CHAPTER I

INTRODUCTION

1.1 Background of the Study

The two-term profit and planning are the basic aspects of profit planning and control. Thus before entering into the depth of profit planning and control this two terms need to be defined. The dictionary meaning of the term "profit" is "money" which is earned in trade through production and selling goods and services. Profit generally means a difference between revenue generation and the cost incurred or it can also be expressed as the excess of income over expenditure during a particular period of time. Profit in business refers to the monetary difference between the cost of producing and marketing goods or services and the price subsequently received for those goods or services. In economics profit may be defined as the net income of a business after all other costs have been deducted. As for entrepreneurship, profit is a reward for risk taking. According to a labor leader; “profit is a measure of how efficiently labor has produced and that it provides a base or negotiating a wage increase.” Investors will view it as a gauge of the return on his/her money. Profit is the primary measure of business success in any economy. Profit do not just happen it is managed. It is the ultimate objectives of management to maximize profits over the long term consistent with its social responsibilities (Lynch & Williamson, 1984).

“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 public enterprise that always incurs losses. Profit is a signal for the allocation of resources and a yardstick for judging managerial efficiencies (Kulkarni, 1992).

Profit just does not happen, profits are managed. Profit is the primarily measure of business in any economy. It is therefore very important to understand the concept of profit. The great Greek philosopher Aristotle (384 B.C- 322B.C) once says, “Watch the costs and the profit will take care of themselves.”

Hawley (1991) says, "Profit is reward for risk taking in business. Schumpeter opines that an entrepreneur earns profit as reward for introducing innovation. J.M Keynes holds the view that profit results from the favorable movement of general price levels.

In view of Robinson & chamberlain, (1992) the greater the degree of monopoly power the greater will be profits made by the entrepreneur.

The term planning means deciding in advance what is to be done in future. Planning starts from forecasting and predetermination of future events. Planning is the first function of management. It is the process of developing enterprises objectives and selecting future courses of action to accomplish them. It is performed continuously because the passage of time demands both replanting and making new plans. Moreover, current feedback often necessities newly planned actions to a) correct performances deficiencies b) cope with unanticipated events that are unfavorable and c) taking advantages of new developments.

It is a decision in advance what to do, when to do, how to do and who will do a particular task hence planning is thinking before doing. It involves selecting of objectives and strategies, policies, programmed and produce for achieving them (Shrestha, 1996)

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. The primary purpose of planning in the 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 sub-ordinates has the authority in varying degrees to make the decisions the result of which will nearly accomplish of better his budgetary targets (Kenneth et al, 1990).

Planning is defining goals, establishing strategy for achieving these goals and developing a comprehensive hierarchy of plans (sub plans) to integrate and co-ordinate activities. It is concerned with both ends (what is to be done) and means (how is to be done), (Robins & coulter, 1998).

Planning is the specific process of setting goals and developing ways to reach them. Stated another way planning represents the firm effort to predict future events and be prepared to deal with them, (Hampton, 2001)

In modern-day businesses except in very small companies, it is virtually impossible for the top manager to have firsthand knowledge of all the relevant factors operating throughout a business. Nor can a single lower-level manager be expected to have the range of knowledge, experience and competence to make all the decisions for the large segments of a company, either as a source of reliable information or as a participant in decision-making. The quality of the judgments of the total management effort will continue to distinguish the better-managed and more successful companies. Profit planning and control is the tool that is used to increase significantly the effectiveness of a management and to place managerial judgments on a more objective and informed foundation (Robins & coulter, 1998).

Managing in fact implies co-ordination and control of the total enterprise efforts to achieve the organizational objectives. The process of managing is facilitated when management charts its course of action in advance. The function of management includes decision-making facilitated by various managerial techniques, procedures and by utilizing the individual and group efforts in a co-coordinated and rational way. Profit planning is one of the systematic approaches for attaining effective management performance.

Profit planning is a predetermined detailed plan of action developed and distributed as a guide to current operations and as a partial basis for the subsequent evaluation of performance. The profit planning control means the development and acceptance of objectives and goals and moving an organization efficiently to achieve the objectives and goals. It is a tool that may be used by the management in planning the future course of action and in controlling the actual performance.

Profit planning is merely a tool of management; it is not an end of management or substitute of management. It is strictly an internal affair; it should not be made public. Profit planning and control provide guidelines to management and it acts as signal light for the management and enables the management to correct its policy.

Koontz & O'Donnel(1990),have given emphasis on planning and control function of management. The role of management on profit planning and control has been defined and the assumption that management can plan and control long term destiny of an organization through perfect decision making process. In favor of planning and control economist and the management experts have said that planning means prosperity and unplanned means happenstance. So, a modern management expert has given more importance to profit planning and control. Profit planning and control has been regarded as a basis for perfect decision-making (Robins & coulter, 1998).

Profit planning and control also known as comprehensive profit planning and control is a new term in the literature of business though it is a new term but it is not a new concept in the management. Comprehensive profit planning and control or PPC on other terms are business budgeting, managerial budgeting and budgeting. It is an integral part of management.

Profit plan is a financial and narrative expression of the expected results from the planning decisions. It is called the profit plan (or the budget) because it explicitly states the goals in terms of time expectations and expected financial results (return on investment, profit, and cost) for each major segments of the entity. Typical profit plans establish the content and format of the internal –control reports with respect to operations, inputs, outputs and financial position developed by the entity for monthly performance reporting to the various levels of management (Welsch, Hilton & Gordon,2000).

Profit planning in fact is a managerial technique and is such a written plan in which all aspects of business organization with respect to definite future period are included. It is a formal statement of policy; plan objective and goal established by the top management in respect of some future period. Profit plan is a pre-determined detailed of plan action developed and distributed as guide to current operation and as a partial basis for the subsequent evaluation of performance. Thus, we can say that profit plan is a tool, which may be used by management in planning the future course action and in controlling the actual performance,(Gupta, 1992).

In a broad sense profit planning and control is a systematic and formalized approach for performing significant phase of management planning and castor system. It is newly developed concept as crucial way in business organization. It helps on planning organizing, coordinating and controlling of company's activities that are why profit planning is immense valve of management, (Chidi, 2010).

Profit planning involves two aspects: Profit and planning. Profit is the primary objectives of business it is necessary for survival and growth of any business entity but profit dose not dust happen on improve. They are managed. Profit is the primary measurement of business success in uncanny. It firm is not able to on profit then it fails to hold the capital for long period. When business firm cannot hold capital, it can't secure and retain other sources such as manpower materials and missing etc.

There are several different interpretations of the terms profit according to economist. "Profit is the reword for entrepreneurship for risk taking. Leader of labor might say the profit is the measure of low efficiently labor has produced on that it provides a base of negotiation a ways increase. An investor will view it as a gage of the return on his/her money. An internal revive agent might regard is as a base for determining income taxes. An accountant will define it simply as the excess of revenue over the expenditure of producing revenues in a given fiscal, year (Shrestha, 2004).

Similarly planning is the first essence of management and all other function and performed with the foreword of planning, planning means deciding in advance what is to be done in future? Planning starts form for casting and predetermination of future events. Planning is the whole concept of any business organization goal and objectives in the absence of proper plan. Hence, it is the fife blood of any organization. Which makes efficiently run awards the competitive environments? It is a nut nod of thinking of out act before hand. Planning it is foundation of profit get realization rod a plan is a projected course of action. Management is the process of planning, organizing, directing decision making and controlling in modern days profit planning is taken as important techniques of design making. It is also regarded as a way of management on is given name budgeted profit planning programs profit planning is a port of overall planning process of on organization (Shrestha, 2004).

1.1.1 Historical Background of HPPCL

Medicinal and Aromatic Plants are the valuable forest resources of the Kingdom of Nepal. It has had a good recognition in the Indian market since ancient times. According to the Hindu mythology Lord Dhanwantari had invented cure of living creatures from the Himalayan Herbs. The highest peak of the world, Mt. Everest, and a series of Himalayan ranges found in the country are symbolic of the existence of valuable medicinal and aromatic plants. During the past days the country had significant role in trading of crude herbs; till date about 700 varieties of herbs have been identified.

The major thrust of the nation is to process these natural resources domestically balancing their depletion in nature with regeneration.

A new chapter in the history of Herbal Extracts and Essential Oils commenced with the establishment of Herbs Production & Processing Co. Ltd. (HPPCL) in 1981 as an undertaking of HMG/Nepal. After thorough research and dedication of the national core of scientists under the Department of Medicinal Plants, this company was founded. HPPCL is the first company in the country to harness the rich treasure of herbs and aromas for processing and producing Medicinal Extracts & Essential Oils for drug, food and perfumery industries within the country and abroad. The painstaking research on selected herbal resources and oar of the country by modern scientific methods resulted the introduction of the production of selective medicinal extracts and essential oils on a It commercial scale.

At present this company is capable of exporting indigenous products like Lichen Resinoid, Sugandha Kokila Oil, Tagetes Oil and Jatamansi Oil as Well as exotic varieties such as Palmarosa Oil, Citronella Oil, Lemongrass Oil and some crude drugs to neighboring and third countries, (www.hppcl.com.np)

1.2 Statement of Problems

HPPCL has been taken as representative commercial enterprises in Nepal. This study will try to analysis and examine the budgeted profit planning and its application whether the companies are operating under commercial way or not. It is assess for on organization not only to service in the short run but also to grow on operate in the future successfully. The company’s budgeting system not better shrestha (2004), facing competition and wrong stock maintaining so this research is trying to solve these problems.

It is apparent that almost all the enterprises established in public sector are forcing have loss. So the study will find out the following basic question.

- What extent, profit planning and budgeting has been applied in HPPCL?
- What is the variance between budgeted and actual financial performance of the concern?
- What is the trend of profit and loss of HPPCL for 5 years from 2006/07 to 2010/2011).
- At what sales level the company's BEP exists?

1.3 Objectives of the Study

The basic objective of the study is to evaluate the practice of profit planning and its effectiveness in HPPCL Company. Other specific objectives of the study are listed below.

- To examine the application of PPC in HPPCL.
- To examine the practices of PPC in HPPCL.
- To examine the variance between budgeted and actual financial performance of HPPCL.

1.4 Significance of the Study

This study has focused on profit planning and control aspect of manufacturing companies like HPPCL. The systematic and scientific approaches of profit planning and budgeting finished here would be of immense helps to the concerned company to collect, produce and market herbs and herbal materials. The companies like HPPCL can prepare, appraise and evaluate the profit planning, implementation and control. The relationship among financial variables that has been described in the study would give very in rightful explanation of how a given variables affect another financial variables.

This research work is the study on the current practice of Profit planning and control of HPPCL. This study will be significant in various ways for different stakeholders.

- It explores the problems and potentialities of HPPCL.
- It examines the application of PPC in the company.
- It provides the necessary theoretical and contemporary situational conceptions to make appropriate decisions for HPPCL.
- It provides literature to the researcher who wants to carry further research in this field.
- Analysis has been focused upon financial and accounting aspect.

1.5 Limitation of the Study

This study is concerned to budgeting and profit planning of HPPCL. Beyond the resource and time constraints the following are some of the hindrances that may occur in course of conducting research.

- This study is primarily based on secondary data of five fiscal years. The reliability of result depends on these data.
- Only selected financial and stoical tools(Ratio analysis, working capital) have been employed for analysis
- The study was focused on the application of PPC in HPPCL. So this study does not represent whole Herbs production industries established in Nepal

1.6 Organization of the Study

This study has been organized into following six different chapters

In this chapter first we show the Background of study, Statement of the problem, Objectives of the study, Signification of the study, Limitation of the study and Organization of the study.

In This chapter Review of literature consists of conceptual framework which includes the concept of profit planning, process of profit planning significance and constraint of profit planning etc. This chapter is also related to demonstration of working of earlier researchers in respect of this field. This gives a strong foundation to move ahead for searching solution of the problems identified.

This chapter third is Research methodology deals with the following related to plan and scheme of research. In this chapter we take the Population, Sample, Data collection, Research design, Nature and sources of data and Tools for analysis etc.

In this chapter Data presentation and analysis Section, data collected from secondary sources are presented and analyzed to explore the profit planning and its different issues and to draw major findings in this regard.

At last we see in chapter five Summaries, conclusion and recommendation

This chapter is for summary, conclusion and recommendation.

CHAPTER II

REVIEW OF LITERATURE

This chapter attempts to build strong theoretical background through the help of which further search for solutions of the research problems would be easier. Profit planning: its theoretical background, academic insights, nature, advantages, importance and other various issues have been addressed here in this chapter as contributed by different management experts and others towards this field. While reviewing literature different sources like books, documents, bulletins, reports, journals and articles etc. are consulted. Conceptual framework first and then empirical studies have been presented here in this chapter.

2.1 Nature of a Budget

Everyone desires for rapid socio-economic development of the country by utilizing the scarce resources. Public enterprise is one of the most important means of socio-economic development of the country. The rationale behind the establishment of public enterprises are basically to accelerate the rate of economic growth , to build infrastructures of development , to make provision of public utility, to generate employment opportunity , to supply essential commodities and service; and to reduce trade imbalance of the country. But in fact operational efficiency of the Nepalese public enterprises does not seem satisfactory in accomplishing their objectives. Further, reason as to why profitability has been negative, and the factors are responsible for such a state of affairs have been explored. The present section, conceptual framework has been made with a view to recapitulate the basic concept of literature to show how to complete the present line of study. They have analyzed and searched using appropriate tools and techniques. The chapter mainly incorporates concept of profit and profit planning, important and limitation of profit planning and development of profit planning. Level of forecasting, corporate planning, budgets and budgeting, process of profit planning and the fundamentals of profit planning are the subjects to be dealt here.

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2.2 Basic Elements of Profit Planning & Control

The basic elements of profit planning are as follows:

- Comprehensive and co-ordinate plan: The profit planning considers all activities and operations of an organization. The budgets prepared by different departments inside an organization are compiled. So, before preparing a profit planning firstly all the budgets prepared by departments have to be compiled to form comprehensive profit planning.
- It is expressed in financial terms: All activities covered by budgets are related with funds. Therefore the budget has to be expressed in money units i.e. in rupees, dollars, pounds etc.
- Plan for firm's operating and resources of budget: It is a mechanization to plan for the firm's all operations or activities. The two aspects of every operation are revenue and expenses. The budgets must plan for quantity, revenue and expenses related to specific operations. Planning should not be done for revenue and expenses only. The plan should be made to carry out the operations. The planning for resources will include planning assets and sources of funds.
- Plan for specific periods: Time dimension must be added in a budget. A budget is meaningful only when it is related to a specific time. The budget estimates will be relevant only for some specific period.

Budget is defined as a comprehensive and coordinated plan, expressed in financial terms, for the operations and resources of an enterprise for a given future period. It is also a formal statement of the financial resources set aside for carrying out specific activities in a given period of time so as to help and coordinated the activities of organization.

Joel (2002) defined a budget as a plan of dominant individuals in an organization expressed in monetary terms and subject to constraints imposed by the participants and the environments, indicating how the available resources may be utilized, to achieve whatever the dominant individuals agreed to be the organizations priorities.

Lynch (2003) in his recent definition of a budget defines it as „a quantitative expression of a plan of action prepared for the business as a whole for departments, for functions such as sales and production or for financial resources items such as cash, capital expenditure, man power purchase, and others.

According to Kamukama (1992), a budget is a plan of action expressed in quantitative terms. It is a financial and or quantitative statement prepared and approved prior to a defined period of time for attaining a given organizational objectives.

2.3 Activities Involved in PPC

Profit planning has the ultimate objectives of attaining the optimum profit as indicated by many successful applications. The most reasonable approach to attain the optimum profit is to plan as a percentage of capital employed to produce them and to manage the enterprise with the objective of achieving the planned percentage. It is the heart of management with proper planning. Profits will not just happen thus every enterprise should be systematically planned for profit and control over them. Profit planning in fact is management technique and a profit plan is such a written plan in which objectives and goal established by the top management in respect of some future period plan of action development and distributed as a guide to current operations and as a partial basis for the subsequent evaluation, (Gupta, 1992).

The following are the activities involved in PPC;

i. Development and applications of broad and long range objectives of the enterprise.
ii. Specification of enterprise goals.
iii. Development of a storage long- range profit plan in broad terms.
iv. Specification of a tactical short- range profit plan detailed by assigned responsibilities (division, department and project).
v. Establishment of a system of periodic performance reports detailed by assigned responsibilities.
vi. Development of follow up procedures.

2.4 Application of PPC

Some people say that comprehensive profit planning and control is applicable only to large and complex organizations. Comments like “comprehensive budgeting is a fine idea for most businesses, but ours is different," or "it is impossible to project our revenues and expenses," and so on. Such type of comments are common regarding non-manufacturing enterprises, service companies, financial institutions, hospitals certain retail business, construction companies, and real estate enterprises. To the contrary, profit planning and control can be adapted to any organization (profit or non-profit, service or manufacturing), regardless of size, special circumstances, or conditions. The fact that a company has peculiar circumstances or critical problems is frequently a good reason for the adoption of certain profit planning and control procedures. In respect to size, when operations are extensive enough to require more than one or two supervisory personnel, there is a need of profit planning and control applications. The smallest company certainly has different needs in this respect than a large one. As with accounting, a single profit planning and control system that is appropriate for all enterprise cannot be designed. A profit planning and control system must be tailored to fit the particular enterprise, and it must be continually adapted and the enterprise and its environment change.

2.5 A Behavioral Problem in PPC

Realistic expectations are the major behavior problem in profit planning and control. In profit planning and control, management must be realistic and avoid being either unduly conservative or irrationally optimistic. For profit planning and control purposes, enterprise objectives and specific budgets goals should represent realistic expectations. To be realistic, expectations must be related 1) to their specific time dimension and 2) to a projected external and internal environment that will prevail during that time span. Goals that are set so high which are practically impossible to attain will discourage serious efforts to reach them. On the next hand, the goals set so low that need no efforts will provide no motivation. In order to constitute realistic expectations enterprise objectives and specific goals must represent a real challenge to managers and to operational units. The top management of the enterprise has the direct responsibility for defining the level of challenge that is represented by realistic expectations.

The development of realistic budgets goals, and the efforts required to attain them, entail significant behavioral implications. The budget goals should be established on a participative basis and implemented in ways that provide positive reinforcements rather than negative reinforcements. The attitudes like “can’t do” and “won’t do” have to consider by the management. “Can’t do” means more attention needs to be given to employee training and facilities. “Won’t do,” means the consequences of “doing it” should be reevaluated (positive rewards, challenges, pride, status etc.). The definitions of realistic expectations in a given enterprise are related to many variables, such as size of the enterprise, characteristics, maturity of the enterprise, sophistication of the management, nature of operations and behavioral management.

A particularly damaging effect of budgetary pressure results people to feel as though they have failed in meeting the budgetary goals. Such perceived failure result in loss of interest in work, lower personal standards for achievements, loss of confidence, fear of new tasks, lack of co-operation, and development of a critical attitude toward others.

In a study of sixteen manufacturing companies, Kenis reported that budgets goals that are “too tight” have negative effects on managers job satisfaction, budgetary performance and cost efficiency as compared with managers who reported having “tight but attainable” budgetary standards. Moreover, “too tight” budgets caused significant job tension, (Welsch, Hilton & Gordon,2000).

The management should always be sensitive to the behavioral implications of budgetary pressure when implementing a PPC program.

2.6 Budgeting

The Tennessee Board of Regents (2006) defines budgeting as the process whereby the plans of an institutions are translated into an itemized, authorized and systematic plan of operation, expressed in dollars for a given period. Budgeting at both management level and operation level looks at the future and lays down what has to be achieved. Control checks whether the plans are being realized and put into effect corrective measures, where deviation or short fall is occurring, (Egan, 1997).

A budget is a quantitative expression of a plan of action prepared in advance of the period to which it relates. It is a plan expressed in terms money prepared and approved prior to the budget period which show income, expenditure and capital to be employed, (Lucey, 1993)

Brook & Palmer (1984), describe a budget as a quantitative expression for period of time designed for future plan of action by management. A budget can cover both financial and non-financial aspect of these plans and act as a blue – print for the company to follow in the upcoming period. Thus a budget is also an itemized estimate of operating result of an enterprise for a future time period.

According to Brook and Palmer (1984), it is a business financial control system. Budgeting is about making plans for the future, implementing those plans and monitoring activities to see to it that they conform to plan.

Hawley (1991), explain that, budgeting is the way and means of preparing budgets and that a budgets is a plan of action which has been prepared and approved prior to the period when it will be used, detailing monetary, quantitative or other descriptive terms, the event to be accomplished in the budget period. A budget is different from a mere forecast, in that it is a formal management of events which are desired by management to take place in an organization within a defined period of time.

A forecast is not a scientific activity, because it can merely be a guess work. However a budget is scientific document because it is prepared under approved principles and procedures and in a systematic manner.

Izhar (1990) also describes a budget as an itemized estimate of the operating results of an enterprise for period. They explain further that, the form of the budget varies from organization, but it is eventually summarized into the form of normal financial statements.

The major difference between a budget and a financial statement is the data used to develop each, financial statement is based on actual results of past operation where as budget are based on planned operation for a future time period. For this reason budgets may be referred to as performance statement.

2.7 Ethical Issues in Budgeting

Budgeting creates serious ethical issues for many people. Much of the information of the budget is provided by managers and employees whose performance is then compared with the budget they develop.

Brook & Palmer (1984), suggest that companies should provide incentives for people to report truthfully, which means the company must reward both for honest estimate and good performance. But reality is that, many companies put considerable pressure on employees to achieve increasingly difficult targets.

2.8 Budget Relative to Time

Development of an annual budget is only one segment of the on-going planning process of a business. For the planning process to be most successful there must be some long-range goals, intermediate objectives and short-term plan of action.

Lucey (1994) explained that, the long-range goals identify the direction of the company over a five to ten years period. The goals are stated in general terms, but they deal with specific areas in which the company intends to be successful. Areas often covered include sales, research and development, capital expenditure, personal policies and financial position.

Hawley (1991), continued to explain intermediate objectives and short-term plan where they stated that, intermediate objectives identify the specific steps that will lead to accomplishing the long-term goals. They provide a link between short-term plan and long-term objectives. The long and short-term plans are merged and integrated into specific plan by the intermediate objectives.

The short-term plan, called a budget or annual forecast, identifies the activities to be accomplished during the coming year. Izhar (1990) supports the argument of Cherrington et al (1988) that the long-term budget is a financial translation of purposed future capital investment; development of new products and abandonment of existing ones, breaking into new market and soon, this, he stated looks several years ahead. Each year is broken down into more details for the next year in an operating plan. This may intend be divided into quarterly and monthly budgets.

2.9 Function of a Budget

According to Izhar (1990) the first functions of budgeting is planning. Forward planning forces managers to formally consider alternative future courses of action, evaluating them properly and deciding on the best alternative.

Planning encourages managers to anticipate problems before they arise giving them time to consider alternative ways to overcome them when they do arrive.

The second function that Izhar described is Co-ordination: left to their own, department manager may make decision about the future which is incompatible or even in conflict with other departments.

Function of budgeting helps to avoid such conflicts by encouraging managers to consider how their plans affect other departments and how the plans of the other departments affect them.

Control and performance evaluation: This function ensures that actual performance is measured against expected performances.

Control and performance evaluation help to take corrective measures to any adverse variances which were revealed during the evaluation period.

Participation: By actively involving managers at all stages of the hierarchy, the process of budgeting brings the different levels closer together. The junior members feel that they have a say in the running of the organization – this lead to increase job satisfaction and consequently productivity. It has therefore been said that, the actual process of budgeting is as beneficial as the budget itself.

2.10 Stages in the Preparation of a Budget

Hawley (1991) & Izar (1990), share the same opinion on the process of preparing a budget. A number of stages can be identified in the preparation of a budget.

Stage one. Involve identification of the key aims for the coming year and any major external changes likely to affect the business and communicating these to the budgeters so that they know what overriding factors to keep in mind when preparing their budgets. These will be largely gauged from the long-term corporate plan.

Stage two. Determine the key factors or limiting factors. Every business has some factors which eventually limits its growth. In most cases, it is sales demand. An error in the key factor budget would throw out all the subsidiary budgets. When using the factor in context of budgeting, it is sometimes called principal budget factor.

Stage three. Assume sales in the limiting factor, preparation of the sales budget. Unfortunately, this is the most difficult budget to prepare, because of many external influences which governs its level over which the firm has no control. Before this is attempted, a sales forecast is usually made by product type and geographical area.

Stage four is the initiation preparation of the subsidiary budget. This include the preparation of the production budget, direct labour budget, production overhead budget, selling and distribution budget, administration budget, capital expenditure budget and the cash budget.

Stage five involves review and co-ordination of the subsidiary budget by the budget officer or budget committee. This function is to check whether there are inconsistencies or conflict between the many subsidiary budgets.

Stage six. The individual subsidiary budget is consolidated in a single master budget presented in a form of a budgeted income statement and balance sheet.

Stage seven. At this stage, the work is presented to the board of directions for approval. Izhar stated that although the budget is finalized on director approval, in one sense the process of budgeting never ends. Furthermore, he added that, a budget is prepared under certain basis assumption about the future. Any change in this should lead to the budget being revised.

2.11 Persons Involved in Budgeting

Different persons are involved in budgeting. According to Izhar (1990), the budgeters, who prepare and are responsible for their budget, are their departmental line managers. They may or may not involve the sub–ordinate depending on their style of management and relationship with their juniors. In converting their budget into money terms they may enlist the help of an accountant. The person whose function is to co-ordinate the many individual budgets of the line men is the appointed budget officer normally an accountant.

In large public companies budgeting for the whole organization can be very complex process indeed, co-ordination of which is far beyond the limit of any one person. Here a budget committee may be set up comprising of high level executives in charge of the major functional divisional of the business.

2.12 Approaches to Budgeting

2.12.1 Zero- base Budgeting (ZBB)

Lucey (1994) argued that, zero-base budgeting is a cost benefit approach whereby it is assumed that the cost allowance for an item is zero and will remain until the manager responsible justifies the existence of the cost item and the benefit the expenditure brings.

Hawley (1991), also argued that ZBB are prepared without reference to the budget of the preceding period. A fresh look is made at the activities of the organization and based on the new circumstances and entirely new budget is prepared.

2.12.2 Incremental Budgeting

According to Hawley (1991), incremental budgets are like ordinary budgets, except that in the case of incremental budget, in the next budget period a fresh budget is not prepared only a percentage increase or decrease is made to either the previous budgetary estimates or the actual results. Thus with the previous budget as the base, adjust for inflation and other changes in the economy, market conditions and the desire of management to attain some objectives are incorporated as adjustments.

2.12.3 Flexible Budgeting

Flexible budget is a technique, according to Cherrington, Hubbard & Luthy (1988) that used to adjust the budget for various level of business activity. In developing the flexible budget, expected or budget costs relationships are quantified so that the budget can be easily adjusted to any level of business activity.

In essence, the flexible budget says, you tell me your level of business activity for the period and I will tell you what your cost should have been. Maher & Deakin (1994) agreed tha3t a flexible budget indicated revenues cost and profits for virtually all feasible levels of activities.

2.12.4 Continuous Budgeting

One of the problems in preparing a budget is the disruption of normal operation while the budget is prepared. A large amount of time is required by many people throughout the organization to prepare a good budget. Also unforeseeable event may occur during the year to make the budget a poor standard of performance. A technique called continuous budgeting has been developed to avoid these problems.

Cherrington, Hubbard & Luthy (1988) explain that, continuous budget requires that budget for the next fiscal year is revised and updated at the end of each quarter. Actual operating results are prepared at the end of each quarter and compared to the budget for that quarter.

Based on these results and new information and events during the quarter, the budgets for the next three quarters are revised. In addition a new fourth quarter budget is developed and added to the remaining three quarter periods. Continuous budgeting spreads the time required to prepare the budget over the entire year and provides a more meaningful budget throughout the year.

2.13 Participative Budgeting

Hilton, Maher & Selto (2000) explain that most people will perform better and make greater attempts to achieve a goal if they have been consulted in setting the goal. The idea of participative budgeting is to involve employees throughout an organization in the budgetary process. Such participation can give employees the feeling that this is our budget rather than the all – too common feeling that this is the budget you impose on us. While participative can be very effective, it can also have shortcomings. Too much participation and discussion can lead to vacillations and delay. Also when those involved in the budgetary process disagree in significant and irreconcilable ways, the process of participation can accentuate those differences.

2.14 Types of Budgets

The types of budgets and the extent of the budgeting activity vary considerably from organization to organization. In smaller organizations, there may be a sales forecast, a production budget or a cash budget. Large organizations generally prepare a master budget.

Cherrington, Hubbard & Luthy (1988) explain that, a master budget involves the development of a complete set of financial statements for the budget period, with supporting schedule.

2.14.1 Sales Budget

Brook & Palmer (1984) describe the sales budget as setting forth the sales department‟s objectives for the budgetary period. The sales budget is the key to the overall industry budget, because the anticipated sales volume is used as a basis to determine amount of goods to be produced, the labour equipment and capital required and the natural and amount of various selling administrative and financial expenses needed. Sales estimates are based on past performances and on the forecast of business conditions for the coming period. The accounting department, sales management and sales persons all have a role in developing the sales budget.

2.14.2 Production Budget

According to Brook & Palmer (1984), after the sale budget has been determined, a production budget can be made to meet requirements of sale budget. The actual number of units to be completed is computed from the following data units to be sold, desired size of ending inventory and units in the beginning inventory.

2.14.3 Direct Materials Budget

Brook & Palmer (1984) explain that, the material budget is developed to indicate the material to be purchased and materials usage for the period. It shows the estimated raw materials volume that would be used to meet the requirements of the production budget for the budget period. It is usually prepared to show the quantity and value of materials required for the production programmed. The material budget is extremely important in determining future cash requirements.

2.14.4 Direct Labour Budget

The direct labour budget according to Brook & Palmer (1984) is an estimate of the total direct labour hours and direct labour costs required to complete the expected production during the budgeted period. Appiah-Mensah (1993), also explained that, it may show wages of direct workers and direct labour utilization needed to complete the production schedule for the budget period.

2.14.5 Manufacturing Overhead Budget

The manufacturing overhead budget as stated by Brook and Palmer (1984) is usually more difficult to budget than either direct materials or direct labour. It show the amount expected to be spent as cost running the factory. Manufacturing overhead cost is less consistent. Some of these costs such as indirect material are variable.

2.14.6 Operating Expenses Budget

Detailed budgets are normally prepared covering the selling and administrative expenses anticipated as a result of the estimated sales and production operations.

2.14.7 Cash Budget

A cash budget is one of the most important budgets prepared in the organization. It shows in summary form, the expected cash receipts and cash payments during the budget period. As described by Brook & Palmer (1984), the cash budget shows the effect of budgeted activities selling, buying, paying wages, and investing in capital equipment and so on. Cash budgets are prepared in order to ensure that there will be just sufficient cash in hand to cope adequately with budgeted activities.

2.15 Budgetary Control

Budgetary control normally involves the use of budget as control documents. This mean that budgetary control deals with „‟action"‟ that are taken to ensure that actual performance of budgetary activity conforms to pre-determined plans. In order words, budgetary control deals with regulating the activity of the business to follow the pattern that had previously been planned in the budget.

According to Appiah-Mensah (1993), if actual performance is not controlled, then it will differ from planned performance and the business will not achieve its objectives.

2.16 Effective Budgetary Control Report

The budgetary control report is very important in the feedback process and to ensure maximum effectiveness. It is important that its design, timing and general impact is not ignored or misunderstood otherwise it will not lead to effective actions and so will be useless.

The key items which should be shown are the budgeted level of costs and revenue for the period and year to date, the actual level of cost and revenue for the period and year to date, the actual level of cost and revenue for the period and year to date, the variance between the above two points stated together with the trends in variances, and indication of what variances are significant together, with, where possible, analysis and comments which can be used to bring the variances under control.

2.17 Why Variances Occur

Drummond (1998) explains that in the chemical and drugs production department, sale variance is caused by the following: more or less customers that budgeted and increase or decrease in the average spending of these customers or a combination of the two. Cost variance is caused by a greater or lesser cost paid for the goods, and increase or decrease in the quality used or a combination of the two. It stands to reason that, an increase in drug sales would result in an increase in cost of sales. The use of flexible budget will allow us to extract the cost variance which is directly related to a sales variance and those which are not, for example, the flexible budget show cause and effect therefore only the variance with the flexible allowance need further investigation.

Sales variance is a direct result of a change in a pattern of customer behavior. Variance occurs when more or less customers spend more or less money than you forecast for the budget. Drummond (1998) explains further, that when any of such variance occurs, it will involve budgeters in taking three steps towards controlling the budgets:

I Reviewing

II Reaching and

III Revising

2.18 Review of the Previous Studies

There has been a lot of research work in the past on PE's of Nepal and the application of PPC in both manufacturing and non-manufacturing companies. These past studies have helped this study to be more effective and logistic in its sense. To solve the task presented in this study several concepts and theories of this past thesis have been taken. Many researchers have shown interest in doing research in PPC and have carried numerous research and field observations to illuminate pertinent issues. Very few researchers have carried research in PPC of HPPCL. Whatever the research in the areas of profit planning and control made are also not in depth and in detail. Very few dissertations have been submitted in the topics of profit planning and control of HPPCL. Some of the researcher's findings and suggestions of the previous studies are reviewed here.

Sen (2001) submitted his thesis titled "Profit Planning of Non-manufacturing enterprise in Nepal: A Case Study of Nepal Food Corporation". The study was mainly concerned with the finding of degree of application of profit planning system in HPPCL to increase its profitability by increasing its effectiveness.

The main objectives of his research work were. Comparative study of sales trend, Comparative study of purchase trend and Analytical studies of inventory policy.

His research covered the time period of nine years from the FY 2049 to FY 2057. For data gathering process, secondary sources were used.

He found the planning section that makes the plan is confusing and creates conflict between profit and goals, profit planning is adversely affected.

And there is no well-developed system of performance evaluation for employee. No fair system of reward and punishment to employee on the basis of their work performance.

Adhikari (2004) submitted thesis titled, "Profit planning in manufacturing enterprise: A case study of DDC". The specific objectives of his study are to analyze, the functional budgets on sales and production sector of the DDC, to analyze, various accounting ratios, measure the profitability and efficiency of the DDC. And analyze the budget target and its achievement.

Major findings are: Production and sales of DDC is increasing annually although the growing rate is fluctuated, DDC has no proper practice in segregating into fixed and variable, DDC has prepared direct labor budget only based on technical and administration. It has not prepared according to time and rate and Capacity utilization is very high but the productivity ratio is low.

Wagle (2006) presented her thesis on the topic "Profit Planning and Control Implications in Nepalese Public Enterprises: A case study of Profit Planning and Control in NFC". He has tried to understand the practical aspects of the industry and to highlight the current practice of PPC in Nepalese Public Enterprises.

Her major findings are the overall economic conditions of Public enterprises are very poor. NFC is financially very weak and its financial condition is becoming more and more unmanageable, NFC's objectives are often not clear-cut and result oriented. NFC doesn't fix the target for specific goal for the budget period. For example growth, objective, capacity utilization is not targeted to achieve some specific goals, Management has not been made fully responsible for achieving predetermined objectives, Lack of planning, management, poor distribution, and storage and lack of efficient response have always contributed to food shortages.

Her recommendations are National policy, concept and vision of the government should be clear in its objective and functional area, improve the profit pattern NFC should develop profit plan formulation and proper implementation of it,NFC should prepare flexible budget in different level and cost volume profit analysis should be developed for managerial decision-making,NFC must maintain the cash flow statement due to which position of cash in NFC will be clear. There is a little expectation of profit if there is a clear cash structure of NFC. Therefore, the cash flow statement of NFC must not be neglected and it is suggested for the substantial reduction of cost from improved cash management, tightening upon expenditure budget, better control of transport and staff rationalization.

Ojha (2005) has a significant contribution on the topic “Profit Planning in Public Enterprises in Nepal : A Comparative Study of Royal Drugs Limited (RDL) and Herbs Production and Processing Company (HPPCL)” The study is to high light the applicability and effectiveness of profit planning in Nepalese public entireness . Planning and decision making process is highly centralized in DRL whereas planning and decision making process in HPPCL is participatory to same extent.

He submitted a dissertation in the topic, “Profit Planning in Herbs Production and Processing Company Limited” to the faculty of management central department T.U. in the course of practical fulfillment of MBA. The research paper is to examine what extant the company is applying comprehensive profit planning system but HPPCL has lack of budgeting exports and formulated on traditional adios basic.

Bhata (2007) submitted a dissertation on the topic “Profit Planning in Royal Drugs Limited” this research of Mr. Bhata was mainly concerned with the current practice of profit planning and examines that to what extent the RDL is apply profit planning system. And analyze the various functional budgets that are prepared in public enterprise of Royal Drugs Limited. Internal and external variables providing opportunities threats and strengths and weaknesses are not identified.

Mishra (2008) has a significant contribution on the topic “Profit Planning in Tokla Tea Estate (TTE)”. The research paper is to examine how far the different functional budgets are being applied as a tool of profit planning in the estate. The production plan and actual production trend of the company but there is unrealistic production for casts.

K. C. (2008) conducted a research on the topic, “ Profit planning in Herb’s production and processing co. Ltd. “This research work is basically concerned is to highlight the current practice of profit planning and its effectiveness in herbs production and processing company limited but there is lack of proper coordination between the various responsible departments.

Prasi (2009) submitted a research study entitled “Profit Planning in HPPCL” has given focus upon profit-planning aspect of HPPCL. A research, conducted current estimates of future performance like flexible expenses budgets, cost volume profit analysis continuous budgeting, and variance analysis and budget revision but there is no cost classification system. Overhead are not classified systematically and it creates problem of analyze its expenses properly.

Chidi (2010) submitted the thesis on the topic “Profit Planning and Control Of Herbs Production and Processing Company limited”. The researcher has primarily focused on the Planning of and actual sales, profit, cost and variance the preceding year followed by the policies and practices adopted by the management of HPPCL with a view to provide workable suggestion which may be helpful for the projections.

It is determining the total number of units of products or services HPPCL realistically expects to sell for the year in each sales depot at the expected prices in the basic market orientation: local, national, regional, or export. To calculate and identify all the components of costs of sales that incur under both the low and high sales projections. Estimates future funding requirements for the organization. Prepare projected financial statements.

HPPCL is not preparing projected financial statements at all. It only prepares annual budget for the one financial year before the start of the concerned financial year.

HPPCL does not analyze its financial statement by calculating its different ratios, which is very important for planning and controlling business operating.

Research Gap

There was very few research studies made in the field of business and service sector. Those that were made were also not done in depth. Those research studies lack the performance analysis of the company. They dealt with either single accounting tools such as CPV analysis or they were limited in the projections of sales and production. This research study dealt with the profit planning and control of the HPPCL as a whole and tried to find out the drawbacks of the corporation. The previous studies lacked about the Budget variance, which was focused in the study.

CHAPTER- III

RESEARCH METHODOLOGY

The main objective of this research is to understand the practical aspects of the enterprise and to highlight the applications and current practice of Profit Planning and its effectiveness in realizing profit in HPPCL. Moreover the objective of the study is to analyze, examine, and interpret the budgeting techniques with the help of various financial statements, accounting analysis, statistical tools and non-financial subject matters. The major aspects of research methodologies adopted in course of this study were as follows:

3.1. Research Design

Research design provides the overall framework or plan for the collection and analysis of data during the research study. This study is an examination and evaluation of budgeting procedure in the process of profit plan of HPPCL. This study is closely related with the various functional budget and other accounting statements that the company has adopted. An intensive analysis of historical and descriptive research design was used in this study to analyze the performance of past five years from the FY 2006/07 to FY 2010/11 The research is processing both quantitative as well as qualitative aspects.

3.2 Sources of Data

The source of data comprises both primary and secondary but the major source is secondary. The source of data is the office of HPPCL. The secondary data was taken mainly from the annual reports, balance sheets, profit & loss accounts, cost sheets, auditors' reports of HPPCL and other published and unpublished data. The help of weekly magazines, daily newspapers and business journals were also taken.

3.3 Population and Sample

Since the study is wholly focused on the single company entitled HPPCL therefore, the company as a sample in whole population nears about 700 other company. It is a largest company of Nepal in the field of hurbs processing company.

3.4 Period Covered

The study analyzed only for five fiscal years period. The period for conducting research starts from the FY 2006/07 to FY 2010\11

3.5 Data Collection and Analysis

Secondary data were collected from office records, annual reports, balance sheet, profit & loss account and unpublished thesis related with this matter. The primary data were collected from the concerned authority by discussion, opinions and information provided by them.

The analysis of data were done by using different accounting, financial and statistical tools. The statistical tools used are mean, co-relation, and regression. Similarly different ratio analysis, variance analysis etc. were used as financial tools. As for the accounting tools different functional budgets were taken.

3.6 Research Variables

The research variables of the study were related with the accounting statement of HPPCL. Sales, production, purchase, inventories, expenses, labor, profit and loss were some of the important research variables that affect the research study. The research is dependent on intervening with management committee and the staffs.

Chapter – IV

Presentation & Analysis of Data

It stands for presenting analyzing data to explore the solutions of mentioned previously. For analysis purpose, various statistical and tools have been employed as per necessary. Profit planning and its various items like financial budgets and practices, trends of profitability and assets , variance of budgeted and actual plan, relationship of financial variables and the main issues to be dealt here in this chapter .

The objectives: To find out the financial budget and profit planning in HPPCL.

4.1 Application & Practices of PPC in HPPCL.

Profit planning and control also known as comprehensive profit planning and control is a new term in the literature of business though it is a new term but it is not a new concept in the management. Comprehensive profit planning and control or PPC on other terms are business budgeting, managerial budgeting and budgeting. It is an integral part of management.

Profit plan is a financial and narrative expression of the expected results from the planning decisions. It is called the profit plan (or the budget) because it explicitly states the goals in terms of time expectations and expected financial results (return on investment, profit, and cost) for each major segments of the entity. Typical profit plans establish the content and format of the internal –control reports with respect to operations, inputs, outputs and financial position developed by the entity for monthly performance reporting to the various levels of management.

4.1.1 Production Budget

When the sales plan is completed the next step in comprehensive profit planning process is the formulation of production plan. Simply in production budget is an estimate of the number of unit of each product that will be produce in the budget period to meet planned sales and inventory level of finished goods. All activities in the manufacturing cycle must be planned, coordination and controlled. To achieve the objectives, manufacturing activities are categorizing into two parts i.e. preproduction and production activities. Preproduction activities consist of those functions that must be performed before production and this phase ensure into the desired resources for production at the night time and the right quantities. Production activities are the conversion of these input resources into the desire final product. While developing production plan, factor that affect in production planning should be identified and appropriate production plan should be developed.

4.1.2 Production Budget in HPPCL

So far as the production budget of HPPCL is concerned, there is no effective preparation of long and short rang production plan. HPPCL deals with various types of medicinal and aromatic plants in pranced and unrepressed form. So the products of HPPCL are highly heterogeneous. By the nature of the HPPCL, it is very difficult to pre-determine the units to be produced in long terms. Their factors that create complication in production plan in the lack of skilful manpower and effective coordination between the branches. The production of HPPCL is highly depended upon the availability of crude herbs is determined by the various factors like weather, policy of Nepal Government etc. Following table shows the actual production by types of productions form FY 2006/07 to 2010/11.

Table 4.1

Estimated Production Level for FY 2011/12 by Types of Product and Branches Production Budget of HPPCL

S .N	Particular	Units	Kathmandu	Tamayo	Belbari	Tikatpur	Dhankuta	Total
1	Pamaroja oil	K .G	-	1700	-	-	-	1700
2	Sitronela oil	K .G	-	4800	6500	-	-	11300
3	Lemongrass oil	K .G	-	3000	50	-	-	3050
4	Menthe oil	K .G	-	5500	100	-	-	5600
5	Cammome oil	K .G	-	300	75	-	-	375
6	Basil oil	K .G	-	200	75	-	-	275
7	Dhasingre oil	K .G	378	-	-	-	-	378
8	Jaramashi oil	K .G	-	-	-	-	-	-
9	Bozo oil	K .G	-	-	-	-	-	-
10	Tejpat oil	K .G	117	-	-	-	-	117
11	Katchur oil	K .G	-	-	-	-	-	-
12	Timal oil	K .G	121	-	-	-	-	121
13	Uklatiptus oil	K .G	2564	1000	300	350	-	4214
14	Khoto	K .G	200	-	-	-	65	265
15	Sancho	K .G	3000000	-	-	-	-	3000000
16	Massage oil	K .G	20000	-	-	-	-	20000
17	Silajiest	K .G	15000	-	-	-	-	15000
18	Sacho Herbal Drink	K .G	-	-	-	-	-	-
19	Prabin	K .G	1983	-	-	-	-	1983

20	Rojin	K .G	190800	-	-	-	-	190800
21	Tarpin oil	K .G	47700	-	-	-	-	47700
22	Kapoor	K .G	1881	-	-	-	-	1881

Production of Jatomashi and Bozo oil is 1118 interrupt in some of the years. Some case is also visible for Sancho Herbal drink. Production of Sancho in bottles accounts for largest production volume of all the products. Production of Rojin in K.G also significantly large and has been increasing gradually. Silajit pest (in kg), Tarpin oil (in litre) and massage oil (in kg) covers significant amount in the firm’s production. All the production of HPPCL is not produced but some of them it purchased.

Following table shows the estimated production level for coming year i.e. for FY 2011/12 by types of product and branch.

4.1.3 Inventory Consideration

A certain level of inventory is needed fir smooth sales activities of industry. Finished goods inventory cushion between sales and production. When production exceeds sales, then the excess production is kept into store and the inventory level will be increases. The inventory level decrease when sales exceed production.According to the nature of product. Seasonality production process, permissibility and other so many factors determine the level of inventory.

HPPCL is a multi-product company producing and purchasing multi-product. Table reveals the inventory level of the company for the 5 years periods.

Table 4.2

Inventory and its Turnover

FY	Opening inventory	Closing inventory	Inventory Turnover
2006/07	34398924.63	406719.33	0.8275
2007/08	34067193.33	3322791.03	0.9677
2008/09	33227916.03	3844893.72	0.89
2009/10	38448938.72	-	1.158
2010/11	30354444.71	28822258.92	1.1082

Inventory level of HPPCL varies randomly between Rs.30 million to Rs 34 million indicating no any consistent inventory policy. Later column of above table is the company's inventory turnover ratio for 5 years period. During the first 3 years of the company's turnover of inventory is very poor indicating very slow moving inventories of the company. However same turnover has optimistically increases during the last two years of study period that is 1.158 times in FY 2006/07 and 1.1082 times in FY 2010/11 this indicates that company has been able to convert its inventory into sales faster than the previous years.

Trend of Cost of Goods Sold and Estimation

Production cost is known as cost of goods sold. It is the aggregate of materials cost. Direct labour cost and factory cost. Cost of goods sold and gross profit has inverse relationship i.e. if cost of goods sold increase gross profit decrease and vice-versa.

Table 4.3

Cost of Goods Sold

(in Rs '000')

FY	Sales	Gross Profit	Cost of goods sold	
			Amount	Percentage of sales
2006/07	35366.34	6913.78	28452.56	80.45
2007/08	39345.71	6784.47	32561.24	82.76
2008/09	42876.16	10977.79	31898.37	74.40
2009/10	47888.36	8052.11	39836.25	83.19
2010/11	45916.58	13127.90	32788.68	71.41

Sources: Annual Report of HPPCL

Cost of goods sold and gross profit shows the production efficiency of a firm. Cost of goods sold of the company has increased during the year 2007 this has caused the gross profit to decrease from Rs. 6913.78 thousand to Rs. 6784.47. In fiscal year 2008/09 cost of goods has decreased as compared to the previous year's cost of goods sold resulted in higher profits than that of previous year. In the fiscal year 2009/10 cost of goods sold has come to be Rs. 39836.25 thousands the highest ever recorded in company's account.

Profit to decrease. At the last year or in fiscal year 2010/11 the cost of goods sold again has decreased to 32788.68 thousands. This has caused the gross profit to increase to Rs.

13127.90 thousands the highest gross profit the company has ever achieved. Cost of goods sold as a percentage of sales are 80.45, 82.76, 74.40, 83.19, and 71.41 for fiscal year 2006/07, 2007/08,2008/09,2009/10,2010/11 respectively. More of the company's sales is taken away by the cost of production that result into the little or no profit for the company in these periods.

4.1.4 Expenditure Budget of HPPCL

Profit is certainly a function of expresses. in this regard planning of profit includes plan for expenses also. In planning process, the knowledge of costs for each responsibility centers should be pinpointed. Total costs of company can be subdivided into following ways:

i. Prime cost
ii. Factory overhead
iii. Administrative
iv. Selling and distribution overheads
v. Other expenses

Prime costs include direct materials, direct labour and other direct charges. Factory overhead includes all cost associated to manufacture products and to factory. Administrative costs include those expenses other than manufacturing and distribution. Selling and distribution expenses include all costs related to provide and sales products to customers. Besides these expenses, other operating and non operating expenses are also incurred in the manufacturing enterprises. According to plan and policy, such expenses are treated as miscellaneous expenses and these expenses are estimated separately. Following table shows how total cost of the company apportioned in different cost centers.

Table 4.4

Expenses of HPPCL

(In Rs '000')

Particular	2006/07	2007/08	2008/09	2009/10	2010/11	Average	Standard deviation	Coefficient of variation
Prime cost	134555.39	14980.30	18111.33	15558.64	15467.67	15512.67	1501.48	0.097
Factory and selling overhead	15570.98	17600.22	20232.41	17062.38	16958.59	17484.98	1528.42	0.087
Administration	11636.80	13095.11	13690.18	11825.40	11341.47	12263.19	956.92	0.078
Depreciation	2157.66	1985.30	1759.70	1532.09	1466.34	1780.22	262.69	0.15
Total	42820.83	47660.93	53793.62	45968.51	47905.01			

* Office and administrative overheads include provision for interest on loan.

** Factory and selling overheads reported altogether.

From the above table one can observe that factory and selling overhead of HPPCL is more than all other costs averaging to Rs. 17484.98 thousand for over the 5 year period. Prime costs of the company is also significantly larwhich averages to Rs 15512.67 thousands. Administrative overheads beat third position in terms of the cost of the company. Likewise depreciation of the company is 1780.22 thousands in an average.

Prime cost of the company is more inconsistent showing CV of 0.097. Followed by factory and selling overhead (CV=0.087) and administrative overhead (0.078).In an absolute terms factory and selling overhead is dispersed more from its average coasts as it has highest S.D. of 1528.42.

Table 4.5

Actual and Forecasted Cost Statement for 2011/12 and 2012/13.

(In Rs '000')

Particulars	FY 2011/12		FY 2012/13	
	Rs. Amount	%	Rs. Amount	%

Prime cost	29960	55.70	35468	61.81
Factory & selling oil	9637	17.91	10385	18.10
Administrative oil	12349	22.96	10329	18.00
Depreciation	1850	3.43	1200	2.09
Total	53796	100.00	57382	100.00

Source: Annual Report of HPPCL 2011

Total cost of HPPCL is expected to rise by 3586 thousand to level to Rs.57382 during the next fiscal year prime cost will account for 61.81 percent of total cost and this cost is excepted to rise to 61.81 percent from its previous level of 55.70 percent. Likewise factory and selling overhead is also expected to increase to RS. 10385. Unlike previous trend administrative overhead and deprecation are estimated to decrease

4.1.5 Capital Expenditure Plan for HPPCL

Capital budgeting is the planning future investment in plants. Equipment and other types of assets. How much and when expenses are made is decided previously. So capital expenditure is the use of funds to obtain operational assets that will help to can revenue or reduce future costs.

Capital expenditure is a kind of investment as they occurred at some time to reserve benefit in the future. Most of Nepalese manufacturing enterprises do not have any particular planning for capital expenditure. In the context of HPPCL some amounts are provided in annual budget for capital expenditure and within the budget amount on capital expenditure capital adjustment are made as per the necessity. Since capital additions are made where urgency of such expenditure occurred, the purchasing decisions are not made based on the evaluation criteria of capital expenditure. Total amount is allocated for capital expenditure and manager or authority decides what to purchase according to the necessity of the company within the limitations of the allocated amount.

Therefore there is no systematic budgeting procedure in the context of capital expenditure plan.

Table 4.6

Capital Expenditure of HPPCL

(In RS. 000)

Fiscal Year	Capital Expenditure
2006/07	820.43
2007/08	381.87
2008/09	305.43
2009/10	863.38
2010/11	1730.50

Since HPPCL does not prepare its separate capital expenditure plan. Actual expenditure of HPPCL is calculated and shown as in the table above capital expenditure of HPPCL is highest in 2010/12 amounted to Rs. 1730.50. Followed by FY 2009/10 (Rs.863.38), 2006/07(Rs. 820.43), FY 2007/08(Rs.381.87) and in FY 2008/09(Rs.305.43).

HPPCL estimates total fixed assets to be purchase for rent year. HPPCL has estimated following expenditure under different headings of F.A.

Table 4.7

Estimated Capital Expenditure for FY 2011/12

(In Rs ‘000’)

Particular	Rs
Office machinery	50
Distillation plant	-
Pump	-
Overhead tank	-
Furniture	55
Water processing plant	-
Form machine	-
Form tools set	70

Vehicles	-
Distillation shed construction	200
Fencing	700
Tractors	-
Total	1100

Total capital expenditure of the company for forthcoming year is Rs 1100000. Out of this total estimated budget Rs. 200000 is for construction of distillation shed, Rs. 700000 is for fencing. Likewise Rs. 50000 is to purchase office machinery, Rs. 55000 is to purchase furniture, Rs 70000 is to purchase form tools set. Estimated in the way, total capital expenditure for coming year comes to be Rs. 1100000.

4.1.6 Planning of Cash

Cash budget is effective way to plan and control the cash flows, assets, cash needs and effectively use of excess cash. A cash budget shows the planned cash inflows, outflows and ending cash pointing by the interim period for specific time span. The basic two of each budget are the planned cash receipt and planned cash disbursements. It coordinates cash with cash with total working capital, sales revenue, expenses, investments and liabilities. HPPCL do not have systematic cash planning formal. But it is clear that the main sources of cash HPPCL is cash sales, the main it is of cash used are purchase of herbs and container salaries, production and processing administrative salaries etc. To analysis the major cash application and sources following cash flow statement is prepared with the help of balance sheet and income statement of the year.

Table 4.8

Cash Flow Statement for FY 2010/11

Particulars	Amount

A	Cash from operating activities: Operating profit during the year Deprecation Cash from decrease in current assets Cash from increase in current liabilities Decrease in employee privilege funds Cash paid for gratitude and medical treatment Cash from operating activities	 1964895.88 1466339.25 1633291.90 1785194.35 12190.50 (2670644.10) 4301006.78
B	Cash from investing activities: Purchase of fixed assets	 (1730502.12)
C	Cash from financial activities	NILL
D	Cash increase during the year (A+B+C)	2570504.66
E	Plus : Cash at beginning : In hand : 340044.6 At Bank: 36316.40	 3436761.00
F	Cash at the end	6007265.66

*Cash at the end includes cash in bank & cash in hand (Rs. 5879281.99 & 127983.67) in total Rs 6007265.66.

From the statement above firm's operating activities is the main sources from where cash come operating activities is the net result of firm's cash inflow and outflow in operation. Main sources of cash in the regard are sales revenue. On the other main outflows are for direct expenses administrative, manufacturing and selling expenses HPPCL has net cash inflow of Rs._4301006.78 from its operation.

The company has purchase total fixed assets of Rs. 1730502.12 in FY 2009/10 and it is the only items of outflow in the heading of investment activities. Have no any funds from its financial activities as all the items financial sources has remained unchanged till the last date.

During the year company has achieved positive cash change of Rs. 2570504.66 this has achieved ending cash balance of Rs. 6007265.66. Out of which Rs.5879281.99 is in bank and balance is in hand.

4.1.7 Forecasting of Financial Statement Percentage of Sales Method

It is emphasized to forecasting firm's two key financial statements balance sheet and income statement as these provide a good picture of the firm's operations.

It has seen that sales to assets turnover is an important control variable and reflects a fundamentally important proposition in planning that the volume of firm's sales is it good predicator of the required investment in assets.

The percentage of sales method provides a practical method of forecasting financial statement. There is a basic logic behind sales and the behaviors of individual assets items. For example, in order to make sales, a firm must have an investment in plant and equipment to produce goods. Inventories of work-in-progress and finished goods are needed to make sales when sales are made, there is usually an interval before payments are received. This result in the generation of debtors of accounts receivable. Note that investments in fixed assets and inventories lead sales, while investment in receivable lags sales. With sales fluctuations, these leads and lag relationships result in complex patterns that are understood only when the underlying logic of relationships is kept in mind.

Table 4.9

Income statement for FY 2010/11

Sales Revenue	Rs. 45916581.22
Less : cost of goods sold	32786677.57
Gross profit	13127903.65
Less : operating expenses	11163007.77
Operating profit	1964895.88
Less : provisions	56315
Net profit	1908580.88

4.1.8 Forecasting of Financial Statement Percentage of sales Method

It is emphasized to forecasting firm's two key financial statements balance sheet and income statement as these provide a good picture of the firm's operations.

It has seen that sales to assets turnover is an important control variable and reflects a fundamentally important proposition in planning that the volume of firm's sales is it good predicator of the required investment in assets.

Table 4.10

Balance Sheet of HPPCL for FY 2010/11

<table>
<tr><td>Liabilities and equity</td><td>Amount (Rs.)</td><td>Assets</td><td>Amount(Rs.)</td></tr>
<tr><td>Share capital</td><td>27517000</td><td>Current assets</td><td>36336064.49</td></tr>
<tr><td>Loans</td><td>49349000</td><td>Net fixed assets</td><td>15504094.53</td></tr>
<tr><td>Grant from UNDP</td><td>15037456.03</td><td>Employee's privilege funds</td><td>7976075.35</td></tr>
<tr><td>Current liabilities</td><td>34498300.08</td><td rowspan="3">Profit and loss A/C : last year 95243673.54 this year 3666688.22</td><td rowspan="3">98910361.76</td></tr>
<tr><td>Provision for interest on loan</td><td>2324840.21</td></tr>
<tr><td>Equity and liabilities</td><td>158726596.30</td></tr>
<tr><td>Total liabilities and equity</td><td>158726596.30</td><td>Total</td><td>158726596.30</td></tr>
</table>

To begin with above actual financial statements of HPPCL are demonstrated. To forecast the company's financial statement for 2011/12 following assumption has been below:

Company's all the expenses vary directly with sales. Forecasted sales as forecasted by the company for FY 2011/12 have been taken as a basic for projection purpose. A provision of the company remains unchanged.

Fixed assets and current assets vary directly with change in sales and also current liabilities show same types of behaviors. Beside these all the balance sheet items remain unaffected.

Now given the above assumption forecasting proceeds in the following manner. First : Preparation of forecasted income statement .

Table 4.11

Performa Income Statement for FY 2011/12

Particular	Amount
Sales Revenue	63178280
Less : cost of goods sold	45248375.05
Gross profit	17929904.95
Less : operating expenses	15404950.72
Operating profit	2524954.23
Less : provisions	5631584.10
Net profit	(3106629.87)

Percentage change in sales $= \frac{63178280 - 45916581}{45916581} = 0.38$

Second: Preparation of forecasted balance sheet

Table 4.12

Performa Balance Sheet

Figure in 2009/10	Figure in 2011/12	Assets	Figure in 2007/8	Figure in 2009/10
27517000	27517000	**Fixed assets	15504094.53	21395650.48
49349000	49349000	**current assets	36336064.69	50143769.00
15087456.03	15037456.03	*Employee Privilege fund	7976075.35	976075.35
34498300.08	47607654.11	Profit & Loss A/C	98910361.76	102016991.6
3232840.21	3232840.21			
	9696536.08			
158726596.30	181535486.56		158726596.30	181535486.50

Items those remain unchanged though sales charges.

Items those change with change in sales.

In the above financial statement it is clear that firms operating profit will be Rs. 2524954.23 from base year's operating profit of Rs. 1964895.88 given forecasted by the company and above assumptions are valid. Net loss will be Rs. 3106629.87. From the forecasting balance sheet of the company it is clear that assets will increase by 220808890.20. This increment asset is financial spontaneously with current liabilities of Rs. 13109354.03(i.e. 47607654.11, 34498300.08) and balance of Rs. 9696536.08 should be financed with external funds shown in forecasted balance sheet as balancing figure.

Here,

External funds needed= [Increases fixed assets + Increase current assets + Increase loss] – Increased current liabilities

= [5891555.95 + 13807704.51 + 31006629.84] - 13109354.03

= Rs. 9696536.27

Thus HPPCL need Rs. 5891555.95 to financial incremental fixed assets and Rs. 13807704.51 to financed increment current assets and Rs. 31006629.84 to finance accumulated loss. Out of these Rs. 13109354.03 will be available to the HPPCL through increment current liabilities and balance should it raise from external sources.

4.1.9 Identification of Cost Variability

Identification of variability of cost is necessary in planning and control of the cost. The response of cost to different volume of output should be identified to plan for and control the cost.

HPPCL being a manufacturing concern, the cost analysis is a matter of vital significant. Classification of cost helps to determine the volume of operation and to maintain the company's profitability. However HPPCL has any practice for classifying its costs into fixed and variable company components for decision making purpose. Here, an attempt has been made towards the cost classification. Detailed calculations are made

The company's total cost as on the FY 2006/7 is classified into fixed and variable component. All costs are roughly classified into fixed and variable company's total variable cost(VC) during the year is 27963796.17 and total fixed cost during the year Rs. 24612787.95 result into the total cost of Rs. 5257684.12.

Table 4.13

Total Fixed and VC for FY 2008/09

Particulars	Amounts
Sales revenue	45916581.22
Fixed cost	24612787.951
Variable cost	27963796.17

Volume ratio (P/V ratio) of the company is (1-VC sales). 1- Rs.196,17/45916581.22= 1-0.609=0.390. Thus the company would have been sales level of Rs. 63109712.69(i.e, BEP=FC/P/V ratio=2461278795/0.39). The company sales in only Rs. 45916581.22 have resulted into loss in . If the company would have generated sales of Rs. 63109712.69 it would break-even. Though company seems to be earning operation profit. Company's operating profit could not maintain the interest and other provisional resulted in loss. The company would be better to increase sale volume and products it produces to come out of the heavily loss it has been making over decades.

4.2 To Examine the Variance between Budgeted & Actual Financial

Table 4.14

Target and Actual Sales

(In Rs '000')

000' Year	Budgeted sales	Actual sales	Percentage achieved
2006/07	70752.9	39345.7	55.61
2007/08	101602.1	42876.1	42.20
2008/09	79123.2	47883.6	60.52
2009/10	87811.2	45946.5	52.29
2010/11	91848.7	47247.0	51.44
Mean(X)	86227.58	4465.378	

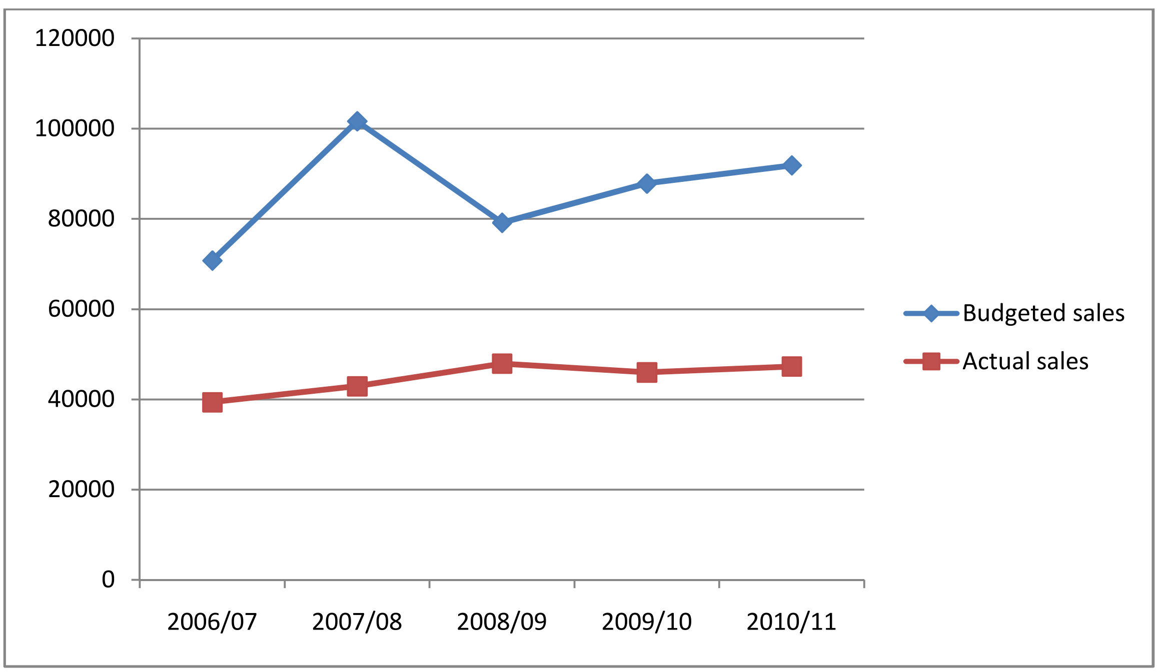
Deviation (ð)	1183.66	353.86	
CV($ð^2$)	0.1373	0.7925	

HPPCL prepares its sales plan for coming years. Sales plan is prepared by HPPCL according to the consumer's category i.e Nepalese, India and historical actual sales figures have been presented against the budgeted sales figures. The company's percentage sales achievement against target sales is 51.44 % in FY 2010/11. The highest achievement of all the study period. HPPCL has recorded highest sales of Rs. 4724700 in 2010/11 followed by Rs 4591650 in 2006/07, Rs 4788360 in 2008/9, Rs.4287610 in 2007/08, and Rs.3934570 in 2006/07, Over the later three years company has been able to increase its sales revenue .

Comparison of actual and budgeted sales, figure reveals that there are considerable gap between budgeted and actual sales. Moreover the gap happened to be inconsistent. Such huge gap must be addressed through the condition and integration of effort of all the branches and departments.

Figure 4.15

Target and Budgeted Sales



Above figure shows that gap between budget and achievement is high. This high deviation creates difficult to forecast sales.

Last three rows of table 5.1 present mean standard deviation and coefficient of variation of actual and budgeted sales. As indicated by standard deviation and C.V. the company's budgeted sales fluctuate more than actual sales. On the other way budgeted sales is more inconsistent. This increase and decrease of sales for the periods seems to be unpredictable due to the lack of clear policies and programmers of the HPPCL.

4.2.1 Estimated Sales

Estimated sales for 2011/12 by types of product HPPCL has prepared sales plan by types of product as given in table below.

Table 4.15

Estimated Sales by Types of Product

S.N.	Particulars	Unit	Quantity	Rate	Total	% of total sales
1	Pamaroja oil	K .G	1700	945	1606500	2.55
2	Sitronela oil	K .G	11300	440	4972000	7.90
3	Lemongrass oil	K .G	3050	710	2165500	3.43
4	Camomile oil	K .G	375	15000	5625000	8.90
5	French Basil oil	K .G	275	3798	10444500	1.65
6	Juklaliptus oil	K .G	16500	800	1320000	2.10
7	Rojin	K .G	190800	52	9921600	15.70
8	Tarpin	K .G	47700	45	2146500	3.40
9	Sancho Himalayan	K .G	3000000	1047	31410000	49.72
10	Massage oil	K .G	20000	35	600000	0.95
11	Silajit	K .G	15000	115	1725000	2.73
	Total				63178280	100.00

Out of the total estimated sales (49.72 %) scale is of Sancho, the highest of all followed by Rojin,(15.70%),Camomile oil (8.90%) 0%), Sitronela(7.90%). All other products of the company covers sales of around 1 to 3 %.

4.3 To Analyze The Financial Position Of The Concern.

4.3.1 Financial Ratio Analysis

Financial ratio analysis is the arithmetical relationship between two or more variable for financial statements. Information provided by the ratio analysis is very useful to the financial performance of a firm. It communicates the strengths and expenses of the firm. It is also useful for initiating effective control of business. Production focuses on the financial performance of the enterprise on term of the profitability, turnover, and capital structure.

Table 4.16

Financial Ratio of HPPCL

Ratio	Formula	2006/07	2007/08	2008/09	2009/10	2010/11
	Current assets Current liabilities	2.48	1.41	1.26	1.08	1.05
	Quick assets Current liabilities	19	0.11	0.06	0.15	0.22
	CGS Inventory	83	97	89	1.16	1.31
Assets	Assets Total sales	28	28	28	31	29
Share capital	Net profit Capital Employed	-0.03	-05	-02	-03	s -02
Equity	Debts Equity	2.24	2.24	2.24	2.24	2.24
	Net profit Sales	-0.19	-0.14	-0.16	-02	-0.08
Assets	Net profit Total assets	-0.05	-0.04	-0.04	-0.006	-0.02

In the table above one can observe that the company's liability has been each year. Current ratio of in FY2006/07is 2.48 and same can be considered to be good however after this year same decreased. Current ratio is in FY 2007/08, 1.26 in 2008/09, 1.08 in 2009/10, and 1.05 in 2010/11. These decreasing current ratio indicates that the company's ability to pay its debts obligation seriously been injured.

The ratio of the company is far below then traditional standard of 1.1. Company's obligations of liquidity, thus, can be said as poor, inventory turnover ratio indicates the equity and velocity of inventory, as the turnover is less than 1 time in the first three things. Though it is greater than 1 times in latter two years, even this cannot be decided as good.

The assets turnover of the company is uniform for the first three years, increased to the fourth year to level up to 0.29 in fifth year. The ability of the company's assets.

According to objective 4: To find out relationship among financial variables in profit.

4. 4 Major Finding of the Study

Major finding on the based on the whole study can be drawn in the following table:

Table 4.17

Turnover of Assets

S.N	Activities done on HPPCL	2006/07	2007/08	2008/09	2009/10	2010/11
1.	% achieved in T & A sales	54.35	41.05	55.61	42.20	60.32
2.	% sales report by territory					
	Domestic sales	66	52	51	62	64
	Indian sales	25	27	39	21	25
	Overseas sales	9	21	10	17	11
3.	Inventory turnover ratio	8275	9677	89	1.158	1.1082
4.	Cost of goods sold	80.84	82.76	74.40	83.19	71.41

5.	Coefficient of variation	.097	.087	.078	0.15	
6.	Capital expenditure (Rs.000)	820.43	381.87	305.43	863.38	1730.5
7.	Financial ratios:					
	Current ration	2.48	1.41	1.26	1.08	1.05
	Quick ratio	.19	.11	.06	.15	.22
	Inventory turnover ratio	.83	.97	.89	1.16	1.11
	Assets turnover ratio	.28	.28	.28	.31	.29
	Return on capital employed.	-.03	-.05	-.02	-.03	.02
	Debt equity ratio	2.24	2.24	2.24	2.24	2.24
	Net profit margin	-.05	-.04	-.04	-.06	.02
	Discrimination (z-value)					
	NWC/TA	.1731	.0747	.0546	.0164	.0114
	CYCL	2.48	1.41	1.26	1.08	1.05
	/TA	-.0515	-.1143	-.0467	-.0619	-.0228
	Sales	-0.1853	-.4088	-.1639	-.1362	-.0799
	/TA	.2781	.2796	.2849	.3110	.2857

The sales of assets as the turnover of assets are poor. This also indicates the company's inability in manage its assets.

The dismissed aspects of HPPCL are so have very low and negative return on 0.5 into 2 percent. These negative operation return capital employed is due to share capital.

Discrimination Analysis: Measure of Company's Overall Performance

Discrimination analysis is developed by Aleman and is also called Altman model. This can be employed to the discriminated whether or not a company is consideration to fail in the near future. Analysis of each of the individual ratios sometimes be providing and to avoid this Z-score the employed of share capital as indicated by debt-equity ratio. This ratio of the company is performed by all the periods. That means no capital returning his residential in the same period.

Benefit margin and total assets turnover gives the return assets it multiplied by ROA is negative for all period. These all the ratio, in absolute terms that the company is a difficult verge. To examine this issue further a model employed.

On the basis of the study it was found that the PPC was not practiced by the HPPCL management. HPPCL despite of its best efforts was not able to generate profit. Instead it was suffering from the debt and is surviving on government subsidy. The financial position of the corporation was not good.

Major findings of the research study are presented below:

- The use of profit planning and control was not practiced by HPPCL management.
- The objectives set by the management were very ambiguous which resulted in the fluctuation in the actual and targeted results.
- There were fluctuations not only in the actual and targeted sales but also in the targeted sales also. The target was very high and sometime the target was very low. There was no linearity in the target figure.
- Purchase should depend upon sales but there was no relation between the sales and purchase. Purchases were made on personal judgment.
- HPPCL did not make flexible budget, cash budget and capital expenditure budget without which it is difficult for HPPCL to identify the necessities of cash requirement and uses of cash.
- The performance of management was not satisfactory. The gross margin ratio, net profit ratio showed the poor performance of corporation. They were below the standard figure.
- The corporation was at high risk. The amount of debt was increasing every year.
- The major cause of loss of HPPCL was due to high administration, transportation and expenses.
- HPPCL has no clear pricing policy. Price was not set by the market competition. It was decided by the government which was low than that of the market which resulted low revenues generation..

Chapter – V

Summary, Conclusion & Recommendations

5.1 Summary:

Profit Planning and control is also known as comprehensive profit planning and control. A budget is a detailed plan of action developed in financial terms for a period of one year. It is an important approach developed to facilitate effective performance of the management process. PPC provides guidelines to management and acts as signal light for the management and enables the management to enforce its policy. It is an important tool in profit oriented organization for facilitating effective performance of the management.

Profit planning or Budgeting simply refers to planning of revenues and cost. Profit plan is divided into two portions, strategic or long –term plan and tactical or short-term plan. Strategic plan is prepared for three or more than three years while tactical plan is prepared for six months to one year tim e horizon. Planning can be divided into two groups,

The importance of profit planning and control is not limited to manufacturing organization only but is equally important to non-manufacturing or merchandising business also. Thus PPC is the life blood of any organization whether it is large or small, manufacturing or non-manufacturing.

HPPCL, a public enterprise, is associated with selling and distribution of food grains in the different parts of the country. It was established in 1981 B.S in Mangshir 17 under the full ownership of the government.

This study focuses on the use of PPC tool by the management of HPPCL and its implication s in the planning. This study is also targeted to understand the financial position of the corporation with the help of different statistical and financial tools.

The study has shown that the corporation was in loss till the time of study. And the accumulated loss was very high which was very difficult to recover by the management efforts.

The study was made with the help of secondary and primary data with historical and descriptive approach. The total period of five years, from the fiscal year 2006/07 to 2010/11 was covered in the study. For the study, various functional budgets were considered and financial condition was determined with the help of different financial tools. To make the study more clear and make the data understandable data are tabulated and distributed and diagram and graph were used. The detailed calculation and data were presented in the Appendix at the end of the chapter.

5.2 Conclusions

The introduction of five year development plan in the country in brought about a significant increase in the government's responsibilities. Different public enterprises were established then after. The government established HPPCL in the fields of. From then on HPPCL is providing its services throughout the country. From the time of establishment its financial condition is deteriorating. HPPCL in spite of its best efforts is suffering from a number of internal and external problems in formulating and implementing profit plans. The achievements of HPPCL are not encouraging as it has committed. The achievement of actual sales has not reached the targeted sale which shows the weak planning management of HPPCL. Same is the condition in purchase also there is great variation in actual and budgeted purchase. Despite this HPPCL is also suffering from operating loss due to heavy portion of administration and transportation cost. Financial ratios most are not in favorable situation. The liquidity position of HPPCL is weak. The profitability of HPPCL is also not satisfactory. As a whole the economic condition of HPPCL is very weak.

5.3 Recommendations

From the study and based on the findings of HPPCL some recommendations are made which could be important for the HPPCL and other stakeholders who are interested in HPPCL Following are some of the recommendations:

- Firstly, HPPCL has to make short-term and long-term planning to fulfill the goals of the corporation.
- There should be separate department for planning.

- The participatory approach in planning and decision making should be made. Employees of every level should be given participation in planning.
- A thorough analysis of historical data has to be done before planning.
- HPPCL should allow dealing on other hurbs items also for profit generation.
- HPPCL is giving subsidy in transportation in herbs to remote areas for the transporter which has created high cost in transportation. HPPCL should think for transportation facility to remote areas.
- HPPCL should identify its strengths and weakness.
- The liquidity position of HPPCL was very weak. It should utilize its available resources properly.
- HPPCL has its old vehicles which were not in use. Those vehicles should be sold which helps in profit generation.
- The role of government should be promotional one not regulatory one.

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S.N.	Products	Unit	2006/07		2007/08		2008/9		2009/10		2010/11	
			Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted
1	Pamaroja oil	K.G	510	497	1054	580	7668.7	8000	1288.6	1550	1235.3	1300
2	Sitronela oil	K.G	1447	1447	6780	8000	2070	1500	8565.2	10000	8212.6	9510
3	Lemongrass oil	K.G	886	886	2541	3540	3800	3800	2311.8	2350	2216.7	2223
4	Menthe oil	K.G	1671.5	1600	125.6	128	254.5	375	3120.5	3000	4070	6000
5	Cammome oil	K.G	112.70	100	167.8	278	186.6	500	390	450	272.5	95
6	Basil oil	K.G	102	110	226	450	256.5	240	208	650	199.9	186
7	Dhasingre oil	K.G	108	100	408	538	-	-	210	390	274.72	300
8	Jaramashi oil	K.G	102	98	224.20	354	305	-	110	-	-	-
9	Bozo oil	K.G	-	-	402	681	79	204	-	-	-	-
10	Tejpat oil	K.G	52.5	100	76	150	-	125	60.6	75	85	137
12	Katchur oil	K.G	88.2	102	61.2	61.2	82	-	-	-	-	-
13	Timal oil	K.G	40	95	69.70	69.70	2860	150	91.72	150	88	153
14	Uklatiptus oil	K.G	1005.5	1500	2528.4	2052	180	2680	214.60	3500	3063	4580
15	Khoto	K.G	98.6	85.3	158.9	268	2035960	210	200	240	193	193
16	Sancho	K.G	1100908	1200000	1906700	2000000	13573	20000000	2987810	2500000	2180333	2560000
17	Message oil	K.G	5978	6500	18000	21520	10179	15575	131591	3500	14535	14535
18	Silajiest	K.G	4549	4661	90361	85310	206	10200	13469	14000	-	-
19	Sacho Herbal Drink	K.G	112	209	-	-	-	-	-	-	1441.2	16820
20	Parabin	K.G	595.2	608	1189.8	1190	1345.8	1400	1503.1	1510	138670	1400008
21	Rojin	K.G	57240.3	15491	114482	90658	129488	1300000	144624	450000	1367.10	1500
22	Tarpin oil	K.G	14310.1	15491	28620	28620	32372	45000	36156.2	38000		
23	Karpoo	K.G	574	650	1564	1564	1276.5	15750	1425.7	1525		