion of distribution channel, cost patterns etc.

b) Tactical Sales Plan: It is also called, short range sales plan. It is to be developed for short term period in a company for future 12 months detailed by months and quarters. Tactical sales plan includes detailed plan for each major products and form grouping of minor products. Short-term sales plan are usually developed in terms of physical units or jobs and in sales or dollars.

For planning and controlling purpose, tactical sales plan must be developed by sales responsibility because it provides major considerations for planning and controlling purpose. It is also necessary for completing other components of profit plan.

Components of Comprehensive Sales Plan:

"A comprehensive sales plan should satisfy the requirements of and be consistent with the overall comprehensive PPC program. The components for foundation of comprehensive sales plan are as follows:

- External Variables identified and evaluated.

- Broad enterprise objectives and goals formulated.
- Strategies for the company developed.
- Planning premises specified.

Components of comprehensive sales plan are as follows:" (Welsch, et al.; 1999: 175-176)

Table : 2.5

Components of Comprehensive Sales Plan

Component	Strategic Plan	Tactical Plan
1. Management policies and assumptions.	Broad and general	Detailed and specific for the year
2. Marketing plan (sales and services revenues)	Annual amounts; major groups	Detailed; by product and responsibility
3. Advertising & promotion plan	General; by year	Detailed and specific for the year
4. Distribution (selling) expense plan	Total fixed and total variable expense; by year	Fixed & variable expense; by month and by responsibility

Development of Comprehensive Sales Plan:

"To develop the comprehensive sales plan following steps should be take in consideration:" (Welsch, et al.; 1999: 176-179)

Step 1: Develop management guideline for sales planning: - All management participants in the sales planning process should be provided with specific management guidelines to be followed in sales planning. Fundamentally, these guidelines should specify sales planning responsibilities. The purpose of these guidelines is to attain consideration and uniformity in the sales planning process.

Step 2: Prepare Sales Forecast: - There must be many sales forecast to be prepared. Each separate forecast should use different assumptions, which should be clearly explained in the forecast. The forecast should include strategic and tactical forecast that are consistent with the time dimensions used in the comprehensive profit plans.

Step 3: Assemble other relevant data: - In addition to step 1 and 2 all other information relevant to develop a realistic sales plan should be collected and evaluated. This information should relate to both constraints and opportunities. To develop realistic sales plan the following factors require evaluation and co-ordination among the heads of the various functional areas.

- ❖ Manufacturing capacity,
- ❖ Source of raw materials and supplies, or goods for resale,
- ❖ Availability of key people and labor forces,
- ❖ Capital availability and
- ❖ Availability of alternative distribution channels.

Step 4: Develop Strategic and Tactical sales plan: - By using information from above steps the management develops a comprehensive sales plan. To do this the planning process must be structured to maximize;

a) Motivation of the sales forces and
b) Realism in the sales plan.

This process should recognize the importance of management goals – both strategic and tactical for both behavioral motivation and judgment imperatives. The process should involve participation by the sales manager from the bottom up to the fullest extent possible. The process of developing a realistic sales plan should be unique to each company because of the company's characteristics, its products, its distribution channels and the competence of its marketing group. Four different participative approaches widely used are characterized as follows:

a) Sales force composite,
b) Sales division manager's composite,
c) Executive decision and
d) Statistical approaches.

Step 5: Secure managerial commitment to attain the goals in the comprehensive sales plan: - Top management must be fully committed to attain sales goals that are specified in the approved sales plan. This commitment requires full communication to the sales managers of the goals approved, marketing plan and strategies by sales responsibilities.

To develop the realistic sales plan the manager should take consideration on other alternatives like:

a) Price-cost-volume consideration in sales planning.
b) Product-line consideration in sales planning.

2.9.2 Production Plan or Budget

"The production budget is prepared after preparing the sales budget. A production budget incorporates the estimates of total volume of production with the scheduling of operation by days, weeks and months. It specifies the number of units of product of each product that must be produced to satisfy the sales forecast and to achieve the desired level of closing finished goods. This budget is prepared by production manager based upon sales budget, production capacity and desired ending stock. In preparing the production budget, consideration should be given to the following:

i. Sales budget.
ii. The opening and closing inventory to be held.
iii. Installed plant capacity and existing utilization.
iv. Policy of the management regarding manufacture or purchase of component.
v. Production cycle." (Dangol & Dangol; 2062: 280)

"Production budget is a forecast of the total output of the whole organization broken down into estimates of output of each type of product with a scheduling of operations (by weeks and months) to be performed and a forecast of the closing finished stock." (Jain & Narang; 1984: D-92)

“The production budget specifies the planned quantity of goods to be manufactured during the budget period. To develop the production budget, the first step is to establish policies for inventory levels. The next step is to plan the total quantity of each product that is to be manufactured during the budget period. The third step is to schedule this production by interim periods. A complete production plan should show budget data classified by (a) products to be manufactured, (b) interim time periods, and (c) activities of each responsibility center in the manufacturing process. To plan production effectively, the manufacturing manager must develop information about the manufacturing operations necessary for each product.” (Welsch, et al.; 1999: 212-213)

“The objectives of preparing production plan are:

- To bring to common focus all the factors necessary to establish policies and to determine operation.
- To project these established policies into the future by an analysis of past performance.
- To plan and control the operations being carried out to implement policies decided upon.
- To make provision for material at right time and place.
- To plan the sequence of operation required for economical production.
- To coordinate the various aspect of factory operation as to make them a vital link in the chain of profitable program.” (Manmohan & Goyal; 1977: 50-51)

“The main problems to be considered in preparing production budget are: firstly, to ascertain the quantity or amount of each article or product that is to be manufactured during the budget period and secondly, to plan production on a basis that will guarantee the delivery of finished goods in accordance with the requirements of the sales budget. Therefore, production budget is really governed by the sales budget, but the sales budget is largely determined by the production capacity and by production cost.” (Gupta; 1970: 272)

“The preparation of production budget involves the following steps:

i. Recasting of Sales Budget,
ii. Production Analysis,
iii. Scheduling,
iv. Dispatching of Materials and
v. Inspection on Quality.” (Manmohan & Goyal; 1977: 50)

Production budget can be presented in this way:

Planned Production = Planned Sales + Desired ending Inventory – Beginning Inventory

“After preparing production in units, the money values of production can be found out by multiplying the units and the standard price. Again the Production Budget is the basis for the Material Budget, the Labor Budget and the Manufacturing Overhead Budget.” (Murthy; 1982: 290)

2.9.3 Material Plan or Budget

Material Budget serves as one of the first requirements to be considered while drawing up the production budget. “As we know, materials may be direct or indirect. This material budget deals with the requirement and procurement of direct materials. Indirect materials are dealt with under the works overhead budget. This budget should be related to the production budget and the period of the budget should be of short duration because this budget has an important bearing on the cash budget. The preparation of the material budget includes:

i. The production of estimates of different types of raw materials needed for various products.
ii. Procuring or purchasing raw materials in required quantities at the required time.” (Jain & Narang; 1984: D-93)

“The material consumption or usage budget is prepared on the basis of production budget. The standard input of raw material for a unit of output would decide the total usage in units. The standard price per unit of raw material multiplied by the standard units to be consumed gives the standard rupee value of the materials used. The material purchase budget is prepared on the basis of the material consumption budget vis-à-vis desired ending and beginning raw material inventory levels.” (Murthy; 1982: 290-291)

Material consumed = Materials used in Production + Ending Inventory - Opening Inventory

“According to Welsch, raw material planning usually requires the following sub-budgets:

i. Materials and Parts Budget – specifies the planned quantity of each raw material and part required for planned production by time, product and responsibility center.

ii. Materials and Parts Purchases Budget – specifies the planned quantities of materials and parts to be purchased, the estimated cost, and the required delivery dates.

iii. Materials and Parts Inventory Budget – specifies planned increase or decrease by the difference in units between the requirements as specified in the materials budget and the purchase budget.
iv. Cost of Materials and Parts Used Budget – specifies planned cost of the materials and parts that will be used in the productive process.” (Welsch, et al.; 1999: 240-241)

“While preparing the Material Budget, the following factors should be considered:
i. Raw materials required for the budgeted output.
ii. The percentage of raw materials to total cost of products should be calculated on the basis of previous records. On the basis of this

percentage, a rough total value of raw materials required for the budgeted output will be ascertained.

iii. Consideration must be given to the company's stocking policy. Figures related to the anticipated raw materials stocks to be held at different times should be taken.

iv. Consideration must be given to the time lag between the placing of order for the purchase of materials and the receipt of materials.

v. The seasonal nature in the availability of raw materials should be considered.

vi. The price trend in the market." (Jain & Narang; 1984: D-94)

2.9.4 Direct Labor Plan or Budget

"Labor is generally classified as (1) the direct and (2) the indirect labor. The direct labor budget includes the planned direct labor requirements necessary to produce the types and quantities of outputs planned in the production budget. Although some companies prepare a labor budget that includes both direct and indirect labor, it is usually preferable to prepare a separate direct labor budget and to include indirect labor in the factory overhead budgets." (Welsch, et al.; 1999: 280-281)

"This budget gives an estimate of the requirements of direct labor essential to meet the production target. This budget may be classified into;

a) <u>Labor Requirement Budget:</u>

The budget is developed on the basis of requirements of the production budget and gives detailed information regarding the different classes of labor, e.g. fitters, welders, turners, millers, grinders, drillers, etc. required for each department, their scales of pay and hours to be spent. This budget is prepared with a view to enabling the personnel department to carry out programs of training and transfer and to find out sources of labor needed so that every effort may be made to remove difficulties arising in production through lack of suitable personnel.

b) Labor Recruitment Budget:

Labor recruitment budget is prepared on the basis of labor requirement budget after taking into consideration the available workers in each department, the expected changes in the labor force during the budget period due to labor turnover. This budget gives information about the personnel's specifications for the jobs for which workers are to be recruited, the degree of skill and experience required and the rates of pay." (Jain & Narang; 1984: D-94 – D-95)

Steps in planning direct labor budget

"Basically, there are three steps to the development of the direct labor budget.

i. Direct labor hour budget: to estimate the total direct labor hours required for each product.

   Total direct labor hours required = Planned production x Standard time required per unit of output

ii. Manpower budget: to estimate the number of each kind of manpower for the planned month.

   Number of labors = Total labor hours required / Working hours per person per month

   Working hours per person per month = Normal working hours per person per day x Working days a month

iii. Direct labor cost budget: to estimate the total direct labor costs per month.

   First, estimate the average wage rates by department, cost center, or operation. Multiplication of the standard time per unit of product by the average wage rates gives the labor cost per unit of production for the department, cost center, or operation. The multiplication of the department's, cost center's, or operation's total units by the unit labor cost rate gives the total direct labor costs for each product." (Bajracharya, et al.; 2004: 373)

"The object in preparing labor budget is to determine the number of the persons required to be employed in each department, under each category and grade of labor. As the grade of the person will determine the remuneration to be paid to him, the cost impact of the budget can be readily ascertained." (Swaminathan; 1970: 363)

2.9.5 Expenses Plan or Budget

"In any business concern, a number of indirect expenses are incurred which relate to the various segments of operating activity, i.e., manufacturing, office and administration, selling and distribution, etc. Strictly speaking, only selling and distribution expenses may be termed as commercial expenses. Moreover, all expenses covering factory, office and sales department may be grouped in commercial expenses in a broader sense. Thus, overhead budget may be of three types- manufacturing overhead budget, office overhead budget and selling and distribution overhead budget. For the purpose of preparing these budgets, these expenses are classified on several bases. These expenses may be classified as controllable and uncontrollable. Again, these expenses may be classified as fixed, variable and semi-variable. And this second classification is considered more appropriate for the purpose of preparing these budgets." (Gupta; 1996: 549)

a) "Fixed Expenses: Those expenses that are constant in total, from month to month, regardless of fluctuation in output or volume of work done. For e.g. salaries, property taxes, insurance and depreciation (straight-line).

b) Variable Expenses: Those expenses that change in total, directly with changes in output or volume of work done. For e.g. direct material, direct labor and power usage.

c) Semi-Variable Expenses: Those expenses that are neither fixed nor variable because they posses some characteristics of both. As output changes, semi-variable expenses change in the same direction but not in proportion to the change in output." (Welsch, et al.; 1999: 304)

Classification of Expense Budget:

Expenses budget are classified on three broad categories which are as follows:

A) Manufacturing Overhead Budget:

"The cost of direct labor and direct materials can easily be identified and charged to specific jobs. All other costs, i.e. the costs of indirect materials, indirect labor and other factory expenses which cannot be identified with or charged directly to specific jobs are called manufacturing overhead." (Cashin & Polimeni; 1978: 145)

"This budget represents the forecast of all production overheads which have to be divided between variable expenses, semi-variable expenses and fixed overheads. Variable and semi-variable expenses will vary with the level of activity. Fixed overheads may also vary e.g. when it is necessary to increase the size of the factory or the number or size of the machine included therein." (Manmohan & Goyal; 1977: 54)

"This budget is built up on the basis of the past actual adjusted to anticipated future trends both in production capacity and cost levels. As far as possible, this budget should be analyzed under as many expense heads as is convenient, so that a straight comparison could be made with the expenses recorded in the financial books." (Swaminathan; 1970: 363) "In preparing this budget, fixed works overheads can be estimated on the basis of past information after taking into consideration the expected changes which may occur during the budget period. Variable expenses are estimated on the basis of the budgeted output because these expenses are bound to change with the change in output." (Jain & Narang; 1984: D-95)

"Manufacturing Overhead budget serves the following purposes:

- It provides information for working out the pre-determined overhead recovery rates.
- It provides the behavior of different types of costs required for preparation of overhead budget.
- It serves the level of activity attained in future so that the expenses are estimated accurately.

Information needed to prepare a manufacturing overhead budget:

- Behavior of overhead costs.
- Budgeted production units.
- Unit variable manufacturing overhead rate and fixed manufacturing overhead for the budgeted period." (Dangol & Dangol; 2062: 294-295)

B) Administration Expense Budget:

"This budget covers the expenses incurred in framing policies, directing the organization and controlling the business operations. In other words, the budget provides an estimate of the expenses of all the central offices and of management salaries. The budget can be prepared with the help of past experience and anticipated changes. Budgets may be prepared for each administration department so that responsibility for increasing such expenses may be fixed and related to the different executives." (Jain & Narang; 1984: 98)

"This budget is concerned with the expected amount of expenses to be incurred in overall supervision of the business concern. Normally, these expenses are of fixed nature and therefore there is little chance of substantial variation over the period. However, the question of normal increment, bonus to staff, staff amenities, effect of expected change in the general price level etc., should be taken into account. It may be noted that some of the administrative expenses may be of semi-variable nature such as printing, stationery, telephone charges etc. As such, the effect of expected rise or fall in cost of postage, telephone, stationery, etc., should be taken into account. Usually, this budget is developed in the form of fixed budget." (Gupta; 1996: 550)

C) Selling and Distribution Overhead Budget:

"This budget is concerned with the expected expenses to be incurred by the sales department. This budget is closely related to sales budget in the sense that sales forecasts greatly influence the forecasts of these expenses. Not only this, some of the selling expenses may affect the sales forecasts too. The responsibility of preparing this budget is that of sales manager, of course, he may seek the co-operation of sales office superintendent, distribution manager or advertising officer. While preparing this budget, all expenses is classified into following headings as variable, semi-variable and fixed:

a) <u>Direct Selling Expenses</u>: While making forecast in respect of selling expenses (mostly in the form of salesmen's expenses and of semi-variable nature) the following points should be considered:

i. Effect of expansion of market in new area or withdrawal from an existing area on traveling salesmen's number and expenses.
ii. Methods of remunerating travelling salesmen.
iii. Change in remunerating base just to provide incentive for promoting true sales of a particular product.
iv. Appointment and remuneration of counter salesmen.
v. Expected effect on selling expenses of estimated change in sales quantities or sales prices.
vi. Effect of seasonal variations in sales on selling expenses.

b) Distribution Expenses: It includes the expenses incurred in connection with storage and distribution of finished goods. They are both variable as well as fixed nature. While making forecast about such expenses, the following points should be considered:

i. Expenses relating to storage such as rent, rates, wages, insurance, etc.
ii. Handling charges.
iii. Transport expenses and factors affecting it (i.e., changes in railway freight, cost of petrol, diesel etc.)

c) Sales Office Expenses: It includes rent of sales office, lighting, postage, stationery, sales office salaries, show-room's expenses etc., and all these are usually of fixed nature. However, a substantial change in sales activities may bring changes in these expenses.

d) Advertising Expenses: The expected expenditure on advertisement against different types of advertising media are fixed as a matter of policy in consultation with marketing research staff. But advertising and publicity expenses may be treated as variable as well not in the sense that they vary with sales volume but in the sense that sales vary with advertisement expenses to some extent." (Gupta; 1996: 550-551)

2.9.6 Capital Budgeting

"The investment decisions are commonly known as capital budgeting or capital expenditure decisions. Capital budgeting means planning for capital expenditure in acquisition of capital assets such as a new building, new machinery or a new project as a whole. It includes mechanization of a process, replacing and modernizing a process, introducing a new product and expansion of the business. It involves the preparation of Detailed Project Reports (DPR) and cost and revenue statements indicating the profitability. The project which gives the highest return on investment is to be selected and then investment is to be made in such a project as to maximize the profitability of the concern. Thus, capital budgeting involves the following steps:

a. Consideration of investment proposals including alternatives.
b. Application of profits, cash flows and analysis of cost benefit of the project or scheme.
c. Estimation of available funds and utilization thereof.
d. The objective is to maximize the profits with the utilization of available funds." (Rathnam; 1994: 154)

"It is normally a long term budget providing for the acquisition of assets, necessitated by the following factors:" (Swaminathan; 1970: 364)

i. Replacement of existing assets;
ii. Purchase of additional assets to meet a potential increase in future demand;
iii. Installation of an improved type of machinery so as to take advantage of new production techniques that have since developed; and
iv. Starting up of new lines of production.

"Capital projects are those that are expected to generate returns for more than one year. Capital budgeting refers to the process of planning capital projects, raising fund, and efficiently allocating resources to those capital projects." (Petersen & Lewis; 1995: 498)

"Capital budgeting involves the generation of investment proposals, the estimate of cash flows for the proposals, the evaluation of cash flows, the selection of projects based upon an acceptance, finally, the continual revolution investment projects after their acceptance." (Vanhorn; 1976: 66) "It is the process of deciding whether or not to commit resources to a particular long term project whose benefit are to be realized over a period of time, longer than a year." (Sharma & Gupta; 1996: 779)

Techniques of Capital Budgeting and Decision Rule:

"There are several methods available for making investment decisions; usually following methods are popular for evaluation such proposals:

A. <u>Short Cut and Simple Method:</u>

i. Payback Period (PB):

The payback period is simplest and oldest technique of evaluating capital budgeting projects. It is defined as the expected number of years required to recover the original investment. Payback period can be determined applying the following formula:

$$PB = \text{Year before full recovery of original investment} + \left[\frac{\text{Uncovered cost at start of year}}{\text{Total cash flow during year}}\right]$$

<u>Decision Rule</u>: A project is considered acceptable if its payback is less than the maximum cost recovery time established by the firm, otherwise it is liable to be rejected.

ii. Accounting Rate of Return (ARR):

Accounting rate of return applies average rate of return method to evaluate the capital projects. The following equation can be used to determine accounting rate of return:

$$ARR = \frac{\text{2 x total net income}}{\text{No. of yrs. x investment}}$$

$$ARR = \frac{\text{Average earning after taxes}}{\text{Average investment}}$$

Where, Average earning after taxes $= \frac{\text{Total earning after taxes}}{\text{No. of yrs.}}$

$$\text{Average Investment} = \frac{\text{Investment + Scrap value}}{2}$$

Decision Rule: A project is considered acceptable if its actual ARR is higher than the minimum desired ARR, otherwise it is liable to be rejected.

B. Discounted Cash Flow (DCF) Method:

i. Net Present Value (NPV):

Net present value is a method of evaluating capital investment proposals by finding the PV of the net cash flows, discounted at the rate of return required to the firm. NPV can be calculated using the following equation:

$$\sum_{t=0}^{n} \frac{CF_t}{(1+K)^t} = 0$$

$$\text{or,} \quad \sum_{t=0}^{n} CF_t\,(PVIF_{k,\,t}) = 0$$

$$\text{or,} \quad -NCO(PVIF_{k,\,t}) + \text{Cash inflows}\,(PVIFA_{k,\,t}) = 0$$

where,

CF_t = Expected net cash flows in period t

K = Cost of Capital

Decision Rule: A project is considered acceptable if its NPV is positive, otherwise it is rejected.

ii. Internal Rate of Return (IRR):

IRR is defines as that rate of return at which PV of cash inflows and PV of cash outflows are equal. NPV is zero ate IRR. It can be calculated by solving the following equation:

$$\sum_{t=0}^{n} \frac{CF_t}{(1+IRR)^t} = 0$$

$$\text{or,} \quad \sum_{t=0}^{n} CF_t\,(PVIF_{IRR,\,t}) = 0$$

$$\text{or,} \quad -NCO(PVIF_{IRR,\,t}) + \text{Cash inflows}\,(PVIFA_{IRR,\,t}) = 0$$

(in case of even cash inflows)

Method of interpolation:

$$IRR = LR + \frac{PV_{LR} - PV_{IO}}{PV_{LR} - PV_{HR}} \times (HR - LR)$$

where,

IRR = Internal rate of return

LR = Low rate

HR = High rate

PV_{LR} = Present value of cash inflows at low rate

PV_{HR} = Present value of cash inflows at high rate

PV_{IO} = Present value of investment outlay

Decision Rule: A project is considered acceptable if its IRR is greater than the rate of return required by the firm, otherwise it is rejected." (Khadka & Adhikari; 2059: 84-86)

2.9.7 Cash Budget

"For any business activity, cash is the motive power. Without money nothing moves. So, though the cash budget is discussed after all other budgets, it does not mean that it is not important. It is being discussed at this stage since only when all activities are planned and targeted can one get an idea of the total cash requirement." (Hingorani, et al.; 1992: 276)

“The cash budget is a schedule of expected cash receipts and disbursements. It predicts the effects on the cash position at the given level of operations. Cash budgets help avoid unnecessary idle cash and unexpected cash deficiencies. Cash balances are kept in line with needs. Ordinarily, the cash budget has the following main sections:

a) The beginning cash balance plus cash receipts equals the total cash available before financing. Cash receipts depend on collections of accounts receivable, cash sales and miscellaneous recurring sources such as rental or royalty receipts. Information on the prospective collectability of accounts receivable is needed for accurate predictions. Key factors include (uncollectible accounts) experience and average time lag between sales and collections.

b) Cash disbursements include the following items:
   i. Direct materials purchases – depends on credit terms extended on payroll dates.
   ii. Direct labor and other wage & salary outlays – depends on payroll dates.
   iii. Other costs – depends on timing and credit terms. Be sure to note that depreciation does not require cash outlay.
   iv. Other disbursements – outlays for property, plant, and equipment, and for long-term investments.

c) Financing requirements depend on how the total cash available for needs. Total cash needed includes total disbursements plus the minimum ending cash balance desired. The financing plans will depend on the relationship between total cash available for needs and total cash needed. If there is excess cash, loans may be repaid or temporary investments made. The outlays for interest expenses are usually shown in this section of the cash budget.

d) The ending cash balance: The total effect of the financing decisions on the cash budget may be positive (borrowing), and the ending cash balance.” (Horngreen, et al.; 1997: 197-198)

“The preparation of the cash budget is based upon the following information:

i. The amount of budgeted monthly cash sales;
ii. The amount of budgeted monthly credit sales;
iii. The number of months within which the bills against credit sales are normally realized;
iv. The payments to be made against selling and distribution expenses during each month of the budget year. This can be ascertained by analyzing these expenses into those which will have to be incurred (a) monthly, (b) quarterly, (c) half-yearly, and (d) yearly;
v. The amount to be spent on the purchase of raw materials and stores duly analyzed between cash purchases and credit purchases;
vi. The number of months within which the credit purchases have to be paid for;
vii. The amount of salaries and wages to be paid and the intervals at which they have to be paid;
viii. An analysis of the overhead expenses and the months in which they will be due for payment;
ix. Details of capital expenditure to be incurred and the probable months, in which the payments against these will have to be made; and
x. Details of other administrative expenses, miscellaneous income, payment of dividends, payment of debenture interest and the income to be received from investments made, etc.” (Swaminathan; 1970: 365)

“The primary purposes of the cash budget are to:” (Welsch, et al.; 1999: 434)

- Give the probable cash position at the end of each period as a result of planned operations.
- Identify cash excesses or shortages by time periods.
- Establish the need for financing and/or the availability of idle cash for investment.
- Coordinate cash with (a) total working capital, (b) sales revenue, (c) expenses, (d) investments, and (e) liabilities.
- Establish a sound basis for continuous monitoring of the cash position.

2.10 Implementation of Profit Plan

Implementation of management plans that have been developed and approved in the planning process involves the management function of leading subordinates in attaining enterprise objectives and goals. Thus, effective management at all levels requires that enterprise objectives, goals, strategies, and policies be communicated and understood by subordinates.

Thus, “after approval of a profit plan, the next step is to communicate to the center managers in the enterprise. The communication of profit plan helps to know the responsibilities assigned to middle and lower management. After distribution of the profit plan, a series of profit plan conferences should be held. The top executives comprehensively discuss the plans, expectations, and steps in implementation. Managers must clearly understand their responsibilities and how their part of the profit plan fits into the overall company profit plan. At this top-level meeting, the importance of action flexibility and continuous control should be emphasized. These conferences should induce “profit and cost awareness” throughout 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 center. For example, the advertising director has an approved advertising plan related to company objectives. Within this plan, the advertising director can make decisions from day to day to execute advertising function. Thus, the planning budget becomes the basis for current operations and exerts important coordination and control effects.” (Welsch, et al.; 1999: 472-473)

2.11 Performance Report

Performance reporting for internal management use is an important part of a comprehensive profit planning and control system. These reports serve to motivate managers to perform in conformity with expectation. Moreover, they signal upper management, when operations are not proceeding to the plan.

“These reports are usually prepared on a monthly basis and follow a standardized format from period to period (but are not standardized among companies or industries). Such reports are designed to facilitate internal control by the management. They should be composed of carefully selected series of data related to each responsibility center. Fundamentally, they report actual results compared with goals and budget plans. Frequently, they identify problems that require special reports, since these reports are designed to pinpoint the efficient and inefficient performance.

The performance report should be:

- Tailored to the organizational structure and locus of controllability.
- Designed to implement the management-by-exception principle.
- Repetitive and related to short time periods.
- Adapted to the requirements of the primary users.
- Simple, understandable, and report only essential information.
- Accurate and designed to pinpoint significant distinctions.
- Prepared and presented promptly.
- Constructive in tone.” (Welsch, et al.; 1999: 543-545)

2.12 Analysis of Budget Variance

The difference (deviation) between planned result and actual result is called variance. Performance reports show such variances. The next step is to analyze such variances to identify the underlying causes behind it, for managerial planning and control process. “A basic feature of performance reports is reporting of variances between actual results and planned or budgeted goals. If a variance is significant, a careful management study should be made to determine the underlying causes. The underlying causes, rather than the actual results, should lead to remedies through appropriate corrective action by management." (Welsch, et al.; 1999: 569) Variance analysis involves a mathematical analysis of two sets of data in order to gain insight into the underlying causes of a variance. Variance analysis has wide application in financial reporting. Variances are analyzed in the following areas:

i. Raw material variances
ii. Labor variances
iii. Overhead variances
iv. Sales variances
v. Profit variances

"There are numerous ways to investigate variances to determine the underlying causes. Some are as follows:

i. Conferences with responsibility center managers and supervisor and other employees in the particular responsibility center involved.
ii. Analysis of the work situation including the flow of work, co-ordination of activities, effectiveness of supervision, and other prevailing circumstances.
iii. Direct observation.
iv. On-the-spot investigations by line managers.
v. Investigations by staff groups (carefully specified as to responsibilities).
vi. Internal audits.
vii. Special studies.
viii. Variance analysis." (Welsch, et al.; 1999: 570)

The following are the basic steps in analyzing variances;

i. Setting standards
ii. Measurement of performance
iii. Analyzing variances
iv. Take corrective action

"The major purpose of variance analysis is to enable management to measure performance against predetermined norms to seek out the causes for the standard results, and to institute corrective action." (Lynch & Williamson; 1983: 201)

2.13 Review of Previous Study

This section includes the review of some previous studies done in the area of profit planning.

Mr. Prakash Pahari (2000) has conducted the research on the topic of "Profit Planning in Dairy Development Corporation." Mr. Pahari had centralized his study in current practices of profit planning in DDC. The research is mainly based on secondary data.

The main objective of **Mr. Pahari's** study is comprehensive profit planning system applied by DDC and to test the achievements of planning. The special objectives are as follows:

i. To examine the present profit planning practices adopted by DDC.
ii. To analyze the various functional budgets prepared by DDC.
iii. To evaluate the variances between budgeted and actual achievement of the enterprise.
iv. To sketch the trend of profit and loss of DDC.
v. To provide suggestions and recommendation.

Mr. Pahari has listed the following major findings:

i. DDC has planned only short-term plan rather than long term planning. The time covered is only for one year.
ii. The collection, production and sales of mild and mild products are in smoothly increasing trend.
iii. The availability of the manpower is more than its requirement.

iv. There is no proper coordination between collection, production, inventory and sales department. Due to such causes, sometime the supply is lower than demand and sometime they destroyed their products.
v. Financial position of the corporation is not so good. Net profit margin, return on assets is negative but the current and quick ratio of the corporation is satisfactory.
vi. DDC has not applied any inventory policy. The inventory is created only when the production is greater than sales.

The recommendations provided by **Mr. Pahari** for DDC are as follows:

i. DDC should clearly define their broad objectives because objectives are the basic guidelines of the enterprise. Duties and responsibilities should be identified in clear cut way among the employees.
ii. DDC should define long-range and short-range plan. The plans, programs, strategies, goals, targets, policies etc., should be formulated with the participation of most of the personnel in order to make them feel that they are responsible to accomplish which they have formulated.
iii. DDC should consider about the product line to improve its profits. Market studies on demand supply and pricing of milk and dairy products should be carried out, and loss oriented products should be identified.
iv. Classification of expenses items as controllable and non-controllable or fixed and variable must be made within the specific framework of responsibility and time.
v. Cost control department should be separately established, which divides the cost by product and controls the cost.
vi. DDC should develop the direct labor budget and direct material budget for annual profit plan by interim period and by products.

Mr. Ramesh Adhikari has submitted a dissertation on the topic ‘Profit Planning in Nepal Telecom Limited’, to the Central Department of Management, T.U. on the year 2005. The time period taken by this dissertation is five years i.e. from FY

2056/57 to 2061/62. The main objective of this study is to find out the Telecom's financial position and tools and techniques used by the corporation. The main objectives of this study are as follows:

i. To examine the practice and effectiveness of profit planning in Nepal Telecom.
ii. To observe the Telecom's profit planning on the basis of overall managerial budgeting.
iii. To recommend measures to be taken instantly and further with the identified budgeting and profit planning problems.

The main findings of **Mr. Adhikari's** are as follows:

i. The corporation makes plan in ad-hoc basis, the goals and objectives are not adequate for the development of corporation.
ii. The sales plan achievement of the Nepal Telecom is satisfactory but the profit earned by Nepal Telecom is not sufficient.
iii. Cash budget of Telecom is not actual transaction based, it is only tentative cash flow, so it is bearing cash deficit problem.
iv. Overhead budget is not prepared in a scientific and systematic way. All the expenses are included in operating expenses.
v. The capital expenditure budget of Telecom is very high and flexible budgeting system is not prepared by Nepal Telecom.
vi. There is lack of proper co-ordination between various departments and the skilled manpower is centralized.

Mr. Adhikari's recommendations toward the corporation are:

i. The corporation should develop its specific goal for the coming budget year. Such goals may be net profit on sales, net profit on capital employed, sales revenue, production etc. without such goals the regulation of this corporation may not be effective.
ii. The long term profit plan of corporation should be prepared with fully cooperation of all level of management and the plan should be analyzed on the basis of performance of corporation ability.

iii. NTC should identify and separate the fixed, variable and semi-variable cost and the variance between actual and budgeted data should be analyzed.
iv. Flexible budgeting shows that the capacity utilization of NTC is not maintained. Flexible budget and capital expenditure budget should be managed because it is very high.
v. The pricing system of the corporation is not good. The pricing policy is issued by ministry of information and communication so that the real price of telephone is not fact. Therefore, proper pricing system should be adopted by the corporation.
vi. The appointment of top level of management of corporation should not be done by political basis and NTC should apply systematic profit planning and overall performance.

Mr. Purushottam Sharma has made research work on topic "Sales and Production Budget as the Tools of Profit Planning and Control: A case study of Gorakhkali Rubber Udhyog Limited" in the year 2005. The main objectives of his study are:

i. To analyze the sales and production budget those are prepared by GRUL.
ii. To evaluate the sales and production budget and actual result.
iii. To obtain the trend of Profit and Loss.
iv. To provide the suitable suggestions and recommendations for improvement of planning system of GRUL.

The major findings presented by **Mr. Sharma** are as follows:

i. GRUL has not separate planning department and planning experts.
ii. Industry has not adequately controllable and non-controllable variables affecting the industry.
iii. The plans are prepared from top level and later it is communicated to the lower level.

iv. The pricing policy of the industry is based on boarder price. The cost of producing is not considered while pricing the products.
v. There is too high interest and bank charge expenses, which is increasing the losses of udhyog.
vi. The capacity of the industry is under utilized.
vii. GRUL has not developed the alternative way to earn profit.
viii. The udhyog has not developed performance evaluation system.
ix. Budgets are prepared just to fulfill the formalities but these are not used effectively for profit planning process.

To make improvement on the current position of GRUL, **Mr. Sharma** has given some recommendations which are:

i. GRUL only prepares short-term profit plan. It should develop both long-term strategically and short-term plans for every aspects of its operation.
ii. The company should clearly and adequately define its objectives and goals.
iii. Sales budget should be made on realistic ground. Sales forecasting should be made after analyzing all variables that affects the market of the industry.
iv. The pricing policy of the industry should be revised, the cost of production should be considered while pricing the products.
v. Industry should develop specific program to face the competition.
vi. GRUL should make proper co-ordination between production and market demand.
vii. Overheads are to be budgeted separately and systematically. Cost control program should be introduced to control the high overhead cost.
viii. The industry is ignoring variance analysis. So, it should analyze variance effectively.
ix. The profitability condition of industry is very poor. Cost reduction program should be adopted to increase the industry's profitability.

x. The industry should analyze its strength and weakness and should introduce the programs to enjoy the opportunities and avoid the treats from such strengths and weakness.

Mr. Ganesh Datt Pant has studied on the topic of “Budgeting practice in the Timber Corporation of Nepal.” The dissertation was submitted to the research department of Nepal Commerce Campus, Minbhawan in the year, 2006 January.

The main objectives of his research study are:

i. To analyze the various functional budgets that is prepared in TCN.
ii. To analyze the variation between budget and actual achievement of TCN.
iii. To sketch the trend of profit/loss in TCN.
iv. To draw picture of capacity utilization of TCN.
v. To analyze the present planning premises adopted by TCN.
vi. To suggest some remedies for improving the performance of TCN.

Mr. Pant has presented following findings on the basis of his analysis;

i. Specific goals and strategy for the organization is set up by top level executives and management is totally governed by HMG.
ii. Application of budgeting is not realistic or systematic plans are prepared on ad-hoc basis.
iii. TCN has a practice of preparing short range sales budget but long range sales budget is not prepared in detail.
iv. The actual sales achievement is very low than budgeted sales but the correlation between target and actual sales is positive. It reveals that the corporation is able to meet its goals specified in annual program.
v. The corporation has no proper practice of segregation of cost into fixed and variable, controllable and non-controllable. There is no practice of identifying semi-variable cost. It creates problem to analyze its expenses properly.
vi. Variance analysis is completely ignored in corporation.

vii. The top level executives are only involved in planning and decision making and lower level participation is not encouraged.
viii. Inadequate supply of skilled manpower is also one of the causes of poor performance.

Based on the major findings of the research study some suggestions recommended by **Mr. Pant** are listed below:

i. Participatory management should be introduced in formulation of plan and policy of the corporation. Profit planning manuals should also be communicated to lower level of management.
ii. TCN should stress an efficient utilization of fixed assets.
iii. Government should provide operational authority to the management by making responsible and accountable, so that TCN gains more and exploits the opportunities.
iv. The corporation should evaluate cash outflow and inflow. Sources and application of fund should be properly analyzed.
v. Cash budget should be made on a monthly, quarterly and yearly basis as well as to develop cash management techniques.
vi. EOQ model can be applied to predict the optimum cash balance which can be helpful for controlling the cash balance.
vii. Variance analysis should be adopted.
viii. The financial position and performance of the corporation should be timely evaluated through ratio analysis and other relevant financial and mathematical tools.
ix. General Manager/ Executive Director should be appointed for same long period and right person should be appointed at right place.
x. Incentives plan should be introduced to improve employee morale and productivity.
xi. The finance and budget director of the corporation should be more involved in planning for corporation’s activities.

2.14 Research Gap

Profit planning system is getting a wide scope in the field of management for planning and controlling function. Many researchers and planners have realized PPC as a significant tool for the success of an organization. So there have been made many dissertations in the field of profit planning and control.

The entire dissertation reviewed while preparing this study have pointed out that there is no proper planning system and have recommended for the effective implementation of profit planning system. The previous researchers have given more emphasis on sales and production budgets but none of them have focused on controlling various types of cost. Thus, this study is designated to highlight the profit planning and cost controlling pattern of GRUL. For this purpose, the researcher has taken the data covering five fiscal years for analysis.

CHAPTER-THREE

RESEARCH METHODOLOGY

3.1 Research Design

"A research design is the plan, structure, and strategy of investigation conceived so as to obtain answers to research questions and to control variance." (Kerlinger; 1986: 275)

The research design of the present study is mainly related with the quantitative plans and accounts of GRUL. 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 to evaluate the PPC system of GRUL.

3.2 Nature and Sources of data

Analysis is specially based upon secondary data to fulfill the objectives fo the study. The research study has followed basically a study of budgeting process of GRUL to evaluate the budgeting system and procedure of GRUL. The necessary data for this purpose is taken from:

- Annual reports provided by GRUL
- Unpublished reports provided by GRUL
- Magazines, newspapers, booklets, documents etc.
- Published books, journals relating to GRUL.
- Government reports, bulletins, publications etc.
- Besides these primary data are also collected from the field directly during the survey period but it could not make a strong source for the study.

3.3 Data Collection Techniques

The different techniques and procedures have been adopted to collect necessary information. Such techniques are field visits, library study, personal communication, interviews and so on.

3.4 Tools used

In order to elicit the data the different types of tools listed below were used:

i. PPC tools: The PPC tools used in this research are sales budget, production budget, material budget, labor budget, overhead budget, income statement, cash flow statement and balance sheet.

ii. Financial tools: The financial tools which played a crucial role in this research are current ratio, quick ratio, total assets turnover ratio, capital employed turnover ratio and net profit margin.

iii. Statistical tools: The statistical tools used in this research are arithmetic mean, standard deviation, coefficient of variance, correlation coefficient, regression analysis, regression analysis, percentage and multiple bar diagrams.

3.5 Period Covered

This study covered the time period of five years starting from the fiscal year 2060/61 to 2064/65. Data are presented for five years to analyze the trend of different budgets.

3.6 Research Questions

This research study is concentrated to answer the following questions to fulfill the objective of the study:

i. What obstacles were faced by GRUL for not getting its objective fulfilled?
ii. To what extent the procedures of budgets formulation were followed by GRUL?
iii. What steps should be taken to improve the profitability of GRUL?
iv. What were the major problems facing by GRUL and what recommendations can be suggested to overcome from such problems?

3.7 Research Variables

The research variables of the study are mainly related with the accounting statement of GRUL. Sales, production, material purchase, labor cost, expenses, profit and loss and balance sheet of GRUL are the main research variables of this study.

CHAPTER-FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Sales Budget

GRUL manufactures various trucks and non trucks tyre sets. It has appointed Salt Trading Corporation Limited as a sole distributor of it's products. There are several dealers in each sales territory and sales depo appointed by industry to deliver its products to the market directly.

Table : 4.1 presents the picture of budgeted sales of GRUL in units from the fiscal year 2060/61 to 2064/65;

Table : 4.1

Budgeted Sales of Overall Products of Gorakhkali Rubber Udhyog Limited

(Units in Set)

Particulars	**Fiscal Year**				
	2060-61	**2061-62**	**2062-63**	**2063-64**	**2064-65**
Truck Tyre	39800	42600	40500	43800	48000
Non Truck Tyre	23490	25050	21600	22750	24760
Total	**63290**	**67650**	**62100**	**66550**	**72760**

(Source: Sales Department of GRUL)

Table : 4.1 is presented in bar diagram as follows:

Figure :4.1

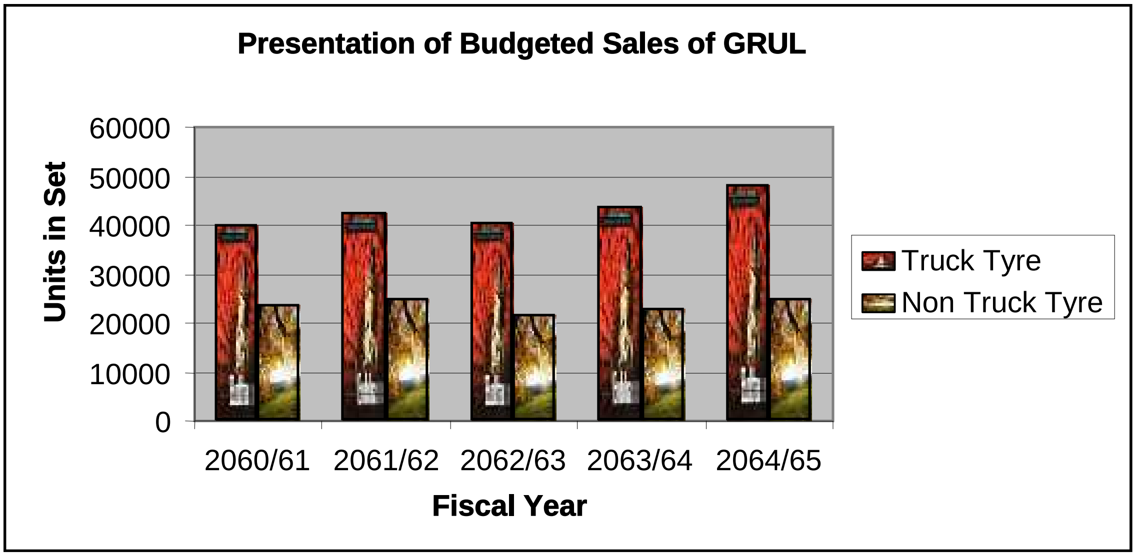


Table : 4.1 and figure : 4.1 showed that budgeted sales of GRUL were unstable. It decreased in the fiscal year 2060/61 but increased in the fiscal year 2064/65.

Similarly, the actual sales of GRUL in the fiscal year 2060/61 and 2064/65 is shown below:

Table : 4.2

Actual Sales of Overall Products of

Gorakhkali Rubber Udhyog Limited

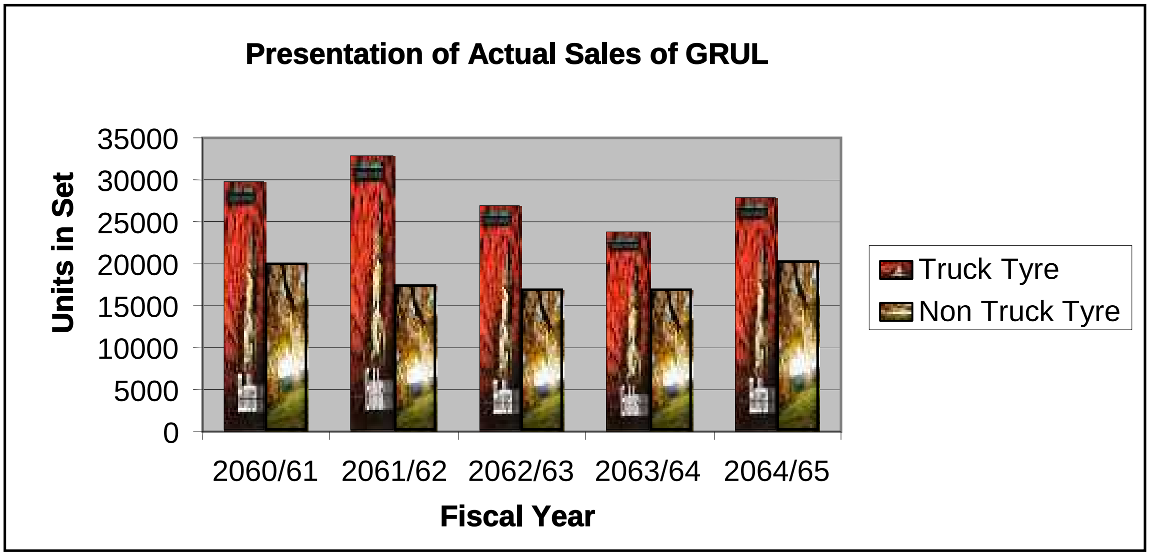
(Units in Set)

Particulars	**Fiscal Year**				
	2060-61	**2061-62**	**2062-63**	**2063-64**	**2064-65**
Truck Tyre	29657	32807	26949	23772	27866
Non Truck Tyre	19966	17431	16990	16945	20244
Total	**49623**	**50238**	**43939**	**40717**	**48110**

(Source: Sales Department of GRUL)

Table : 4.2 is depicted in bar diagram as follows:

Figure : 4.2



The actual sales of GRUL were 49623, 50238, 43939, 40717 and 48110 tyre sets in the fiscal year 2060/61, 2061/62, 2062/63, 2063/64 and 2064/65 respectively. The above table no.4.2 showed that in the fiscal year 2060/61 GRUL made a highest sales to the level of 50238 units within these research period and sold only 40717 units (lowest) in the fiscal year 2063/64.

To know the effectiveness of GRUL in implementing plan, the comparison between budgeted and actual sales is necessary. Table : 4.3 shows the difference between budgeted and actual sales of GRUL.

Table : 4.3

Annual Performance Analysis of Sales of

Gorakhkali Rubber Udhyog Limited

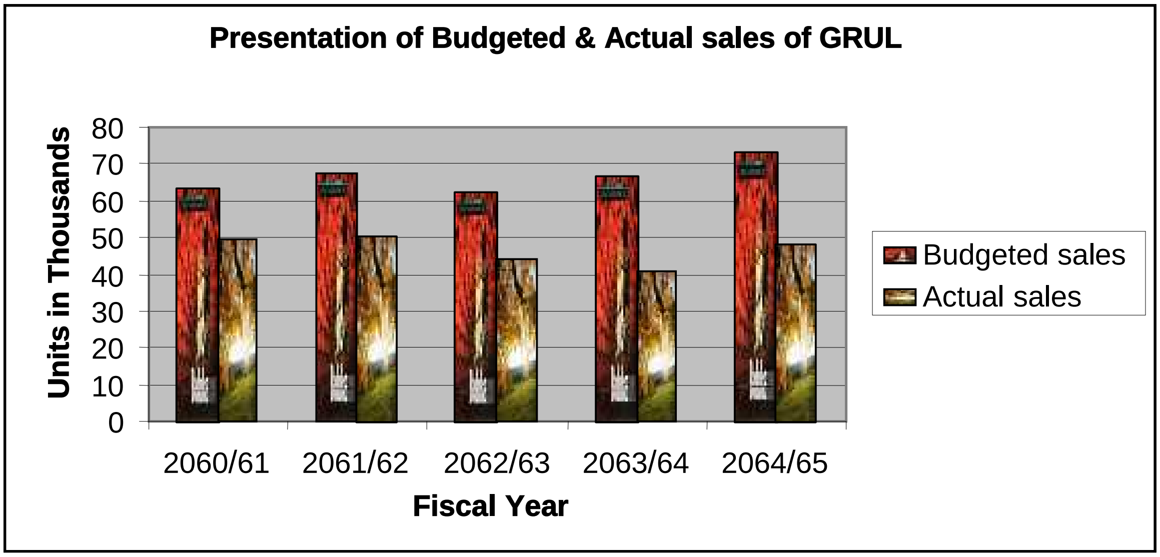
Units in set

Fiscal Year	Sales		Achieved	Variance in		
	Budgeted	Actual	%	Units	%	Remarks
2060/61	63290	49623	78.41%	13667	21.59%	Unfavorable
2061/62	67650	50238	74.26%	17412	25.74%	Unfavorable
2062/63	62100	43939	70.76%	18161	29.24%	Unfavorable
2063/64	66550	40717	61.18%	25833	38.82%	Unfavorable
2064/65	72760	48110	66.12%	24650	33.88%	Unfavorable

(Source: Sales Department of GRUL)

Table : 4.3 is presented in bar diagram as follows:

Figure : 4.3



The above table no.4.3 and figure no.4.3 showed that actual sales of each year was less than the targeted sales of GRUL. According to above table, only 70.15% of target was fulfilled during the research period on average. The company achieved 78.41% (highest) and 61.18% (lowest) of targeted sales in the fiscal year 2060/61 and 2063/64 respectively. Annual performance showed unfavorable results. Management of GRUL has given attention on previous year's sales achievement while preparing sales budget.

To test the variability of budgeted sales and actual sales, some statistical tools viz. mean, standard deviation and coefficient of variance have been calculated in Appendix – I which are listed in Table.

Table : 4.4

Budgeted and Actual Sales Comparison

Statistical Tools	**Budgeted Sales (Sets)**	**Actual Sales (Sets)**
Mean	66470	46525.40
Standard Deviation (б)	3746.26	3641.88
Coefficient of Variance (C.V.)	5.64%	7.83%

Table : 4.4 showed that actual sales were more fluctuating than budgeted sales taking into account the coefficient of variance of budgeted sales (5.64%) and actual sales (7.83%). Although, the standard deviation of budgeted sales (3746.26) was higher than standard deviation of actual sales (3641.88), coefficient of variance was given more priority to test the fluctuation. Hence, management should try to control such fluctuation.

4.1.1 Correlation between Budgeted and Actual sales

To know the degree of relationship between budgeted and actual sales, Karl Pearson correlation coefficient 'r' was used here. Let X and Y be the budgeted and actual sales respectively. Then the value of 'r' is;

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = +\ 0.22 \text{ (from Appendix – I)}$$

Since the value of r > 0 i.e. +0.22, there was positive correlation between budgeted and actual sales. The actual sales changed in the same direction of the change in budgeted sales. To test the significance of the value of 'r', we need to calculate Probable Error (P.E.) as follows:

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

$$= 0.6745 \times \frac{1 - (0.22)^2}{\sqrt{5}}$$

$$= 0.287$$

$$\text{Then, } 6 \times \text{P.E.} = 6 \times 0.287 = 1.72$$

Since, r < 6 P.E. (0.22<1.72), the value of 'r' is insignificant, so it can be said that actual sales may not go on same direction of budgeted sales.

4.1.2 Regression Analysis between Budgeted and Actual Sales

A regression line also can be fitted to show the degree of relationship between target sales and actual sales. For this purpose, sales achievement (dependent variable) and target sales (independent variable) were assumed as 'Y' and 'X' respectively. Then, the regression line of Y on X is:

$$(Y-\overline{Y}) = \frac{r_{xy}\,(X-\overline{X})\,б_y}{б_x}$$

where,

$\overline{X}$ = 66470

$\overline{Y}$ = 46525.40

$б_x$ = 3746.26

$б_y$ = 3641.88

r_{xy} = 0.22 (from Appendix – I)

Then,

$$Y - 46525.40 = \frac{0.22\,(X-66470) \times 3641.88}{3746.26}$$

or, $Y - 46525.40 = 0.2139\,(X-66470)$

or, $Y - 5902.20 = 0.2139\,X - 14215.96$

or, $Y = -8313.76 + 0.2139\,X$

From this regression equation, it can be concluded there was positive relationship between target sales and actual sales and that there will 0.2139 increase in actual sales for per unit change in budgeted sales.

4.1.3 Fitting Straight Line Trend of Actual Sales

Likewise, another important tool is least square method; it is also know as time series analysis. It is an important factor for the study of trend of actual sales. A straight line trend will show the relationship between year and actual sales of the relevant year. To fit this straight line trend, the time factor should be considered as an independent factor (X) and sales is considered as dependent factor (Y) on time. This straight line of actual sales (Y) is expressed by following way:

$$Y_c = a + bX \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots (i)$$

where, Y_c = Actual sales

a = Fixed value

b = Variable value

Assuming base year as 2062/63, the straight line trend by least square is calculated below:

Table : 4.5

Fitting Straight Line trend of Actual Sales

Using Least Square Method from Fiscal Year 2060/61to 2064/65

FY	**Mid Value X**	**Actual Sales Y**	**X^2**	**XY**
2058-59	-2	49623	4	-99246
2059-60	-1	50238	1	-50238
2060-61	0	43939	0	0
2061-62	1	40717	1	40717
2062-63	2	48110	4	96220
		∑Y = 232627	**$\sum X^2$ = 10**	**∑XY = -12547**

Now, $a = \frac{\sum Y}{N} = \frac{232627}{5} = 46453.4$

$b = \frac{\sum XY}{\sum X^2} = \frac{-12547}{10} = -1254.7$

Substituting the value of a and b in above equation, we get:

$$Y_c = 46453.4 – 1254.7\ X$$

The above calculation showed the negative relationship between actual sales and time factor. According to above equation, there will be a sales decline of 1254.7 tyre sets every year if trend of past years continues in future also. With the help of above equation the actual sales in the fiscal year 2065/66 can be estimated as follows where value of 'X' is 3.

Estimated sales for the fiscal year 2065/66 is,

$$Y_{2065/66} = 46453.4 - 1254.7 \times 3$$
$$= 42689 \text{ approx. tyre sets.}$$

Hence, GRUL would be able to sell only 42689 sets of tyre in the fiscal year 2065/66.

4.2 Production Budget

The second and important step of developing overall profit planning process of manufacturing organization is the preparation of production plan. Generally two types of periodic plans i.e. short term and long term plan can be prepared. But in the context of GRUL, it has a practice of preparing short term production plan for the coming fiscal year.

Table : 4.6 shows the budgeted production of GRUL in terms of units.

Table : 4.6

Budgeted Production of Overall Products of

Gorakhkali Rubber Udhyog Limited

(Units in Set)

Particulars	**Fiscal Year**				
	2060-61	**2061-62**	**2062-63**	**2063-64**	**2064-65**
Truck Tyre	39035	41060	42035	45735	50675
Non Truck Tyre	22645	23945	20950	21240	23320
Total	**61680**	**65005**	**62985**	**66975**	**73995**

(Source: Corporate Office of GRUL)

Table : 4.6 is presented in bar diagram as follows:

Figure No.4.4

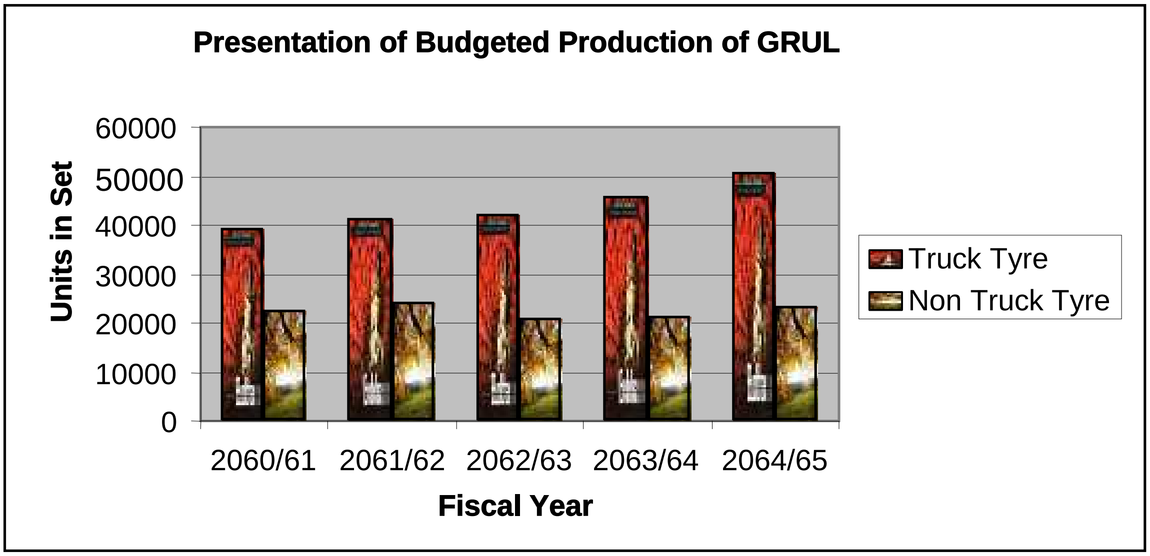


Table : 4.6 and figure: 4.4 showed that the budgeted production of GRUL was in increasing trend except in the fiscal year 2063/64. The company's projection was 73995 units of production in the fiscal year 2064/65 which was the highest target of GRUL among the five year period.

Similarly, the actual production of GRUL from the fiscal year 2060/61 to the fiscal year 2064/65 is presented in following table no.4.7.

Table: 4.7

Actual Production of Overall Products of

Gorakhkali Rubber Udhyog Limited

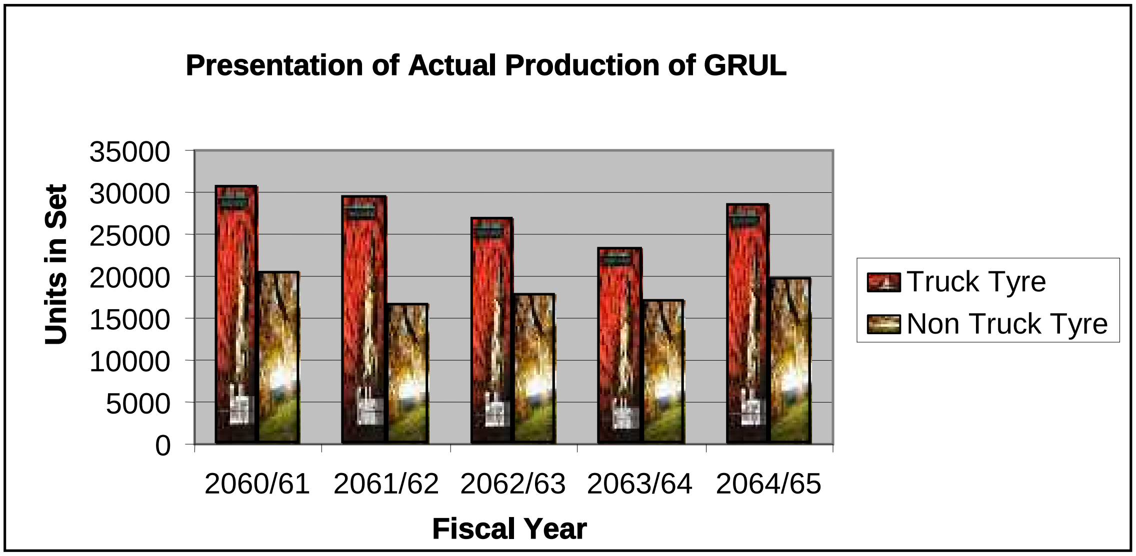
(Units in Set)

Particulars	**Fiscal Year**				
	2060-61	**2061-62**	**2062-63**	**2063-64**	**2064-65**
Truck Tyre	30714	29521	26878	23452	28516
Non Truck Tyre	20375	16629	17966	17080	19787
Total	**51089**	**46150**	**44844**	**40532**	**48303**

(Source: Corporate Office of GRUL)

Table : 4.7 is depicted in bar diagram as below:

Figure : 4.5



According to Table : 4.7 and figure : 4.5 GRUL produced 51089, 46150, 44844, 40532 and 48303 sets of tyre in the fiscal year 2060/61, 2061/62, 2062/63, 2063/64 and 2064/65 respectively. The company produced 51089 units of tyre sets in the fiscal year 2060/61. The actual production of GRUL decreased gradually from the fiscal year 2060/61 to 2063/64 but in the fiscal year 2064/65, it produced 7771 sets (i.e.48303) more as compared to the fiscal year 2063/64 (i.e.40532).

The budgeted and actual production of GRUL is summarized in the Table : 4.8.

Table : 4.8

Annual Performance Analysis of Production of

Gorakhkali Rubber Udhyog Limited

Units in set

Fiscal	Production		Achieved	Variance in		
Year	Budgeted	Actual	%	Units	%	Remarks
2060/61	61680	51089	82.83%	10591	17.17%	Unfavorable
2061/62	65005	46150	70.99%	18855	29.01%	Unfavorable
2062/63	62985	44844	71.20%	18141	28.80%	Unfavorable
2063/64	66975	40532	60.52%	26443	39.48%	Unfavorable
2064/65	73995	48303	65.28%	25692	34.72%	Unfavorable

(Source: Corporate Office of GRUL)

Table : 4.8 is presented in bar diagram as follows:

Figure : 4.6

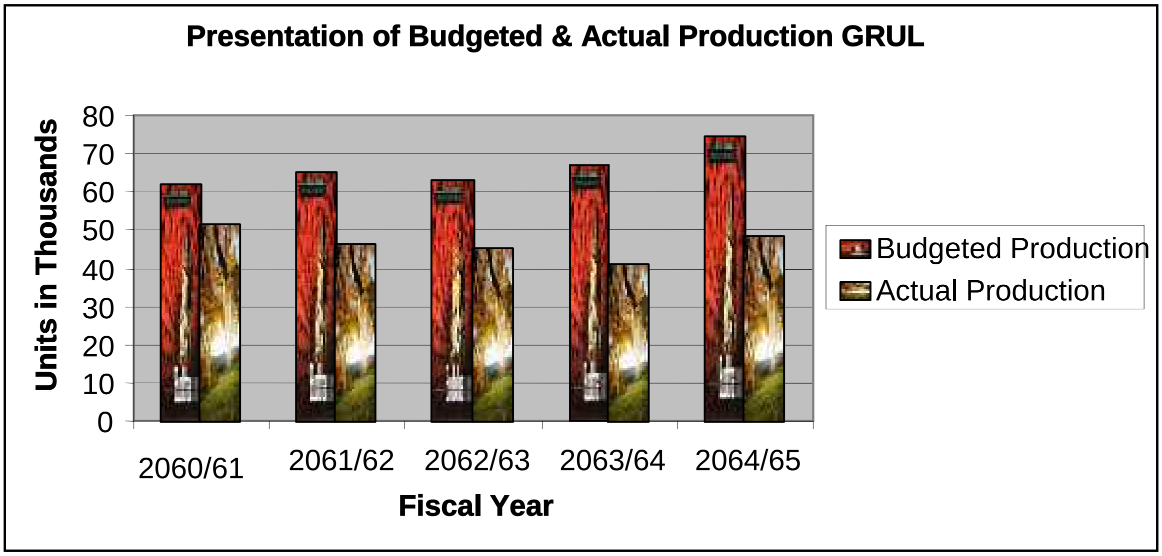


Table: 4.8 and figure: 4.6 showed that GRUL could not fulfill the targeted production. In the fiscal year 2060/61, 2061/62, 2062/63, 2063/64 and 2064/65 GRUL fulfilled 82.83%, 70.99%, 71.20%, 60.52% and 65.28% of targeted production. On average only 70.16% of planned production was achieved which was unfavorable result. In the fiscal year 2063/64 the actual production varied by 39.48% with targeted production. The company needs to review previous year's production variance while preparing production budget.

To test the variability of budgeted and actual production of GRUL, the calculated value mean, standard deviation and coefficient of variance of GRUL in Appendix – II has been listed below:

Table : 4.9

Budgeted and Actual Production Comparison

Statistical Tools	Budgeted Production (Sets)	Actual Production (Sets)
Mean	66128	48183.6
Standard Deviation (б)	4325.08	5322.01
Coefficient of Variance (C.V.)	6.54%	11.05%

According to the Table : 4.9, the mean of budgeted production and actual production of GRUL in last five years period were 66128 sets and 48183.6 sets respectively. The standard deviation of budgeted and actual production was 4325.08 and 5322.01 respectively. Similarly, the C.V. of budgeted production was 6.54% and actual production was 11.05%. Both standard deviation and C.V. of actual production of GRUL were greater than those of budgeted production. The actual production was more unstable than planned production.

4.2.1 Correlation between Budgeted and Actual Production

Let X be the budgeted production and Y be the actual production, then the Karl Pearson's correlation coefficient 'r' between budgeted and actual production is calculated as follows:

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = -0.15 \text{ (from Appendix – II)}$$

Since the value of r < 0 i.e. -0.15, there was negative correlation between budgeted and actual production. The actual production will change in opposite direction of the change in budgeted production. To test the significance of the value of 'r', we need to calculate Probable Error (P.E.) as follows:

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

$$= 0.6745 \times \frac{1 - (-0.15)^2}{\sqrt{5}}$$

$$= 0.2949$$

$$\text{Then, } 6 \times \text{P.E.} = 6 \times 0.2949 = 1.77$$

Since, r < 6 P.E. (-0.15 < 1.77), the value of 'r' is insignificant. So it can be said that actual production may not go on same direction of budgeted production.

4.2.2 Regression Analysis between Budgeted and Actual Production

Let production achievement (dependent variable) and target production (independent variable) are as 'Y' and 'X' respectively. Then, the regression line of Y on X is:

$$(Y-\overline{Y}) = \frac{r_{xy}\,(X-\overline{X})\,б_y}{б_x}$$

where,

$$\overline{X} = 66128$$
$$\overline{Y} = 48183.6$$
$$б_x = 4325.08$$
$$б_y = 5322.01$$
$$r_{xy} = -0.15 \text{ (from Appendix – II)}$$

Then,

$$Y - 48183.6 = \frac{-0.15\,(X-66128) \times 5322.01}{4325.08}$$

or, $Y - 48183.6 = -0.18\,(X-66128)$

or, $Y - 48183.6 = -0.18\,X + 12205.57$

or, $Y = 60389.17 - 0.18\,X$

The above regression equation showed the negative relationship between target production and actual production. There will be -0.18 sets decline in actual production for per unit change in budgeted production.

4.2.3 Fitting Straight Line Trend of Actual Production

To fit this straight line trend, the time factor has been considered as an independent factor (X) and production is considered as dependent factor (Y) on time. This straight line of actual production (Y) is expressed by following way:

$Y_c = a + bX$ ………………….. (i)

where, Y_c = Actual production

a = Fixed value

b = Variable value

Assuming base year as 2062/63, the straight line trend by least square is calculated below:

Table : 4.10

Fitting Straight Line trend of Actual Production

Using LSM from the Fiscal Year 2060/61 to 2064/65

FY	Mid Value X	Actual Production Y	X^2	XY
2060-61	-2	51089	4	-102178
2061-62	-1	56150	1	-56150
2062-63	0	44844	0	0
2063-64	1	40532	1	40532
2064-65	2	48303	4	96606
		∑Y = 240918	**$\sum X^2 = 10$**	**∑XY = -21190**

Now, $a = \frac{\sum Y}{N} = \frac{240918}{5} = 48183.6$

$b = \frac{\sum XY}{\sum X^2} = \frac{-21190}{10} = -2119$

Substituting the value of a and b in above equation, we get:

$Y_c = 48183.6 – 2119 X$

The above calculation showed the negative relationship between actual sales and time factor. According to above equation, there will be a production decline of 2119 tyre sets every year if trend of past years continues in future also. With the help of above equation the actual production in the fiscal year 2063/64 can be estimated as follows where value of 'X' is 3.

Estimated production for the fiscal year 2063/64 is,

$$Y_{2063/64} = 48183.6 - 2119 \times 3$$
$$= 41827 \text{ aprox. tyre sets.}$$

Hence, GRUL would be able to produce only 41827 sets of tyre in the fiscal year 2063/64.

4.2.4 Correlation between Actual Sales and Actual Production

Let X be the actual sales and Y be the actual production, then the Karl Pearson's correlation coefficient 'r' between actual sales and actual production can be calculated as follows:

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = 0.95 \text{ (from Appendix – III)}$$

Since the value of r = +0.95 which nearly equal to +1, there was perfect correlation between actual sales and actual production. The actual sales will change in the same direction with the change in actual production. To test the significance of the value of 'r', we need to calculate Probable Error (P.E.) as follows:

$$\text{Here, (P.E.)} = 0.6745 \times \frac{1 - r^2}{\sqrt{N}}$$
$$= 0.6745 \times \frac{1 - (0.95)^2}{\sqrt{5}}$$
$$= 0.0294$$
$$\text{Then, } 6 \times \text{P.E.} = 6 \times 0.0294 = 0.18$$

Since, r > 6 P.E. (0.95 > 0.18), the value of 'r' is significant. So it can be said that GRUL's actual sales changes on same direction of actual production.

4.3 Material Budget

Another most important element of production is material. Manufacturing enterprise cannot produce finished goods without material. GRUL has not followed the policy of preparing raw material budget on product wise basis. It estimates the purchase requirement on the basis of past year and taking account of forthcoming problems that may arise.

The budgeted and actual material purchase of GRUL from the fiscal year 2060/61 to 2064/65 is as follows:

Table : 4.11

Annual Performance Analysis of Raw Material Purchase of Gorakhkali Rubber Udhyog Limited

Units in Rs.

Fiscal Year	Raw Material Purchase		Incurred	Variance in		
	Budgeted	Actual	%	Rs.	%	Remarks
2060/61	194105885	207984456	107.15%	-13878571	-7.15%	Unfavorable
2061/62	220710509	194578385	88.16%	26132124	11.84%	Favorable
2062/63	198634430	178989483	90.11%	19644947	9.89%	Favorable
2063/64	260176050	187664985	72.13%	72511065	27.87%	Favorable
2064/65	392270987	235806084	60.11%	156464903	39.89%	Favorable

(Source: Annual Report and Account Department of GRUL)

Table : 4.11 can be viewed in bar diagram as follows:

Figure : 4.7

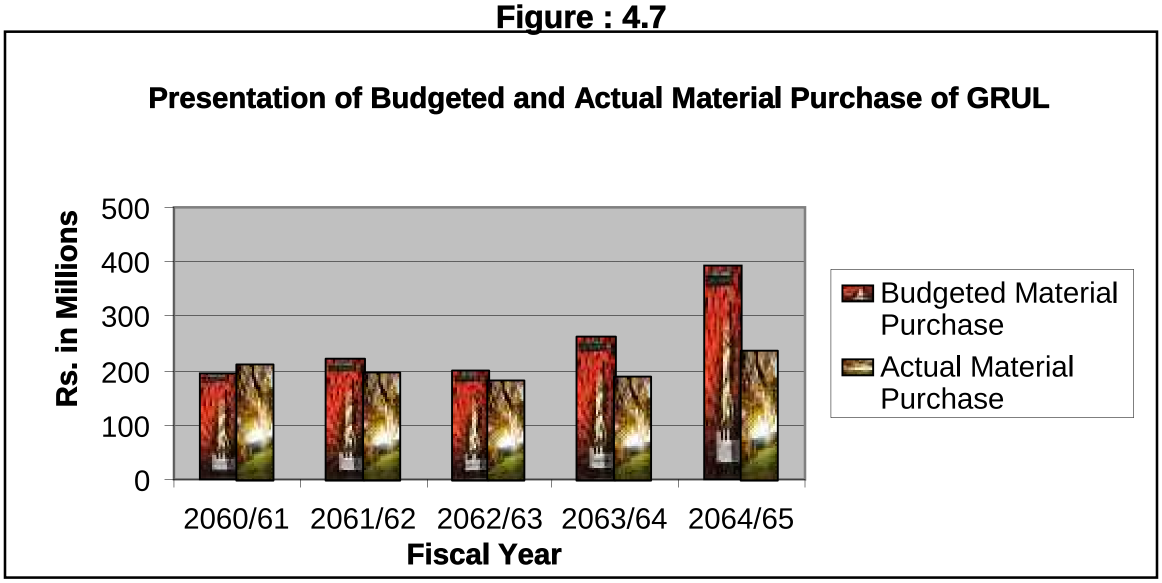


Table: 4.11 and figure: 4.7 showed the budgeted and actual raw material purchase of GRUL. GRUL incurred 107.15% of budgeted material purchase on reality in the fiscal year 2060/61. The variance ranged from -7.15% to 38.89% within the fiscal year 2060/61to 2064/65. It showed that GRUL was unable to create a good relationship between budgeted and actual material purchase. This was due to neglecting standard raw material requirement per unit of finished product and due to changing price of material.

4.4 Labor Budget

GRUL has no practice to forecast and develop long-term human resource planning. The company does not plan for direct labor hours and direct labor cost needed to produce the plan quantities of goods. Since there is no hourly record of direct labor, the company cannot calculate total direct labor hours and hourly rate of labor appropriately. So, the company is unable to control labor cost. GRUL has the practice of showing all the expenses incurred for laborer and staff in administrative expenses. The following table no. 4.8 shows the total expenses incurred by GRUL for its employees.

Table : 4.12

Employees Expenses of GRUL

Units in Rs.

Fiscal Year	Employees Expenses
2060/61	3,74,88,010
2061/62	3,78,86,930
2062/63	3,82,22,060
2063/64	4,06,15,054
2064/65	4,46,89,955

(Source: Annual Report of GRUL)

Table : 4.12 is presented in bar diagram as follows:

Figure : 4.8

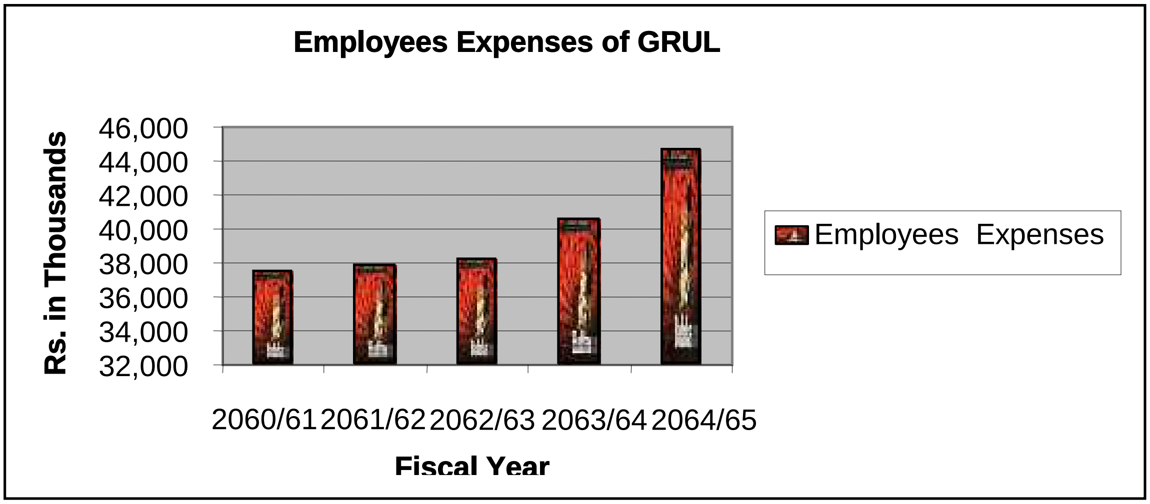


Table: 4.12 and figure : 4.8 showed that employee's expenses incurred by GRUL were in increasing trend. The management remained unsuccessful to control employee's expenses.

4.5 Overhead Budget

Overhead is the aggregate of several indirect expenses (costs) like indirect material, indirect wages and other indirect cost. In the context of GRUL, the overhead costs are classified as manufacturing cost, administrative cost and selling & distribution cost. The following table presents the budgeted overhead expenses of GRUL in the research period.

Table : 4.13

Budgeted Overhead of Overall Products of

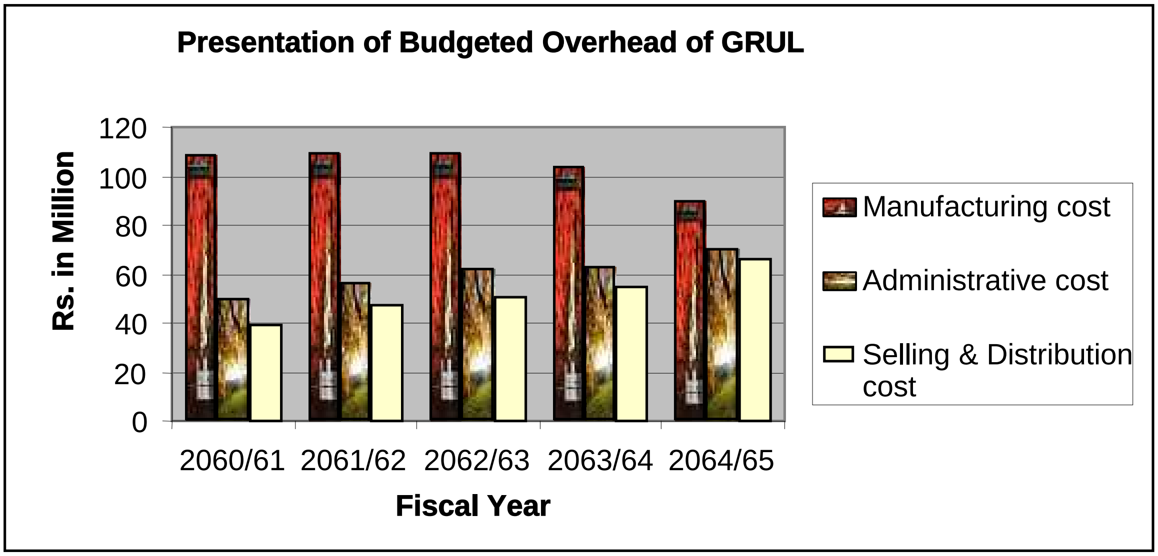
Gorakhkali Rubber Udhyog Limited **Units in Rs.**

Particulars	**Fiscal Year**				
	2060-61	**2061-62**	**2062-63**	**2063-64**	**2064-65**
Manufacturing cost	108703590	109299200	109113840	103509680	89851603
Administrative cost	49644204	56630030	61869630	62792370	69825160
Selling & Distribution cost	39586010	47685020	50356310	55063607	65962012
Total	**197933804**	**213614250**	**221339780**	**221365657**	**225638775**

(Source: Account Department of GRUL)

Table : 4.13 is presented in bar diagram as follows:

Figure : 4.9



The budgeted overhead cost of GRUL was in increasing trend. Management focused less on selling and distribution expenses as compared to other expenses. The total overhead cost increased from Rs.1,979,33,804 to Rs.2,256,38,775 within these five year research period.

Similarly, the actual cost incurred by GRUL in the research period is presented in following table no.4.14.

Table : 4.14

Actual Overhead of Overall Products of

Gorakhkali Rubber Udhyog Limited

(Units in Rs.)

Particulars	**Fiscal Year**				
	2060-61	**2061-62**	**2062-63**	**2063-64**	**2064-65**
Manufacturing cost	97683620	110703836	97040609	80514520	86148343
Administrative cost	59201504	50523087	54414479	58925812	63459104
Selling & Distribution cost	42625972	30624692	40990962	30640774	43157536
Total	**199511096**	**191851615**	**192446050**	**170081106**	**192764983**

(Source: Annual Report of GRUL)

Table : 4.14 is presented in bar diagram as follows:

Figure : 4.10

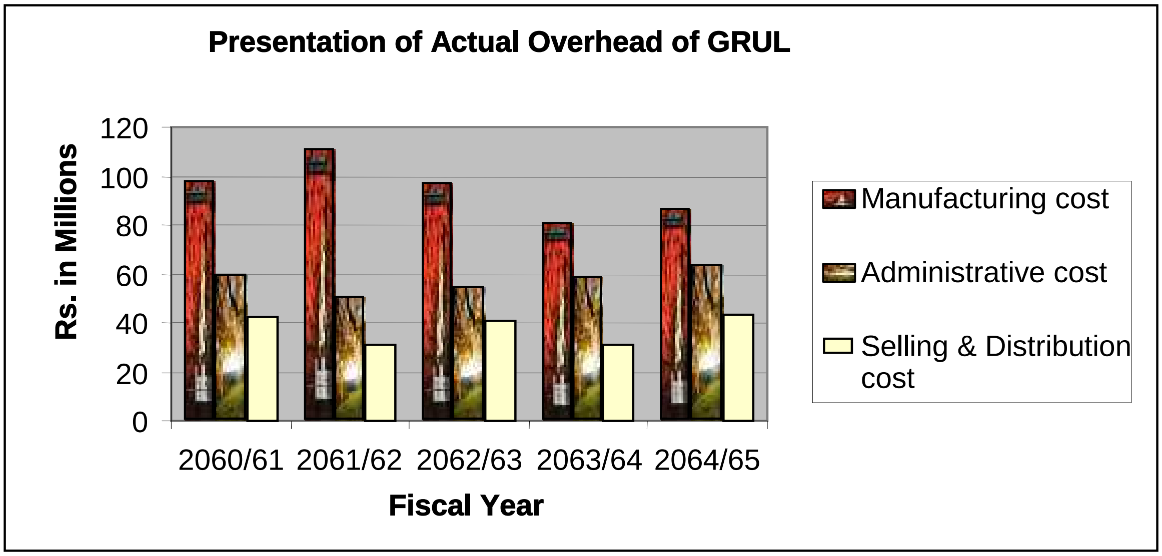


Table: 4.14 and figure: 4.10 showed that GRUL has good control over manufacturing cost which was in decreasing order except in the fiscal year 2060/61 (Rs.11,07,03,836). Both table no.4.13 and 4.14 is summarized as follows in table no.4.15;

Table : 4.15

Annual Performance Analysis of Total Overhead of

Gorakhkali Rubber Udhyog Limited

Units in Rs.

Fiscal	Total Overhead		Incurred	Variance in		
Year	**Budgeted**	**Actual**	**%**	**Rs.**	**%**	**Remarks**
2060/61	197933804	199511096	100.80%	-1577292	-0.80%	Unfavorable
2061/62	213614250	191851615	89.81%	21762635	10.19%	Favorable
2062/63	221339780	192446050	86.95%	28893730	13.05%	Favorable
2063/64	221365657	170081106	76.83%	51284551	23.17%	Favorable
2064/65	225638775	192764983	85.43%	32873792	14.57%	Favorable

(Source: Annual Report and Account Department of GRUL)

Table : 4.15 is presented in bar diagram as follows:

Figure : 4.11

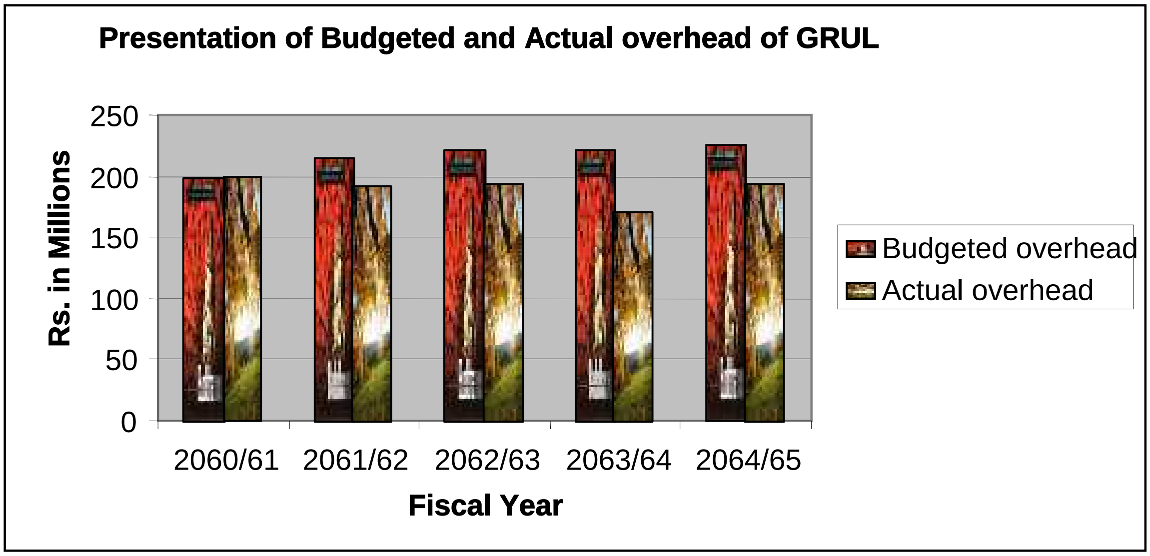


Table: 4.15 and figure: 4.11 showed that total actual overhead exceeded budgeted overhead by 0.80% in the fiscal year 2060/61 which was unfavorable. The variance ranged from -0.80% to 23.17%, the variance of Rs. 51,28,45,51 verified that GRUL was weak in forecasting expenses. The company should try to control the growing overhead and should maintain a good relationship between the expenses incurred and the benefit that arises by increasing the expenses.

4.6 Financial Analysis of GRUL

Financial analysis is a method to evaluate the status of an organization in prevailing market and economy. It is a tool for measuring the performance of organization. Financial analysis helps to know the exact financial position of the organization. To know the financial position of GRUL, some major financial ratios have been adopted here. Table : 4.16 shows the summary of financial position of GRUL which are used to evaluate major financial ratios.

Table : 4.16

Financial Statement Summary of

Gorakhkali Rubber Udhyog Limited

Units in Rs.

Particulars	**Fiscal Year**				
	2060-61	**2061-62**	**2062-63**	**2063-64**	**2064-65**
Sales	381164976	400989822	351620808	341094345	403018359
Net Profit	-72713229	-56257060	-76355980	-70893270	-81720881
Current Assets	312582399	241743730	226764566	224740555	225129945
Quick Assets	105948177	96923029	71400451	68374741	67969602
Current Liabilities	313361089	292062362	329770237	379645272	441996899
Total Assets	812123730	703153580	659599403	622035175	603950718
Capital Employed	498732641	411091218	329829166	242389903	161953819

(Source: Annual Report of GRUL)

4.6.1 Current Ratio

This ratio measures the ability of firm to meet its obligations. It is the measure of firm's short term solvency. Current assets divided by current liabilities is called current ratio. Generally, current ratio of 2:1 is considered better.

Table : 4.17

Current Ratio of GRUL

Units in Rs.

Fiscal Year	**Current Assets (CA)**	**Current Liabilities (CL)**	**Current ratio (CR) = CA/CL**
2060/61	312582399	313361089	0.998:1
2061/62	241743730	292062362	0.83:1
2062/63	226764566	329770237	0.69:1
2063/64	224740555	379645272	0.59:1
2064/65	225129945	441996899	0.51:1

Table : 4.17 shows the current ratio of GRUL from fiscal year 2060/61 to 2064/65. It shows that GRUL cannot meet its current obligations because the current ratio is less than 2:1 in each year.

4.6.2 Quick Ratio

This ratio measures the relationship between quick assets and current liabilities. Cash is considered the most quick asset. Generally, quick ratio of 1:1 is considered better. It is calculated by dividing quick assets by current liabilities.

Table : 4.18

Quick Ratio of GRUL

Units in Rs.

Fiscal Year	Quick Assets (QA)	Current Liabilities (CL)	Current ratio (CR) = QA/CL
2060/61	105948177	313361089	0.38:1
2061/62	96923029	292062362	0.33:1
2062/63	71400451	329770237	0.22:1
2063/64	68374741	379645272	0.18:1
2064/65	67969602	441996899	0.15:1

Table : 4.18 showed the quick ratio of GRUL. In none of the year the quick ratio of GRUL met the standard ratio of 1:1, so, it can be concluded that GRUL faced problem in meeting its obligations.

4.6.3 Total Asset Turnover Ratio

This ratio measures the capacity of firm to turn into sales per one rupee of assets. It shows whether the assets of the firm is managed efficiently or not to maximize sales. It is calculated by dividing sales by total assets.

Table : 4.19

Total Assets Turnover Ratio of GRUL

Fiscal Year	Sales (Rs.)	Total Assets (Rs.)	Ratio = Sales/Total Assets
2060/61	381164976	812123730	0.47
2061/62	400989822	703153580	0.57
2062/63	351620808	659599403	0.53
2063/64	341094345	622035175	0.55
2064/65	403018359	603950718	0.67

Table: 4.19 showed the total assets turnover ratio of GRUL. It indicated that GRUL remained success for generating Rs. 0.67 sales per one rupee investment made in total assets during the fiscal year 2064/65 which was the highest ratio among the research period.

4.6.4 Capital Employed Turnover

This ratio measures the relationship between sales and the capital employed of the firm, where capital employed is shareholder's equity plus long term debt. It shows whether the owners and long term creditors fund has been better utilized or not. The higher the ratio, the better the utilization of fund. It is calculated by dividing capital employed by sales.

Table : 4.20

Capital Employed Turnover of GRUL

Fiscal Year	Sales (Rs.)	Capital Employed(CE) (Rs.)	Ratio = Sales/CE
2060/61	381164976	498732641	0.76
2061/62	400989822	411091218	0.98
2062/63	351620808	329829166	1.07
2063/64	341094345	242389903	1.41
2064/65	403018359	161953819	2.49

Table : 4.20 showed the capital employed turnover ratio of GRUL. This ratio of GRUL in the fiscal year 2060/61, 2061/62, 2062/63, 2063/64 and 2064/65 were 0.76, 0.98, 1.07, 1.41 and 2.49 respectively. The CE turnover ratio of GRUL was in increasing trend. GRUL generated Rs.2.49 (highest) sales from the investment in per rupee of capital employed in the fiscal year 2064/65.

4.6.5 Net Profit Margin

This ratio establishes the relationship between net profit and sales and indicates management's efficiency in manufacturing, administering and selling the products. This ratio is the overall measure of the firm's ability to turn each rupee sales into net profit. It is obtained by dividing net profit after tax by sales.

Table : 4.21

Net Profit Margin of GRUL

Fiscal Year	Net Profit (Loss) (Rs.)	Sales (Rs.)	Ratio = Net Profit/Sales (%)
2060/61	-72,713,229	381,164,976	-19.08
2061/62	-56,257,060	400,989,822	-14.03
2062/63	-76,355,980	351,620,808	-21.72
2063/64	-70,893,270	341,094,345	-20.78
2064/65	-81,720,881	403,018,359	-20.28

Table : 4.21 showed the net profit margin of GRUL. The table showed that the company was passing from losses. GRUL faced 21.72% of sales revenue as loss in the fiscal year 2062/62. The net profit margin of GRUL showed the management inefficiency to control over the increasing cost of production and other operating expenses. On an average, GRUL faced 19.18% of sales as loss within this research period and hence, the net profit margin of GRUL was unsatisfactory.

4.7 Cash Flow Statement of GRUL

Cash flow statement is the part of complete set of financial statement including balance sheet, income statement and accounting policies and extra ordinary notes. It describes the sources and uses of cash of an organization. The importance and usefulness of cash flow statement is increasing day by day. Recognizing the importance of it, GRUL also has the practice of preparing it. The cash flow statement of GRUL in the fiscal year 2060/61 to 2064/65 is presented in Appendix – IV.

The cash flow statement showed that the cash flow from operating activities in the fiscal year 2060/61, 2061/62, 2062/63, 2063/64 and 2064/65 were Rs.323,84,151, Rs.765,06,962, Rs.293,32,897, Rs.158,89,785 and Rs.183,71,071 respectively which were all in positive stage. However, the company were facing the burden of interest which were Rs.615,55,848, Rs.582,81,836, Rs.205,34,539, Rs.170,10,772 and Rs.143,75,023 in the fiscal year 2060/61, 2061/62, 2062/63, 2063/64 and 2064/65 respectively. The management should pay loan in order to eliminate interest and get rid from loss.

4.8 Profit and Loss of GRUL

Profit is the major element of each and every business organization and favors for survival, further development and fulfilling social expectation. It shows the final position of the company and also indicates the possible future profit or loss accounting for budgeted period. So, GRUL has been also continuing the process of preparing income statement at the end of each fiscal year to know the organization's profit or loss during the whole year. The income statement of GRUL has been presented in Appendix – V and the brief statement of profit or loss of GRUL is presented in below table:

Table : 4.22

Profit(Loss) of Gorakhkali Rubber Udhyog Limited

as on fiscal year 2060/61 to 2064/65

Units in Rs.

Fiscal Year	Profit (Loss)
2060/61	-69,877,521
2061/62	-19,244,318
2062/63	-42,880,039
2063/64	-39,871,489
2064/65	-53,984,822

Table : 4.12 showed that GRUL beared loss in each and every year. In the fiscal year 2060/61, it has undergone a huge loss of Rs. 69,877,521. On an average it faced a loss of Rs.45,171,638 per year. GRUL appeared as a failure organization within these periods. The loss of GRUL indicated its dark future. The management team of GRUL should adopt an effective policy to reduce loss and maintain sound profit.

4.9 Major Findings

After analyzing in detail the present practice of profit planning in Gorakhkali Rubber Udhyog Limited, the following major findings are drawn:

i. GRUL did not prepare long-term strategic profit plan but prepared short-term profit plan only for each year.

ii. The coefficient of variance of budgeted and actual sales of GRUL were 5.64% and 7.83% respectively which indicated greater variability in sales achievement compared to planned sales. Similarly, the actual production was also more fluctuating than planned production.

iii. Both correlation coefficient (r = +0.22) and regression analysis showed the positive relationship between budgeted and actual sales. Likewise, the correlation coefficient (r= -0.15) and regression analysis showed the negative relationship between budgeted and actual production. But, the correlation coefficient (r= +0.95) between actual sales and actual production indicated that GRUL was able to maintain a perfect relation between them.

iv. The sales trend of GRUL indicated that the sale in the fiscal year 2065/66 will be 42689 tyre sets and production trend revealed that GRUL would be able to produce only 41827 tyre sets in the fiscal year 2065/66.

v. GRUL has not followed the policy of preparing raw material budget on product wise basis. It estimated the purchase requirement on the basis of past year and taking account of forthcoming problems that may arise.

vi. GRUL failed to prepare direct labor budget on per unit of product. It has the practice of treating direct labor as salary.

vii. GRUL remained unable to control overhead cost. Overheads were in increasing trend. It incurred a huge amount of Rs. 225,638,775 in the fiscal year 2064/65.

viii. The current ratios of five years were less than 2:1 and quick ratios were also less than 1:1 in each year showed that the liquidity position of GRUL was unsatisfactory.

ix. GRUL generated highest sales of Rs.2.49 per rupee of capital employed and Rs.0.67 sales per rupee invested in total assets in the fiscal year 2064/65.

x. The income statement of GRUL revealed that it was undergoing loss each year within this research period. The balance sheet of the fiscal year 2064/65showed that it was facing a burden of Rs.785,704,500 as loss.

xi. There was too high interest which increased the loss of Udhyog and there was no alternative way to earn profit.

xii. And last not the least, budgets were prepared just to fulfill the formalities but these were not used effectively for profit planning process.

CHAPTER-FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

PPC is one of the comprehensive approaches that has been developed to facilitate effective performance of the management process. It is a systematic and formalized approach for performing significant phase of management planning and control functions. Without proper planning and control, no organization can achieve its goals. Therefore, these days profit planning and control has become one of the most important management tools.

Profit planning represents an overall operation. It covers a definite period of time and formulates the planning decisions of management. Profit plans are prepared on two dimensions; strategic long range plans covering a period of 5 to 10 years and tactical short range plan for a year detailed by interim time periods.

Public enterprises are autonomous bodies owned by fully or more than 50% by the government to provide goods and services to people on cheap price and utilize scarce resources more efficiently. In our country, PEs were established with objectives for the purpose of creating opportunity of employment, mobilizing resources, contribute to national development with earning reasonable profit. But most of the Nepalese manufacturing PEs have been suffering from the problem of poor performance.

The present study is a small step to examine the use of profit planning and control in Nepalese public manufacturing sector. For this purpose, GRUL has been taken as representative enterprise. This study is made with reference to overall products.

GRUL was established as public limited company in 2041 B.S. under the Company Act, 2021 B.S. The factory is situated at Majuwa Deurali of Gorkha

District and corporate office in Kalimati, Kathmandu. The main objective of the company is to produce and sell tyre sets of trucks, buses and cars.

The study covered a five year period from the fiscal year2060/61 to 2064/65 and is based on the data and information provided by Corporate Office of GRUL. The data has been analyzed with the help of various statistical and financial tools like arithmetic mean, standard deviation, correlation coefficient, regression analysis, financial ratios etc. The study has been organized into five main chapters:

i. Introduction
ii. Review of Literature
iii. Research Methodology
iv. Data Presentation and Analysis
v. Summary, Conclusion and Recommendations.

5.2 Conclusion

After analyzing in detail the present practice of profit planning in GRUL, the researcher concluded that GRUL did not prepare plans in realistic ground, it has lack of budgeting experts and skilled planner. Due to this reason, the plans are prepared on traditional basis. Also, it does not prepare long-term strategic profit plan but prepares short-term tactical profit plan for each year. Sales forecasts are made with previous sales figure and general assumption of sales dealers. Likewise, the systematic forecasting system was not applied in practice to forecast the production; sales of previous year were taken as the basis of forecasting production for the coming year. Further, the comparison of actual sales and actual production showed that the industry produced its goods in accordance with the actual sales. GRUL has no clear-cut and effective policy regarding inventory also.

GRUL did not prepare direct labor budget. All staffs were paid on monthly basis wages and salary. Also, it has no practice of cash budget that is necessary for the future cash planning. The industry failed to control overhead cost. There was no practice of separating costs into fixed and variable as well. Profit trend of GRUL was very poor and was suffering on loss in all research period.

Liquidity position of GRUL was also poor. Both current and quick ratios were far less than their standard values. It showed current assets were not available to pay current liabilities. The interest of GRUL was in increasing trend. GRUL borrowed both short-term as well as secured loan to abate cash scarcity each year.

Besides that, lack of entrepreneurship was also found, the company was not operated on commercial basis as well. The company did not analyze the various performance reports and were unconscious of rating the causes of variance. There was no well communication system. The communication was only limited to the top-level management. The company has no depth analysis of its strengths and weakness. The following strengths and weakness has been presented after analyzing the operation of GRUL.

Strengths:

- One and only tyre manufacturing industry in Nepal.
- High quality products.
- Competitive market price.
- Separate department for "After Sales Service".
- Good distribution channel.
- Experienced staffs.

Weakness:

- Competition from imported goods.
- High production cost.
- Dependent on imported raw materials.
- Limited domestic market.
- Lack of modern machinery and equipments.
- Big amount of interest on capital.

5.3 Recommendation

On the basis of this study, the following points are recommended to improve the formulation and implementation of PPC process. It is hoped that these recommendations will be useful to the management GRUL.

- GRUL prepared short-term profit plan. It should develop both long-term strategic and short-term tactical plans for every aspects of its operation.
- The company should clearly and adequately define its objective and goals. Plans should be made in realistic ground by analyzing internal and external variables. There must be skilled planners and planning experts.
- Sales forecasting should be made after analyzing all variables that affects the market of the industry. An effective program should be introduced to study the market.
- The company needs to review previous years' production variance while preparing production budget.
- GRUL must define the clear-cut and effective policy regarding inventory.
- GRUL should maintain proper co-ordination between production and market demand.
- Overheads are to be budgeted separately and systematically. Overhead expenses are too high. Therefore cost control program should be introduced to control the high overhead cost.
- Immediate action should be taken to restructure the present capital structure. Long-term loan should be paid either by issuing equity shares or by issuing preference shares to avoid burden of interest.
- The industry should analysis variance effectively. It should be categorized into favorable and unfavorable. The causes of unfavorable variance should be diagnosed and identified timely.
- The profitability condition of industry is very poor. Therefore cost reduction program should be introduced.
- GRUL should launch special program to maintain its liquidity position in standard form.

- The industry should analyze its strength and weakness in detail and should introduce the programs to enjoy the opportunities and avoid the threats from such strengths and weakness.
- The company should operate on purely commercial basis.
- The company should develop effective programs to avoid existing problems and to accomplish formulated objectives and to implement them effectively.
- GRUL should plan for cash; it should prepare the detailed cash budget by showing all sources and uses of cash.
- Capital, manpower and assets should be maximally utilized to meet the budgeted production.
- Proper motivational program, reward and punishment system must be introduced for effective execution of profit planning.
- There should be continuous flow of information among the departments and all personnel should participate on decision making and planning process.

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