CHAPTER–ONE

INTRODUCTION

1.1 Background of the study

Nepal is one of the least developed countries. Agriculture is the chief source of income of the country. It is small landlocked country with the area of 147,181 sq. km. The country is bordering between the two most popular countries of the world i.e. India and china. According to the result of census 2001, the population growth rate is 2.24% per annum. The most of the population lies under the poverty line. Per capita income is estimated to be $210. Economic inequality is also high. More than 80% (Eighty) of people depends on agriculture sector and most of them live in rural areas. 91% of total population lives in rural being engaged in agriculture related activities and 9% live in urban areas. Agriculture is still the main source of income and this sector contribute 39.22% on gross domestic product (GDP) and remaining 60.68% contribute from non-agriculture sector in year 2001/02 where in 2000/01 contribution from agriculture sector is 38.88 % and form non-agriculture sector is 61.61%.

The problem of transportation and communication has adversely affected the growth of industry. Biratnagar and Birganj are the main manufacturing towns. Kathmandu has some of industries. Nepal companies can come into being after registering itself and after obtaining a license. The Nepal Company Act came up in the year 1991 and according to its foreign companies like Nepal companies have to register themselves by giving valid document and obtaining license.

Some of the industries which are present in Nepal are Commercial Banks, Manufacturing and processing Industry, Hotel industry, Trading, Insurance, Finance, development banks etc. Nepal Investment Bank, Standard Chartered

Bank, Himalayan Bank, Bank of Kathmandu etc are some of the company names of Commercial Banks.

Some famous manufacturing companies of Nepal are Morang Sugar Mills Ltd, Bottlers Nepal (Balaju) Ltd, Biratnagar Jute Mills Ltd, Nepal Lube Oil Ltd. Salt Trading Corporation, Bishal Bazar Co. Ltd and Nepal Byapar Bikash Co. (Koshi) Ltd are trading companies of Nepal. Nepal Insurance Co. Ltd, Rastriya Beema Sansthan and National Life & Gen. Ins. Co. Ltd are insurance companies in Nepal. Some financial companies include Nepal Finance and Saving Co. Ltd, NIDC Capital Markets Ltd. and National Finance Co. Ltd.

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

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

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

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

- Managerial involvement and commitment.
- Full communication.
- Realistic expectation.
- Responsibility accounting.
- Organizing adoption.
- Flexible application.
- Timeless
- Individual and group recognition.
- Follow up

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

This research study is with reference to manufacturing concern Popular Plastic Pvt. Ltd. It is one of the important manufacturing concerns in Nepal .It produces high density polythene pipe (HDPP).

1.1.1 Public Enterprises in Nepal

Public enterprises are a recent phenomenon in Nepal, Nepal is primarily an agricultural country and public sector enterprise has occupied a dominant role in the economy. Public enterprises constitute a large and rapidly growing sector of the economy in the majorities of countries in the world today, including Nepal.

Public enterprises are established for rapid socio-economic development of the country. Public enterprise in Nepal constitutes a vital instrument for socio-economic development. It enjoys a strategic and crucial position in our mixed economy. They have been established in many sectors for the overall development of the county with different goals and objectives. Public enterprises can be classified as follows:

A) Manufacturing Enterprises

B) Commercial Enterprises

C) Financial Enterprises

D) Public Enterprises

E) Development or Services Enterprises

Role & Objectives of Public enterprises in Nepalese Economy.

- To substitute the role of economic growth
- Generate employment opportunities
- Development of big industries
- Success of economic planning
- Development of infrastructure

- Regional and balanced development
- Supply of essential commodities
- Attaining social justice and social welfare
- Saving foreign exchange strengthening economic stability
- Maintaining economic stability
- Acting as model entrepreneur
- Initiate research and development activities
- Provision of public utilities

1.1.2 Introduction of Organization

Popular Plastic Pvt. Ltd. is the old company of HDPE Pipe in Nepal .It has successfully produced HDPE Pipe for the first time in Nepal. This has not only success and achievement for PPPL but also has risen bar quality HDPE Pipe in Nepal.

Dharan industrial estate lies at the Eastern parts of Dhahran. It is about 330 Kilometer from Birganj .There are thirty small & large industries lies in area. It is spread over and area of 30 acres of land (230 ropani).Popular Plastic Pvt. Ltd. is one of the largest industries of the estate. PPPL has about 150 employees and was established in 2038 B.S as a domestic industry at first with specified capital of rs. 3,00,000.00.This industry was transferred into small scale industry during the of 2045 B.S in the period of 2049 B.S the industry was introduced as a large scale company by increasing its capital and began the operation from the Shrawan of the same year .The products of plastics are in the process of acquiring authority to use NS marks i.e. Nepal Standards it works 24 Hours in the three working shift of 8 hours i.e. (Shift A, Shift B & Shift C) each of 7 days Popular Plastic Pvt. Ltd. has 100% domestic market.

Aims and objectives of Popular Plastic Pvt. Ltd.

- To produce & distribute of quality HDPE Products in reasonable fair price to the public in way that will lead the country towards self–sufficiency in essential HDPE Materials.
- To produce new verities of products as per the market demand and delivery them in time
- To replace foreign HDPE products by promoting the self produced products such as Pvc Pipe, Pvc Filter, Pvc Fitting, HDPE Pipe and HDPE fitting.

1.1.3 Industries involved in Nepal in the production of high density Polythene Pipe

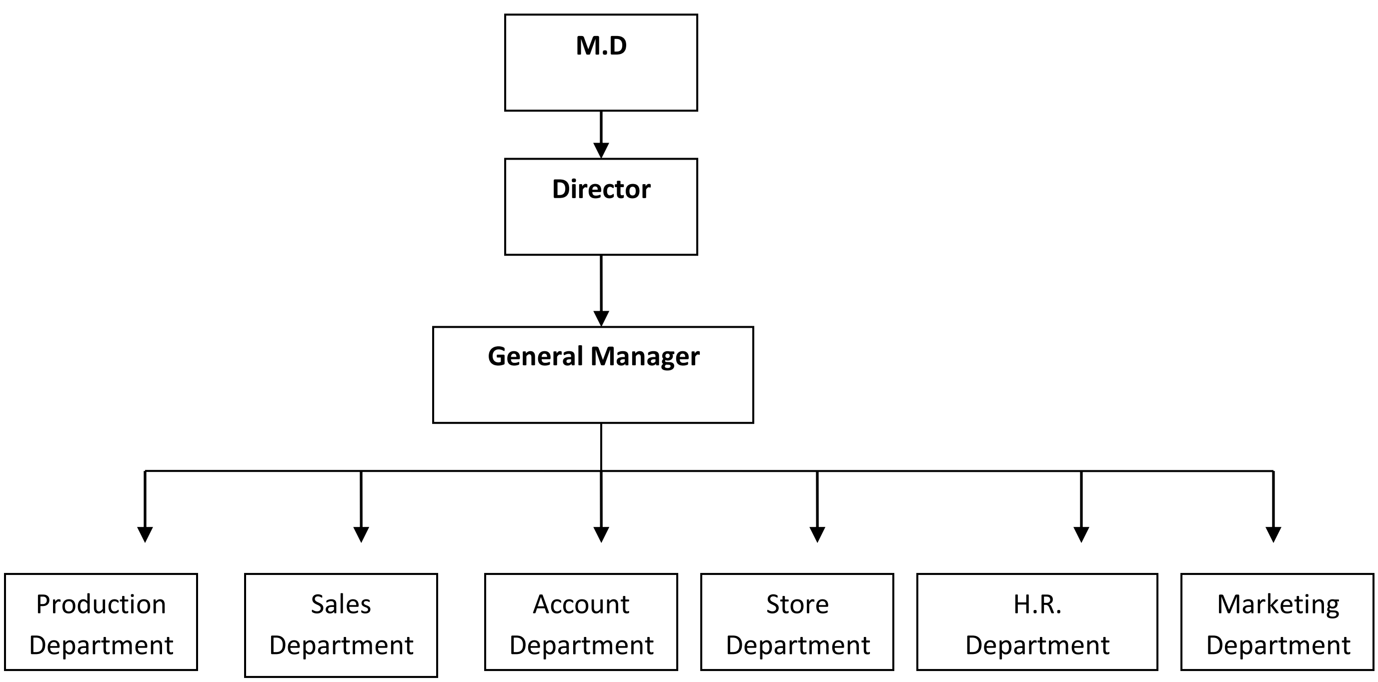
According to the booklet of Nepal standard High density Polythene Pipe Industries in Nepal obtaining Nepal standard mark .They are listed as follows.

1. Popular Plastic Pvt. Ltd. ,Dharan
2. Kamala Plastics Pvt. Ltd. , Janakpur
3. Napal Blackcold Plastic Pvt. Ltd. , Butuwal
4. Laxmi Plastics Pvt. Ltd. , Nepalganj
5. Napal Plastics Pvt. Ltd. , Dharan
6. Hishi Plastics Pvt. Ltd. ,Kathmandu
7. Tandan Plastics Pvt. Ltd. ,Nepalganj
8. Yati Plastics Pvt.Ltd. , Kavre
9. Eastern Plastics Ind. Pvt. Ltd. ,Jeetpur

10. Nepal Polythine Plastic ind. Pvt.Ltd. , Balaju,Kathmandu.
11. Narayani Plastics Pvt .Ltd. , Kalaiya
12. Panchkanya Plastics Pvt.Ltd. ,Kathmandu
13. Isha Plastic Industires Pvt.Ltd . ,Dharan
14. Universal Plastic Udhyog , Birgunj
15. Shiv Shakti Packaging Pvt .Ltd. , Simra
16. Shree Ram Packaging Pvt .Ltd . , Simra

Chart No.1

1.1.4 Organization chart of Popular Plastic Pvt. Ltd..



1.2 Focus of the Study

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

- Sales Budget.
- Production Budget.
- Material Purchase Budget.
- Direct labour Budget.
- Other Expenses Budget.
    a. Administrative expenses Budget.
    b. Selling & Distribution expenses Budget.
    c. Manufacturing Over head Budget.
- Cost Volume Profit analysis.
- Flexible Budget.

1.3 Statement of the Problem

Profit is the primary measure of business success .At least normal profit is necessary for the operation of any kind of organizations. But industries must make profit out of its operation for its survival and fulfillment of the responsibly assign .The industry has to maximization profit as well as to render other services .Both of these objectives have their linkage with the management of an organization. A manager generally says the profit is the return of good management. Therefore we can say the management is the part of the profit planning.

Profit planning and control model provides a tool for more effective supervision of individuals operation and practical administration of a business as a whole. So, the successful operation of any largely depends upon the planning system that plays key role fire the effective formation and implementation for strategic as well as tactical plans of as organization. Profit planning system requires the effective coordination between various functional budget of an organization like as sales plan, production materials requirement budget, labour cost budget, cash budget and capital expenditure budget.

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

a. Lack of clear highlight objective of goals.
b. Available capacities are not full utilization.
c. Lack of scientific evaluation system on every aspects of operation.
d. Lack of responsibility & accountability in every section.
e. Non application of modern managerial system & techniques.
f. Lack of government rule & Policies. Etc

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

a. Flow profit planning system in Popular Plastic Pvt. Ltd. can be improved?
b. Whether the company has implemented profit & planning or not?

c. What fundamental principles is short term and long planning is adopted by the company?
d. What are the major problems faces by the company on developing and implementing profits plans?

1.4 Objective of the Study

In the present study ,we have the main objective of the present study is to exam the main approaches of profit planning and to test the extent of achievement of planning of PPPL with consistently the present research will try to meet following.

1. To examine the present profit planning premises adopted by PPPL on the basis of budgeting.
2. To analyze the variance of budgeted and actual achievement.
3. To sketch the trend profit and loss.
4. To analyze the various functional budgets and financial plans formulate and implemented in PPPL.
5. To Evaluate financial performance of PPPL
6. To examine the various ratio.
7. To provide the suggestion and recommendation for improving of the overall profitability of the bank.

1.5 Significance & importance of the Study.

Manufacturing Company with case study of PPPL. Which analyze the proper applicability of profit planning system in manufacturing company. Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization by the help of the best utilization of resources the financial performance of an organization depends purely on the use of this resources. Budgeting is the key to productive financial planning so all the organization running under commercial principle has to give regard to these most important single tools while managing their physical and financial target. If planning process of an organization is effective and result oriented the pace development naturally steps forward.

Profit planning is the heart of management. It tells us profit is the most important indicator for judging managerial efficiency and do not just happened for this every organization has to manage its profit. Various functional budgets are the basic tool for proper planning of profit and control over them. It may be useful for those who wants to know the PPC in the PPPL and may also be help for future researchers as a reference material.

In many of industries companies of Nepal. Budgets are prepared at random and profit planning process is not applied in the real sense. In its consequence, most of industries and suffer from poor performance. The significance of the study is really to examine whether the PPPL is applying profit planning system properly or not and analyze if there is any drawback in profit planning system of industries.

1.6 Limitations of the Study

Today world is dynamic, every things existing here are of limit character. Every principal rule and formula and conditions are applied within the limitation likewise, this study cannot escape from limitation and study is confined only to profit planning and budgeting in PPPL. Following factors have limited the escape of this study.

1. The study is limited to the related profit planning of PPPL.
2. Primary & Secondary data is analyzed to delineate result.
3. Analysis evaluated comparing Fiscal Year 2063/064 to 067/068 BS.
4. Only Popular Plastic Pvt. Ltd. is taken into consideration in this study.
5. The accuracy of this study is based on the data available from the management of PPPL.
6. Most of the data will be used from the available secondary sources.

   Only few financial and statistical tools are used in the analysis.

This Study is for the partial fulfill of MBS course, so it may not be useful for other as aspects.

1.7 Chapter Division of the study

This Study has been divided into five chapters they are follows:

1. Introduction
2. Review of literature
3. Data Presentation and analysis
4. Research Methodology
5. Summary, Conclusion & Recommendation

Chepter-1 Introduction:

The study includes the general background of the introduction of Popular Plastic Pvt. Ltd. statement of the problems, Objectives of the study, Need of the study, and limitation of the study and organization of the overall study.

Chepter-2 Review of literature

Deals with the available literature review. It includes review of books, of legislations related to industries, review of other relevant books, review of industries company reports and previous thesis.

Chepter-3 Research Methodology

Explains the research methodology used in the study, which includes research designs, nature and sources of data, population and sample, methods of data analysis.

Chepter-4 Data Presentation and analysis

is the heart of the study , this chapter includes presentation and analysis of data using financial tools such as ratio analysis and statistical tools.

Chepter-5 Summary, Conclusion & Recommendation

Revolves with suggestions, which includes the summary of main finding recommendations and suggestions, for further improvement and conclusions of the study.

CHEPTER-TWO

REVIEW OF LITERATURE

2.1 Introduction

Review of literature means reviewing research studies or other relevant propositions in the related area of the study so that all the past studies, their conclusions and deficiencies may be know and further research can be conducted. It is an integral mandatory process in research works.

The main reason for a full review of research in the past is to know the outcome of those investigations in areas where similar concepts and methodologies had been used successful .Further and extensive or even exhaustive process of such review may offer vital link with the various trends and phases in the researches in one's area of specialization, familiarizing with the characteristic percepts, concept and interpretation, with the special terminology, with the rationale for understanding one's proposed investigation. In this connection a review of previous related research projects will help the researcher to formulate a satisfactory of the project.

2.2 Review conceptual History of industry

The history of incorporated private firms in Nepal is short. The Nepal Companies Act of 1936 provided for the incorporation of industrial enterprises on joint stock principle with limited liability. The first such firm, Biratnagar Jute Mills, was a collaborative venture of Indian and Nepalese entrepreneurs. It was formed in 1936 with initial capital of 160,000 Indian rupees.

In response to shortages of some consumer goods during World War II (1939-45), fourteen private companies emerged in such diverse fields as mining, electrical generation, and paper and soap production. The initial capital invested in each of these industries was small. In 1942 two paper mills emerged as joint ventures of Nepalese and Indian entrepreneurs. Industrial growth gained momentum after 1945, although the end of World War II had reduced the scarcity of goods and caused many of these companies to incur losses.

Under the Nepal Companies Act, there was no provision for private limited companies. In 1951, however, a new act was implemented with provisions for private limited companies. This act encouraged the establishment of ninety-two new private joint stock companies between 1952 and 1964. Most of these companies were much smaller than existing companies. Under the provisions of the 1951 act, public disclosure of the activities of the firms was not required, whereas the 1936 act allowed substantial government intervention. The Industrial Enterprises Act of 1974 and its frequent amendments shifted the government's emphasis on growth from the public to the private sector. However, discrepancies between policy and practice were evident, and the public sector continued to be favored.

2.3 Conceptual Review of profit planning

2.3.1 Concept of profit planning.

Any business firm is established to make profit; profit is the primary measure of success of any institution. Generating profit requires a good deal of managerial capability and talent. Usually profits do not just happen. Profits are managed. Before making an approach to the managerial process of profit-planning, it is worthy of being familiar with the terms profit planning and control.

2.3.1.1 Profit

Profit is the primary objective of any i. Profit means different things to different people; profit is a reward for any organization. In simple sense profit is a surplus over the expenditure for any kind of business firm. Every organization has its own business firm. Every organization has its own objectives. To achieve such objectives, business organization should run smoothly and to run successfully these business organization need some profit. Without profit no organization can run for a long period. Although in modern days many alternatives objectives of firm has been citied. Nobody has been able to completely wipeout the profit maximizing objective and objective of earning reasonable rate of profit. Profits are main test of individual firm's performance.

Profit is the primary measure of success of business enterprise. It is the main test of business enterprise. It is the main test of business enterprise performance. Simply stating, profit is the excess of income over cost of production. But the profit is very controversial and these are several different interpretations about this. An economist will say that profit is the rewarded for entrepreneurship for risk taking. A labour leader might say that it is a measure of low efficiently labour has produced and that is provides a base for negotiating a wage increase. An investor will view it is a gauge of the return of his/her money. An internal revenue agent might regard it as the base for determining income taxes. The accountant will define it simply as the excess of a firm's revenue over the expenses of producing revenue in a given fiscal period.

It could be noted that profit are residual income after the payment of the contracted rewards to other factor of production.

According to accounting concept profit is the residual of sales revenue minus accounting cost of doing business. Profit in the accounting sense tends to become a long term objective, which measures not only the success of a product but also the development of the market for it. But the economic concept of profit is different from accounting to economist. Profit is business profit minus the limit cost [equity or other owner provided inputs used by the firm].

From the above definition we can conclude that profit is an essential need for any business organization. It is a backbone for any organization. It also helps organization to stand freely and sustain for a long period. Profit measure a success of any business and if the business is in profit, it can easily acquire the type of loan and capital to expand its business. So profit is the very important aspects for any business organization.

2.3.1.2 Planning

Planning is determination of future course of action i.e. what to do? When to do? How to do? To achieve the organizational goals. Without proper and efficient planning a firm accomplishes its goal and objectives. It is done on the basis of past experiences, present information and future expectations. Planning is a basic function of management. It may be defined as the selection from among alternatives of courses for further action. It is the function by which manager decides what goals are to be accomplished and how they are to be reached. Planning is the process of deciding in advance what is to be done in future. So it is a further oriented concept. According to I.M. Pandey “Planning is the feed forward process to reduce uncertainly about the future. The planning process is based on conviction that management can plan its activities and action of the enterprise that determine its desiring.”

Planning can be defined as “The establishment of objectives and the formulation evaluation and selection of the policies, strategic, tactics and action required to achieve these objectives. Planning comprises long-term/strategic planning and short term operational planning. The letter refers to a period one year.”

Planning is a rational way and systematic way of perceiving how business industry on any organizations will get , where it should go by examining future alternatives course of action open to any organizations and desirable courses of action a perspective frame of reference is established of current decisions. In this process Planning examines the involving claims of cause and effect likely to result in the future and respectively exploit or combat them as the case may be. Planning means assessing the future provision for it and assuring that establishing -goal can be met with acceptable home frame. Planning is simplest term is the determination of anything in advance of action. It is especially a decision making process that provides a basic for economical and effective action in the future. Effective planning sets the stage for integrated action to take place, reduce the number of enforceable crises, promotes to use of more efficient methods and provides the basis for the managerial function of control thereby assuring to courses on organization objectives.

2.3.1.2.1 Types of Planning

Planning can be divided into three types on the basis of the time span.

1. Tactical Planning (short term planning)
2. Medium term Planning
3. Strategic Planning. (long term Planning)

1. **Tactical planning:** Short term Planning is mode for one year or less time period. It is prepared to fulfill the short- term objectives by the management.

2. **Medium term Planning:** Medium term Planning is prepared for at least two years to three years at most. Medium term Planning is used mainly to determine the allocation of resources among competing activities to revise long range plans in view of more recent development. In practice this Planning is less used in comparison with short and long range planning.

3. **Strategic Planning:** Strategic Planning is prepared for at least three years to generally five years; sometimes it can be extended to ten years. Basically long range planning is more important for large and long living enterprises. According to George R. Terry the main objectives of long range Planning are: To keep enterprise strong to focus on long term opportunities to evaluate management personnel, to expedite new financing to bring attention to new technique.

Major decisions made in preparing long- term planning are:

1. Determination of goals , objectives and strategic
2. Capital formation and expenditure scheme.
3. O design and structure.

2.3.1.3 Profit planning

The term comprehensive profit planning and control is defined as systematic and formalized approach for performing significant phases of the management planning and control function, especially it involves:

a. The development and application of broad and long range objectives for the enterprise.

b. The specification of enterprise goals.

c. A long – range profit plan developed in broad terms.

d. A short – range profit plan detail by assigned responsibilities.

e. A system of periodic performance reports detailed by assigned responsibilities and

f. Follow – up procedures.

When the management plans for profit for a certain period of fine it is called profit plan. “Profit planning is the heart of management. Without proper planning profit will not just happen. So every enterpriser should systematically plan for profit on proper way. Profit plan is a predetermined detailed plan of action developed and distributed as an audit to current operations and as a partial basis for the subsequent evaluation of performance. Thus, Profit planning is tool, which may be used by the management in planning the future courses of action and in controlling the actual performances.

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

Glenn A. wish summarized the broad concept of profit planning in few words as “The profit planning means development and acceptance of objectives and goals and moving an organization efficiently to achieve the objectives and goals”

Profit planning is not a separate technique that can be thought of and operated independently of the total management process. The broad concept of Profit planning entails an integration of numberings managerial approaches and techniques that might be exploited such as sales forecasting, sales quota system, capital budgeting, cash flow analysis, cost volume profit analysis, variable budget time and motion study, standard costing accounting, strategic planning, production planning, management by objectives, organizations manpower planning and cost control.

The broad concept of profit planning entails integration of numerous managerial approaches and techniques.

The main principles and purposes of profit planning are as follows:-

a) To provide a realistic estimate of income and expenditures for a period and the financial position at the end of the period detailed by areas of management responsibility.

b) To provide coordinated plan of action which is designed to achieve the estimated, reflected in the budget.

c) To provide a comprises of actual results with those budgeted and an analysis and interpretation of deviation by areas of responsibility to indicate course of corrective action and lead to improvement in procedures in building plans.

d) To provide a guide for management decision in adjusting plans and objectives and uncontrollable conditions change.

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

2.3.1.4 Corporate planning

"Corporate planning was started in united states in 1950 at the first time in the world. Now a day it is expanse rapidly in one form or another in the several companies in all over the world."

"Corporate planning as the systematic process of setting corporate objectives and making the strategic decisions and developing the plans necessary to achieve these objectives."

Corporate planning thus is action oriented and not concerned with more plans since, corporate planning is action oriented and not concerned with more pans. Since, Corporate planning is also concerned without a forecasting whose purpose is to anticipate the future based on factors. From the forecast one knows what one has to aim to achieve. That is he formulates the objectives and then determines the means, which must be orchestrated in order to achieve the ob Corporate planning therefore seems to be the technique for action how for ensuring the goal.

Corporate planning embrace the long and short term covers one geographic area with which the business is concerned. It covers whole planning systematically process in sequential logical manners.

2.3.1.5 Four premises of the corporate planning

1. Before drawing up a plan, which is designed to do something, decide what you want it to do.
2. It these days of rapid change it is necessary to look ahead as for as possible to anticipate these changes.
3. Instead of treating a company as a collection of departments treat is as a corporate whole.
4. Take full accounts of the company is environment before drawing up any plan.

Corporate planning is done for the company as a whole on a continuous basis for making present entrepreneurial risk for taking decisions systematically and probable outcome and effects organizing systematically the efforts and resources needed to carry out these decisions and measuring the results of these decisions against the expectations through organized systematic feedback.

2.3.1.6 Corporate planning Vs long –range planning

Very often Corporate planning is considered synonymous with long –term planning and are interchanged by used they are noted by Koirala. Corporate planning is concerned with ob determination and developing means to achieve the ob. It may encompass both short range as well as long term plan: long and short is not determined arbitrarily. It all depends on how far an ahead of company needed to forecast and can make a plan. It will be determined by the company's commitment of resources. He thus sees long range planning as a part of corporate planning.

Management process. There are three most relevant aspects of the PPC. They are:

I. PPC requires major planning decisions by management.
II. PPC entails pervasive management control activities.
III. PPC recognizes many of the critical behavior implications throughout the organization.

The main principles and purposes of profit planning are follows:

a. To state the firm's expectation (goals) is clear formal terms to avoid confusion and to facilitate their attainability.
b. To communicate expectation to all concerned with the management of the firms so that they are understood, supported and implemented.
c. To provide a detailed plan of action for reducing uncertainty and for the proper direction of individual and group efforts to achieve goals.
d. To coordinate the activities and efforts in such a way that the use of resources is maximized.

e. To provide a means of measuring and controlling the performance of individuals and units and to supply information on the basis of which the necessary correlative action can be taken.

2.4 Fundamental Distinction of Profit Planning.

The concept of budgeting was originally established with the function of an account. As its origin the function of budgeting was assigned to the accountant. But is modern days budgeting is given much more importance and is regarded as a way of management and in move important sense regarded as basic techniques of decision making and is given the name " profit planning and control program"

A will established and a well understood profit planning and control concept lends an organization to ultimate success. But a failure to grasp this concept leads to chaos for a business. So just to understand this concept better consideration should be given to following points:

1. The mechanism of profit planning and control

Mechanism of profit planning includes the matter related with design of budget schedules, clerical computation of such schedules and routine computation and check of such schedules.

2. The techniques of profit planning and controls

Techniques are special approaches and method of developing information for managerial use in decision making process. Those approaches like forecasting sales volume, a frequent application operation research, (approaches in resolving the sales- production inventory problems) break- even analysis, resources determinants (such as discounted cash flow approach) cash flow analysis and variable budget procedures which can be developed and used for managerial decision making process are known as techniques.

3. The fundamental of profit planning and control.

The fundamentals are concerned with effective application of the theory of management process. It is applied for desired management orientation; these fundamentals need to be established as a foundation of managerial commitment. Following are some of the important fundamentals of profit planning and control.

i. Managerial involvement and commitment
ii. Organizational adaptation.
iii. Responsibility accounting
iv. Full communication
v. Realistic expectation
vi. Timeliness
vii. Flexible application
viii. Behavioral view point
ix. Activity costing
x. Zero base budgeting
xi. Follow up

2.5 An outline of the fundamental Concepts of PPC.

According to the Welsch, the fundamental concept of the PPC includes underlying activities or task that must be generally carried out to attain maximum usefulness from PPC. These fundamental have never been fuller codified. An outline of the fundamental concept usually identified with PPC is given below.

1. A management process that includes that includes planning, organization, staffing, leading and controlling.
2. A managerial commitment to effective management participation by all levels in the entity.
3. An organization structure that clearly specifies assignment of management authority and responsibility at all organizations levels.

4. A management planning process.
5. A management control process.
6. A continuous feed forward , feedback follow-up and re-planning through defined communication channels (both ward and upward)
7. A strategic (long-range) profit plan.
8. A tactical (short-range) profit plan.
9. A responsibility accounting system.
10. A continuous use of the exceptions principles.
11. A behavioral management program.

2.5.1 Managerial Involvement and Commitment

Managerial support, confidence, participation and performance orientation includes managerial involvement. All level of managerial especially top level management should engage itself to comprehensive profit planning and control means to understand to select, to devote ourselves to support by all its development and to evaluate the performance of the profit planning and control of profit planning and control the direction should flow it in total.

Managerial involvement on comprehensive profit planning and control, program is directly related to the confidence of management and its known ability to influence the future program convincement with the idea of setting goal in advance. Managerial involvement also deals with idea of direct participation of the lower staff on the program, but one should not forget the fact that the idea of "Project owns self" should be totally controlled.

2.5.2 Organizational Adaptation

A success of profit planning and control program rest upon the sound organizational structure and also on clear–cut designation of the authority and responsibilities of all departments of an enterprise. The responsibility of each departmental management should be well clarified. Some time indirect relationship of responsibility also plays a great role in o. So it is advisable to clarify well coordinate all round responsibility and authority of an between the department.

For easy and effective control sometime the organizational structure are divided into different functional sub units and each sub unit chiefs are assigned with specific responsibilities. These sub units are known as decision centre or responsibility centers are use to be in form of division or department or a sales district. But most of the cases these centre are use to be a functional are like.

a) Cost centre: Which is only responsible for controllable costs incurred in the sub units but not responsible for profit or investment.

b) Profit Centre: Which is the responsibility centre for cost and revenue and hence profit and

c) Investment Centre: Which is responsible for cost revenue profit and amount of investment invested assets.

2.5.3 Responsibility Accounting.

Planning is done with the help of the historical data supplied by accounting section and control is done by comparing actual data with projected data. So for this reason accounting system of any enterprise should be build around the responsibility accounting. For responsibility accounting system one should have to define responsibilities of the various divisions then the relevant parameters of the cost, revenue and other financial data should be utilized for preparing plan.

If the parameter of cost and revenue used for planning purpose are not used in accounting system are not used for costing purpose. Valuation of the result by comparing it with planned goal will not effective. So for evaluation purpose and for accounting purpose each of the responsibility centre have to prepare chart accounting parameter to be used for planning purpose and have to supply it with full instruction to respective unit then only the main objective of responsibility accounting can be fulfilled.

2.5.4 Full Communication

Communication can be defined as an interchange of thought or information to bring about a mutual understanding between two or more parties. Communication is needs for both feed forward and feedback process, which are most important for operation of any o. Role of communication can be justified in all aspect of management. It is communication either for decision making or for supervision or for evaluation flow of information must be adequate in all sides.

For comprehensive PPC effective communication means development of well defined objective, specification of good, development of profit plans and reporting and follows up activities related to performance evaluation for each responsibility centre. To have effective communication for ppc both the parties related with planning activities must have some understanding responsibilities and goals. Full participation in all matter well defined down ward flow of information and well defined reporting system is needed.

2.5.5 Realistic Expectation.

PPC must be based upon realistic approach or estimation management must be realistic assumption and must not take either irrational optimism or unnecessary conservation. Perfection on setting goal or objectives of the future sales, production levels, cost capital expenditure and cash flow and so on determines the success of profit planning and control purpose a realistic approach reared with the time diminution and external, internal environment that will prevail during the time span should be considered. This is called realistic expectation.

For budgeting purpose also realistic expectation is needed, because of both over or under estimation of the budget in one unit use to have negative effect on the other units, which ultimately destroy whole planning of the enterprise.

2.5.6 Timeliness (Time Dimension.)

Effective implementation of PPC concept requires that the management of the enterprise establish definite time dimension for certain type of decision. In viewing time dimension prospects in managerial planning, a clear cut destination should be made between historical consideration and futuristic consideration. Timing of planning activities suggest that there should be a definite management time schedule establish for initiating and completing certain phased of planning process. Planning horizon is the time for which the planning is done or we can call it life span of the plan. For any enterprise there used by many planning horizons to maintain the continuity of planning activity.

In conclusion we can say that for PPC purpose planning activities should be based on time dimension and management must careful to accomplish the activities in time.

2.5.7 Flexible Application

PPC program or any other managerial tool must be flexible, net rigid because these are techniques of only not end of management itself. Because the main aim or end of the management is to utilize the resources in most effective way and earn high return on investment and for this purpose ppc or techniques are used as means only.

Unlike budgets, which impose rigidity on an activity and puts constraint on the decision- making freedom of managers? PPC program permits freedom to all mangers. This is possible in pp process because in the course of preparation PPC program all levels of managers are involved and hence the top level management will have privilege to make necessary decision and delegate more responsibilities to the mangers, the power of making favorable decision. In such a situation the profit plan place management in position of being able to assess on a more objective basis the soundness of contemplated decision. PPC approach also use to have place for such unanticipated effects and adjustment for the same.

Finally it can be said that for PPC purpose budget should not be regarded as “straight Jacket” and for management purpose the PPC approach should not be regarded as the constraint for the management to seize the opportunities, which is going to be most beneficial for the enterprise in long run.

2.5.8 Behavioral viewpoint

Behavior aspect of human being are of the field of study the psychologist, educator and businessman and finding was that there can be so many unknown misconception and speculation which has to be considered for efficient management . A good and dynamic leadership can resolve this problem by integrating all the groups’ effort for betterment of the organization. This fact also has been well considered under CPPC approach and a focus has been given to resolve the behavior problems goal orientation is the characteristics of ambitious and competent individuals who are normally involved in management process. Goal, which has identified for an individual can enhance such persons it intensify their preference. The motivate men there should be a good harmony between their personal interest and organizational interest and good have to be identify accordingly. More than monitory benefits personal satisfaction from the works. Counts a lot for the competent people. So it will be much more fruitful for an enterprise to pursue all the people to formulate the plan and o set grails and, polices before asking them to employment it. Because realistic goods established through meaningful participation, tends to raise aspiration level of the entire management of form. The ppc concept provides men to resolve largely the good orientation problems in enterprises. Since affective participation by ball levels of management is repaired in the develop of these goods the related policies, and their moods of implementation.

Due to lack of understanding between the working group of the problem and it is operation, effects of over pressure and disagreements with planning and control approach (which is mainly based upon the recognition of group and individual importance on management but careful management have to tackle you is problem very carefully and have to divert the affection of the workers in positive way).

2.5.9 Activity costing

Responsibility according systems generally accumulate costs by department and product costing systems association costs with units of products or services organization also frequently find of useful to associate cost with activities. By decomposing on organization is production process into a discreet set of activities and then associating costs with each of these activities management is in a better of continuing the activities. Moreover by systemically identifying the activities throughout the organization, management. Can identify redundant activities some. Managers have found to their surprise, that he same activity was being done in a dozen deferent . Places in the company . An activity cost analysis can assist management in eliminating relevant activities.

2.5.10 Zero base Budget

Under zero base budgeting, every budget is constructed on the premise that every activity in the budget must be justified zero base budgeting has been used by mange organizations both private organizations and governmental units.

(Some organizations find that the concept starting from a zero point in budget construction is to unrealistic to be useful.)

It start with the basic prize that the budgets for next year in zero and that every expenditure. Old and now must be justified on the basis of its cost and benefit. The discipline of zero base budgeting takes a deferent approach in fact a reverse approach to this problem of justifying everything. What it says is this being with where you are and establish a business as usual budget for next years. The same way and same thing you would do it you were not concern about constraints or total justification.

2.6 Budgeting

A budget is comprehensive and coordinate plan expressed in financial. Terms for the operations and resource of an enterprise for some specific period in the future.

“A budget is the plan of the firms’ expectations in the future. As started previously, planning involves the control and manipulation of relevant variables controllable and reduces the impact of uncertainty. It makes management active to include the environment in the interest of the enterprise. A budget expressed. The plan informal terms and helps to realize the firm’s expectation. It is a comprehensive plan. In the sense that all activities and operation are considered when it is prepared as a whole budget are indeed prepared in various segment of the total budget the master budget.”

“Budget planning is one of the methods used for preplanning and coordinating the activities of an enterprise. the budget is a technique for comparing various alternatives in terms of results and costs it forces a consideration of all competing claim as to the directions in which the offers of an . Organization should be applied. Budgeting is the heart of the curt of business decisions. it resolves objectives and compares of reaching them budgeting aims at coordinating these conflating requires, in such a way that the best overall result is obtain in the light of the circumstances that are anticipated for a forward period and after an analysis of the probable results of all the alternative courses of action that are seen to be opened.

Budgeting as a tool of planning is closely related to the broader system of planning in an organization planning involves the specification of the basic objective that the organization will purse and fundamental polices that will guide it.

“In operational terms it involves the step of setting objective specifying goals formulating straggling and expressing budget. A budget is a comprehensive and coordinated plan expressed in financial terms for the operation and resources of an enterprise for some specified in the future.

A budget is predate mine statement of management policy during a given period which provided a started for completion with the result actually ached.

A firm without financial goals may find it, difficult to make proper decisions. A firm with specific goals in the form of a budget makes many decisions a head of time .Budget helps a firm to control its costs by setting guidelines for spending money for in needed items because they know at all cost will be compared to the budget, if cost exceeds the budgeted costs, an explanation will be required .Frequently exceeding the budget may even be grounds for dismissal. A budget helps to motivate employees to do a good job this is particularly true, when employment help in setting up the budget the complete budget for a farm is often called the master budget. The master budget consists of many functional budgets. These budgets include a sales budget, production budget a purchase budget an expense budget, equipment purchase budget and a cash budget one all of these budgets are completed. The master for the entire form is prepared.

The nature of budget control is such that all the various estimable. It is consequently , very necessary for arrangements to be made to ensure that they are appeared in a logical sequence , and it is unwise to commerce the operation of a budget system before these arrangements are made and before a comprehensive procedure , has been established to govern the preparation and use of various estimates .

In summary, the budget involves the statements of plans the co-ordination. Of these plans in well balanced programs and the constant watching act actual operations to ensure that they are kept in line with the predetermined plans in this way limits are set on expenditure, standards of performance are established and forwarded thinking is made an essential part of business management, care must be taken however not to fall into the error of regarding the budget as an end in itself it is a means to an land. It is not a method as business management, but an aid to clear thinking and its fundamental object is to enable considered intention to be substituted for opportunity in management.

2.6.1. Objectives / purpose of the budget

The main purpose of budget is to ensure that planned profit of the enterprise so it considered as a tool for planning and controlling the profits one of the primary objective of an annual budget is to measure the profit expectations for next financial year with due regarded to all the circumstances. Favorable and unfavorable that cans in fluency the trading prospects.

Different authors hold different view about the purpose of budget but they are alike same. There is four main purpose of budget and any or all may be reflected in any one budget first explain set out the proposals and decisions of those running the organizations. Second a forecast of the result expected third and authorization, the instruments where by supreme governing body sanctions. The raising the revenue or increasing the expenditure and finally a yardstick of what expenditure or rev ensues ought to be it the organizations are working effectively"

Main purpose of an operating budget as following

1) it is a plan which reflects the policy of a business in financial terms
2) it is a control document by which management can monitor actual performance
3) it acts as motivator of employs
4) it is a measure against which to evaluates the quality of man agreement
5) it is a means of forecasting financial position.
6) It is a means of giving information in organizations future intentions.

Objecting of setting are as following

1) It is a plan of action and serves as a detraction of policies.
2) It defines the objectives for all the execrative communication.
3) It provides a means of coordination and communications.
4) Budget facilities centralized control which delegated authority and responsibility.
5) It provides compilation of actual performance with budgets .
6) Only the exceptions are reported to the management so that corrective action can be taken in order to achieve the objectives laid down by management the purpose of budgeting. The context of an annual budget is to project as accurately as possible the sale incomes expenditure and profit for the ensuring . This is the principle objects and all anther requirements of budgeting stem from it.

2.7 Forecasting vs. Planning

"Forecasts are in dispensable in planning. Forecasts are statement of expected future conditions, definite statements of what will happen are patently impossible expectations depending upon the assumptions made if the assumptions are plan sable the forecast has a Better chance of being useful forecasting assumptions and techniques very with the king for planning needed".

“The forecasting aim at reducing the area of uncertainly that surrounds management decisions making with respect to cost, capital investment and so forth in many respects the future tends to like the past. These goods things since without same element of continuing between past, present and future there would be little possibility of successful participant”.

Forecasting an attempt to find the most problem. Course of events or at best range of probabilities. Forecasting is plying vital role in planning.

F.D. Newbury rightly says, “There can be no intelligent or effecting planning for a business enterprise without the primary stamps of pre-casting”

“A forecasting system must establish mutual relationship among forecasts made by deferent management areas. There is a high degree of enter depends among the forecast of various divisions or departments which cannot be ignored if forecasting is to be useful for example error in sale projections can trigger a series of reactions affecting budget forecast operating expenses cash flows. Investment level pricing etc. Similarly; budgeting errors in projecting the amount of money available to each division will affect project, developments hiring of personal and adverting expenditures.

This, in turn, will influence if not determine the level of sales operating costs and cash flowers. Clearly there is a strong enter – dependence among the different forecasting areas in organizations.

The distinction between forecast ions and planning is not an easy one forecasting is our best thinking about what will happen to us in future. Forecasting we define situations and recognize problem and opportunities planning we develop our objective in practical detail and we corresponding develop schemes of actions to achieve these objectives.

“A forecasting is a prediction of future events, condition or situation where as plan includes a programmer of intended of future actions and desired results forecasting predicts the future even in such a way that the planning process can be performed more accurately. “A forecast is not a plan rather it is a statement qualified assessment of future coordination about a particular subject (e.g. sale revenue based) based on one or more explicit assumptions .A forecast should always state the assumptions upon which it is based. A fore cast should be view as only one input into the development of a sales plan. The management of company may accept. modify by or reject –the forecast on contrast sales plan incorporate management decision that are based on forecast other input and management judgments about such related items as sales volume prices sales efforts productions and financing . Another reasons for identifying sales forecasting as only one step in sales planning is that sales forecasts are conditional”.

Finally we can say that forecasting is very necessary items for good plan but it is not as accurate as plan but it is attainment of future aspects functions many be three types, they are as follows.

2.7.1 Short-term Planning

Short-term Planning is that plan which covers one year time period. The management as a substantial part of long range and short-range plan uses it.

“The short term plan is synonymous with the classical budgetary period of one year. The s is made after a freeze is taken on the consideration of possible. Alternative course of action such courses are outline for the medium range plan which doesn’t concern implementation its aim is weeding out a plethora of possibilities which are for the most part long on promised and short feasible results.”

The short-term forecasting is a predication extending a maximum of two years into the future while it is difficult to desire examples that fit every situation some generalization can be made to indicate the application of short term forecasting. A business firm can be adjust more smoothly to an indicated higher or lower volume of sales if plans can be set out reasonably well in advance. The s forecast is useful in making internal estimated of company operations Internal estimates of forecasting made by the accounting department in the large enterprises can be integrated with up to date predications of s course of general business projections covering inventory positions manufacturing expanses, selling and administrative expenses grass margin net earnings and the cash position of be enterprise then reflect the most comprehensive internal and external data sales. Forecasting adds in more effective scheduling of goods in process and inventory requirement. Here s forecasting provides might more rationally ordered information and sounder base for decision- making.

2.7.2 Medium term planning

"The intermediate rage forecasting covers from three to five years. This is one of the least development areas of predication. Because Forecast does not have advantage of surveys of consumer and business intention nor can be extra plate l trends nor he is a particularly good position to rank the importance of qualitative factors. The surveys of business and consumer spending intentions are of vital assistance in the development of short run predictions similarly the extrapolation of l historical trend. If subjected to adequate qualitative materials that can be employed in intermediate range. Forecasting are limited an appraisal of the three to give year outlook may be especially valuable in formulating capital expenditure program and related financial plan. Forecasting and product development. The forecasting is formed to rely very heavily upon his judgment. he must isolate from the mass of material facing him these elements in situation that have most significance in shaping the course of economic events in the half decade lying ahead and this may be difficult indeed. In particular intermediate forecast must consider the problems of cyclical fluctuation if they are to be meaning full"

“Two or three years generally not exceed this period m planning usually includes a time span of above three year one valuable purpose. For using is to establish interim objective between l goals and for use in the development of annual program and budgets. In these case target with specific results be developed more details is involved than l plan but less than for s plan while resource.

2.7.3 Long term planning

Long term planning five to ten years varying with the enterprise, sometimes extended to ten years. l planning is one of the most difficult time span involved in planning as many problems in s planning can be traced to the absence of clear sense of direction and the practices which comprehensive l plan provides.”

“Basically it is more important for broad and long living enterprises. Long range planning is closely concerned with the concept of the corporation as long living institutions”.

“The purpose of l projection is to give a rough picture of future prospects; a picture that has some empirical foundation sought is reasonable statement of the most probable outcome of an explicit combination of assumption sometimes these assumptions are varied to yield a range of possible results. Typically, Aggregate projections have been set in a gross Nation product framework once an appraisal has been made of the growth potential of aggregate economy consideration may be given first to the magnitude of future industry sales and second to the size of the company sales by product development and diversifications, indicate the most desirable channels of distribution and point up personnel needs and the specialties must required. Finally a long range forecast may indicate the volume of investment necessary in plant and equipment.

2.7.4. Objectives of l planning

"Objectives of planning are as follows:-

a. To provide a clear picture of whether the enterprise is handed.

b. To focus on long term opportunities.

c. To keep Enterprise strong.

d. To evaluate management personnel.

e. To bring attention to new techniques.

f. To expedite new financing.

2.8 Process or profit planning.

"The planning process should involve periodic, consistent and in –depth re-planning so that all aspects of operations are carefully re-examined and re-evaluated. This prevents budget planning approach that involves only justification increase over the prior period. The concept of re-evaluation and the necessity to justify all aspects of the plans periodically. Finds its strongest support in what has been called" Zero-base budgeting". Following table provide an overview of a typical profit planning process."

Overview of the pp process

Management	sequential phase of the pp process	primary function responsibility

1. External relevant variables indent by and evaluate.

2. Board objectives of business development executive enter revise.

3. Specific enterprise goals develop planning consistent with above.

4. Enterprise strategic – specify management major thrust to attain the objectives and goals

5. Executive management planning all might instructions specify planning guide levels lines to manager,

6. Project plans – develop and evaluate for each project.

7. Strategic profited plan (long-range) All might

8. Tactical profit plan (short-range) Level

9. Implementation of profit plan (through the budget year)

10. Performance of reports – prepare monthly reports by responsibility.

11. Follow of provide feedback, take connective action and preplan

Explanation of major process of profit planning

2.8.1. Identification and Evaluation of External Various

The managerial planning is necessary with to the entire relevant variable. These variables exert major in fluencies on an enterprise.

The variable identification phase of the profit [planning process focuses on

(a) Identifying.

(b) Evaluating the effect of the internal variables identification also involves separate consideration of variables that are non controllable and those that are controllable this means that management planning must focus on hot to manipulate the controllable variables .more ever there must be managerial. Planning of now to work with the no controllable variables. That is for both kinds of variables now can management take advantage of potential unfavorable impact on the enterprise . Analysis and evaluation of the environmental variables must be continuing concern of management.

2.8.2. Development of the broad objectives of the enterprises

Development of the broad objectives of the enterprise is a responsibility of executive management. Based on realistic evaluation of the relevant variables and an assessment of the strength and the weakness of the organization. Executive management planning process."

The statement of broad objectives should express the mission, vision and ethical character of the enterprise, its purpose is to provide enterprise identify, continuity of purpose and definition.

Stewart Thompson listed the purpose of the statement essentially as follows:-

(a) to define the purpose of the company (to state exactly why the company is in business)

(b) to classify the philosophy – character of the company

(c) to create a particulars climate with to the business.

(d) To set a guide for managers so that the decisions they make will reflect the interest of the business with fieriness and justice to these concerned.

The statement of the broad objectives should represent the basic foundation or building block upon which to develop and positively reined force pride in the company by management, other employees, owners customers and other enterprises that have commercial contact with it. I should be designed for wide dissemination and should be believable which means that in the long run the company's action must be harmony with the statement.

2.8.3 Development of specific goals for the enterprises.

"The purpose of the "goal phase" of the profit planning process is to bring the statement of broad objectives in to sharper focus and to move from the realm of general information. It provides both narrative and quantitative goal that are definite and measurable. Such goals should be categorized as specific and common.

These broad, but specific, goals must be developed for the strategic long range plans and tactical short range plans. This statement of specific enterprise goals should define such operational goals, as expansion or construction of product and service lines, geographic areas, share of the a market by major product service lines, growth trends, production goals, profit margin return to investment and cash flow.

2.8.4 Development and evaluation of company strategy.

"Enterprises strategies are the basic trust, way and tactics that will be used to attain planned objectives and goals. A particular strategy may be short term or long-term.

The purpose of developing and disseminating enterprise strategies is to find the best alternatives for attaining the planned broad objectives and specific goals strategies focus on now therefore, they outline a plan of action for the enterprise.

Although strategy formulation is continual concern to executive management better managed companies have found that periodic reassessment of the strategies is essential variables and their probable future impact on the enterprise.

2.8.5 Executive Management Planning Instruction.

"The executive planning instruction issued by top management, communication the planning foundation that is necessary for the participation of all levels of the management in the development of the strategic and tactical profit plans for the upcoming budget year. Executive leader ship in fundamental in developing and articulating this planning foundation, the formulation of relevant strategies consequently at this point planning process, the foundation has been established to articulate the broad and the specific objectives of the enterprise and the strategies that facilitate their attainment.

2.8.6 Development and approval of strategies and tactical profit plans

"The strategic long range plans are usually developed concurrently. It is possible (and not infrequent) that executive management or chief financial executive will develop the strategic and tactical profit plans. This approach is seldom advisable because it defines full participation in the planning process by middle manager. Lack of participation can cause unfavorable behavioral effects. The manager of each responsibility centre will immediately initiate activities within his/her responsibility centre to develop a strategic long range profit plan (say five years) and in harmony with the five years plan a tactical short range profit plan (say one year)''the underlying causes. The identification of cause in primarily a responsibility of line management''.

Analysis to determine the underlining causes of both favorable and unfavorable performance variance should be given immediate priority. In the case of unfavorable performance variances, after indentifying the basic causes as opposed to the results and alternative for corrective action must be selected. Then the corrective action must be implemented in the cause of favorable performance variances the underlying cause should also be identified. Finally, there should be a special "follow-up of the prior follow-up action ".This step should be designed to (1) determine the effectiveness of prior corrective action and (2) provide a basis for improving future planning and control procedures.

2.9 Importance and Limitation of Profit Planning

2.9.1 Importance

Importance of profit as follows:-

1. It forces early consideration of basic policies.

2. It requires adequate and sound organization structure that is, there must be definite assignment of responsibility for each function of the enterprise.
3. It compels al the remembers of management, from the top to down, to participate in the establishment of goals and plans.
4. It compels departmental manager to make plans on harmony with the plans of other departments and the entire enterprise.
5. It requires that management put down in the figures what is necessary for satisfactory performance.
6. It requires adequate and appropriate historical accounting data.
7. It compels management to plan for the most economical use of the labour material and capital.
8. It instills at all level of management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decisions.
9. It reduce cast by increasing the spam of control because fewer supervisors are needed.
10. It frees executives from many days to days internal problems through predetermined policies and clear-cut authority relationship. Thus, it provides more executive time for planning and creative thanking.
11. It tends to remove the cloud of uncertainty that exists in many
12. Organizations, especially among lower levels of management, relative to basic policies and enterprise objective.
13. It pries point efficiency and inefficiency.
14. It promotes understanding among members of management of their co-workers problems.
15. It forces management to give adequate attention to the effect of general business conditions.
16. It forces a periodic self –analysis of company.

17. It aids in obtaining Bank credit, Banks commonly require a projection of future operations and cash flows to support large loans.
18. It checks progress or lack of progress towards the objectives of the enterprises.
19. It forces recognition and corrective active action (including rewards).
20. It rewards high performance and seeks to correct unfavorable performance.
21. It forces management to consider expected future trends and conditions".

2.9.2 Limitation of Profit Planning

Following are the main limitation of profit planning.

1. It is not realistic to write out and distribute our goals, policies and guidelines and all the supervisors.
2. It is difficult, it is not possible, to estimate revenues and expenses in our company realistically.
3. Our management has not interested in all the estimate and schedules. Our strictly in formal; system is better and works well.
4. Budgeting places too great a demand on management time, especially to revise budget constantly. Too much paper work is requiring.
5. It takes away management flexibility.
6. It creates all kinds of behaviors problems.
7. It places the management in a strait jacket.
8. It added level of complexity that is not needed.
9. It is too, costly abide from management time.
10. The managers, supervisors and other employee's rate budget.

2.10 Development of profit planning.

"Development of profit plan includes the preparation of various functional budgets, analysis of variance and presentation of projected income statement and balance sheet. To management of with the participation on lower management involves in the development of profit plan. Developing profit plan beings with preparation of master budget are outlined as follows"

1) Develop Sales budget.
2) Develop Production budget.
3) Develop Direct Labour Budget
4) Develop Overhead Budget
5) Develop Capital Expenditure Budget
6) Develop Cash Budget

2.10.1 The Sales Budget / Plan

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

a. It Provides for the basic management decisions about marketing and
b. Based on those decision it is a organized approach for developing a comprehensive plan"

2.10.1.1 Purpose of Sales Planning

The Primary purpose of sales plan is (Welsch 1992)

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

d. To facilitate managements control of sales activities.

2.10.1.2 Developing a Comprehensive Sales Plan

1. Develop management guidelines for sales forecast.
   I. Supply guideline to the entire development.
   II. About 4 P's (Price ,Product, Promotion, Place)
   III. Objectives.
2. Prepare Sales forecast.
3. Develop the strategic and tactical sales plan.
4. Assemble for other data that will be relevant in developing comprehend sales plan.
5. Secure managerial commitment to attain the goal.

2.10.2 The production Budget /Plan

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

2.10.2.1 General consideration in production planning

a. Total production requirements (by product) for the budget period .
b. Inventory policies about levels of finished goods, works in process and the cost of carrying inventory.
c. Plant capacity policies such as the limits of permissible departure.
d. Adequacy of management.
e. Availability of management.
f. Availability of direct material, purchase component and labour .
g. Length of the processing time.

h. Economic loss or runs.
i. Timing of production through out of the budget period , by product and by responsibility centers.

2.10.2.2 Developing the production plan

The production planning refer production levels are of production facility and inventory level the second step of profit planning and control is the production budget considering management inventory policies .production manager must translate the quantities in the sales budget in to unit production requirements for budget period for each product. Thus the production budget can be developed in this way.

We have

Description	Qty.
Sales Budget Units Add-Closing Stock Units Less-Opening Stock Units	xxxx xxxx xxxx
Production Budget Units	xxxx

2.10.3 Materials Budget

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

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

a) Material and parts budget

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

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

b) Material and Parts Purchase Budget

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

The purchase manger should use the following formula to determine the purchase unit.

Total required unit of material for production	xxx
Add: Closing inventory of materials	xxx
Required units of material	xxx
Less: Opening inventory of material	xxx
Planned Purchase (Units) of Material	xxx

c) Material & Parts inventory budget

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

d) Cost of material used budget

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

2.10.4 Direct Labour Cost Budget

"A comprehensive profit planning program should incorporate approaches applicant to each problem area. A profit-planning program cannot resolve special personal problems, but it directs careful consideration to them and aids in planning them in perspective. Effective planning of long term and short term labour coast will benefit both the company and its employees. Planning labour costs involve major and complex problem areas: 1.) Personal needs 2.) Recruitment 3.) Training 4.) Job description and evaluation 5.) Performance measurements 6.) Union negotiation and 7.) Wage and salary administration.

Labour generally is classified as direct or indirect labour sets include the ways paid to employee who work directly on specific productive output. As with direct material costs. Labour cost that can be directly traced to specific production are defined as direct. Direct materials and direct labour costs are frequently referred to collectively as the prime cost of product. In direct labour involves all other labour costs such as supervisory salaries and wages paid to tool markers, repair personnel, storekeepers and custodians.

The direct labour budget includes the planned direct labour requirement necessary to produce the types and quantities of outputs planned in the production budget. When the production budget is completed and planned unto of each product to be produced is budgeted then labour budget will be prepared by multiplying the estimated labour hours per units and unit to be produced for each product to determine the direct labour hours to be planned.

2.10.4.1 Developing the direct Labour Budget

"The approach used to develop the direct labour budget depends primarily on the

1.) Methods of wage payment

2.) Type of production process involved

3.) Availability of standard labour or times and

4.) Adequacy of the cost according record relating to direct labour costs

.

Basically there are three approaches to develop the direct labour budget.

a) Estimate the standard direct labour hours required for each unit of each product then estimates the average wage rates by department, cost centre , of operation. Multiple the standard time per unit of product by the average hourly wage rate, giving the direct labour cost per unit of output for the department, cost center or operation, multiply the unit direct labour cost by product.

b.) Estimate rate of the direct labours cost to some measure of output that can be planned realistically.

c.) Develop personal tables by enumerating personal requirements (including costs) for direct labour in each responsibility centre. Four approaches commonly used in planning standard labour times, they are following:

   1.) Time and motion study

   2.) Standard costs

   3.) Direct estimated by supervisors

   4.) Statistical estimates by a staff group.

2.10.5 Expenses, (over head) Budget or plan

“Marriage should view expensive planning as necessary to maintain responsible expense a levels to support the objectives and planned programs of the enterprises. Expense planning should not better on decreasing expenses but rather on better utilization of limited resources. Viewed in this light, expense planning may cause either decreased or increased expenditures planning should focus on the relationship between expenditure and the benefit derived from these expenditures. The direct benefits should be viewed as goals, and sufficient resources must be planned to support the operating activities essential for their accomplishment.

2.10.5.1 Cost Behavior

“In the expense planning the knowledge of cost behavior is important cost behavior is the response of a cost of different volume of output. There are three distinct categories of expenses, they are as follows:-

a.) Fixed expenses:

These expenses that is constant in total, from months to months regardless of fluctuations in output or volume of work done.

b.) variable expenses:

These expenses that changes in total, directly with changes in output or volume of work done. The output must be measured in terms of some activity base, such as unit completed, direct labour hour, sales dollars or number of services calls , depend d on the activities on the responsibility centre.

c.) Semi variables that are neither fixed nor variable because they posses some characteristics of both. As output changes semi variable expenses changes in the same direction but not in proportion to the change in output.

2.10.5.2 Administrative Expenses Budget

“Administrative expenses include those expenses other that manufacturing and distribution. They are included in the responsibility centers that provide supervision of and service to all functions of the enterprises rather than in the performance of any one function. Because a large portion of administrative expenses fixed rather than variable. The nation persists that they cannot be controlled; aside from certain top management salaries, most administrative expenses are determined by management decisions."

It is advisable to base budgeted administrative expenses on specific plans and programs. Past experience adjusted for anticipated change in management policy and general economic conditions, is helpful. Because most administrative expenses are fixed, an analysis of the historical record will often provide a sound basis for budgeting them.

2.10.5.3 Capital Expenditure Budget

"A capital expenditure is the use of funds to obtain operational assess that will (2) help earn future revenues or (b) reduces figure costs. Capital expenditures include such fixed assets as property, plant, equipment, major renovations and patents.

Capital expenditure are investments because they require the commitment resources today to receive higher economic benefits in the future capital expenditures become expenses in the future as their related goods and services are being used to earn higher future profit from future revenues or to achieve future cost savings. The related future expenses such as depreciation expenses are identified with the future periods when the capital additions are used for their intended purposes. Therefore capital expenditures involve two planning phases (1) investments and (2) expenses."

Capital budgeting is the process of planning and controlling the strategic (long and tactical (short-term) expenditures for expansion and contraction of investments operating (fixed) assists.

Capital budgeting involves the generation investment proposals the estimate of cash flows for the proposals the evaluation of cash flows the selection of projects based upon an acceptance criterion a finally the continual revaluation of investment projects after their acceptance."

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

"Capital expenditures are made in order to reduce cost, increase output expand into new products or market or meet government regulations. In general capital expenditures are made until the rate of return or the last dollar invested equals the marginal cost of capital."

Capital budgeting may be defined as the decision making processes by which firms evaluate the purchase of major fixed assists, including buildings, machinery and equipment. It is part of the firm's formal planning process for the acquisition and investment of capital.

2.10.5.4 Cash Budget

Once of the major responsibilities of management is to plan, control and safeguard the cash assets of the enterprise. The planning of the cash inflows, the cash outflows and the related financing is important in all enterprises. Cash budgeting is an effective way to plan the cash flows, assess cash needs and effectively use excess cash. A primary objective is to pan the liquidity position of the company as a basis for determining future borrowings and future investment.

Planning cash inflows and cash outflows gives the planned beginning and ending cash position for the budget period. Planning the cash inflows and outflows will include the need for financing probable case deficits or the need for investment planning to put excess cash to profitable use.

The primary purpose of the cash budget is:

1. Give the probable cash position at the end of each period as a result of planned operations.
2. Identify cash excesses or shortages by time periods.
3. Establish the need for financing and for the availability of idle cash for investment
4. Coordinate cash with
    - Total working capital
    - Sales revenue
    - Expenses
    - Investment and
    - Liabilities
5. Establish a sound basis for continuous monitoring of the cash position.

2.11 Completion of the Profit Plan

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

2.12 Planning for Non Manufacturing Concern

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

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

2.12.1 Planning Inventory Levels & Purchases

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

1. *Stock sales ratio at retail Price*= $\dfrac{\textit{Average Inventory at retail}}{\textit{Net Sales}}$
2. *2.Stock Sales ratio at Cost* = $\dfrac{\textit{Average Inventory at Cost}}{\textit{Cost of sales}}$

Here,

Average Inventory = $\dfrac{\textit{Opening stock + Closing Stock}}{2}$

Net Sales =Sales Value – Sales return

Cost of Sales=Sales Value – Net Profit

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

Planned purchase (at retail Value) =Planned net sales + Planned reductions + planned EOM Stock- Planned BOM Stock.

Where, EOM=Ending of Month

BOM=Beginning of Month

2.12.2 Open to Buy Planning

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

A. Stock Needed

EOM Inventory		xxx
Add: Planned sales for remaining period		
Planned sales for whole period	xxx	
Less: Actual sales to date	xxx	xxx
(A) Total Stock needed		xxx

B. Stock Available

BOM Stock	xxx
Add: Merchandise received to date	xxx
Less: Actual sales to date	xxx
Less: Actual reduction to date	xxx
Add: Merchandise order for delivery	xxx
(B) Total Stock Available	xxx
Open to buy stock at retail (A-B)	xxx

Open to buy stock

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

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

2.12.3 Cost-Volume –Profit (CVP) Analysis

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

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

Two Approaches can be used to complete the breakeven point.

i. The formula approach
ii. The Chart approach

I .The formula Approach

Unit Contribution =Unit Selling Price-Unit Variable cost

Total Contribution =Unit Contribution x Unit Sold

Total Contribution =Total Fixed Cost + Profit

$$BEP\ (Units) = \frac{Total\ Fixed\ cost}{Selling\ Price - Veriable\ per\ cost}$$

$$BEP\ (Rupees) = \frac{Total\ Fixed\ Cos}{1-\frac{Variable\ cost\ Per\ Unit}{Selling\ Price}}$$

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

II. The Chart Approach

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

2.13 REVIEW OF RELATED LITERATURE

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

1. Shiv Prasad Nepal

A research paper conducted by Mr. Shiv Prasad Nepal on the topic **"profit planning in Nepal manufacturing & public enterprises. A case study of Lumbini Sugar Mills Limited" submitted to central department of management,T.U.,Kathmandu, in 1995 ,** has the main objectives to examine the degree of sales realization in respect to budget figure to high light the planned production and actual trends, to examine the cost structure and to analyze the profit pattern of the company. to fulfill the objective Mr .Nepal has used both primary and secondary source of data. The time period covered by the study was 5 years from fy 2046/047 to fy 050/051 . Some major findings of the study on the analysis of available data are pointed out as follows.

I. There is no executing management planning instructions and effective communication system in Nepalese manufacturing public enterprises.
II. Sales plan is the infrastructure of profit plan other pal nod profit plan depends upon sales plan but in Nepalese manufacturing public enterprises the infrastructure of profit plan is production plan.
III. In Nepalese manufacturing public enterprises there is no detail expanses plan which is the necessary element of profit planning.
IV. In developing countries like Nepal supply side is important than demand side because the country cannot fulfill the national element by internal production.

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

a. Top management should co-ordinate with all levels of management for setting goals for sub division.
b. Sales plan is a primary plan of profit planning so it should prepare the strategic long range and tactical short range sales plan.

c. It should prepare plan of material inventory, Direct labour, variable cost and other expanses these are vital requirements of profit planning .

d. Cost control is important in every manufacturing public enterprises , cost control is impossible through standard cost technique so that the Lumbini sugar Mills Ltd. Should implements the standard costing approach.

2.Bhim Narayan Upadhaya

Mr.Bhim Narayan Upadhaya has submitted a dissertation of the topic of **"Profit planning & control in manufacturing public enterprises of Nepal. A case study of Birganj Sugar Factory Limited". Submitted to the faculty of management central Department of T.U. Kathmandu in 1998.** In case of partial fulfillment of M.B.S . He has explored the data of seven years from fy 2047/048 to fy 2053/054. Research Methodology was followed through secondary sources of data for data gathering procedure. But for other essential information primary data were also used .

Mr.Upadhaya has painted hare various finding based on the analysis of data and information. Few major finding regarding to BSFL are as follows.

- The financial performance of manufacturing public enterprises has quite dismal and not be hoped to improve the situation of the enterprises in near future.
- There is no well developed system of performance evaluation for employees and there is no fair and appropriate system of motivational enforcement to employees on the basis of their task performance.
- Cost volume profit relationship are not considered while developing sales plan and pricing strategy.
- The plans are prepared from top level and letter it is communicated to the lower level.

- There is no adequate and clear out responsible a money various management level and department.

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

- Profit planning manuals should be communicated from top level to lower levels.
- Trained and qualified manpower of budgeting and planning should be fixed and present manpower should be trained.
- Sales forecasting should be made on the realistic ground .
- The production budget should be prepared by interim time period and for responsibility centers.
- The statement of specific goals should be clear about the specific goals for which company and for its major sub division.

3.Gopi Bhandari

Mr.Gopi Bhandari has tried to point out some feature and problems of profit planning in the context of Nepalese Manufacturing Company in his research work **“A Profit Planning In Nepal, A case Study of Royal Drugs Ltd” Submitted to the faculty of Management central department of T.U., Kathmandu, in 1998,** in course of partial fulfillment of M.B.S. He has explored the data of six year from 046/047 to 051/052. Research methodology was followed through secondary source of data for data gathering procedure. But for other essential information primary data were also used.

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

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

Mr. Bhandari has recommended various recommendations to improve the profit planning system of Royal Drug Ltd. The major recommendation is:

- It seems necessary to develop implement and improve the process of profit planning from the very beginning to the end.
- Cost volume profit analysis should be taken in to consideration while developing sales plan and pricing strategies.
- Identification and evaluation of external and internal variable is be adopted.
- Program to be improving the employee proclivity should be made effective.
- Sales forecasting should be made on realistic basis.
- Trained and qualified manpower of budgeting and planning should be hired.
- System of periodical performance report should be strictly followed.

4. Ram Krishna Dhakal

Mr.Ram Krishna Dhakal has conducted thesis on the topic **"Profit Planning in manufacturing company. A case study of Gorkhali Rubber Udyog Limited . Submitted to the faculty of management central department of T.U.,Kathmandu in 1999.**in case of partial fulfillment of M.B.S the main objectives of the study are to analyze the effectiveness of profit planning in GRUL, to study the various budgets used by the company & to covers seven years period of time from 2049/050 to 2055/056. Primary & secondary sources have been adopted through analysis he found the following major findings.

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

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

- SWOT analysis should be defined and adopted.

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

CHAPTER-THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words research methodology describes the methods and process applied in the entire subject of the study.

Research methodology depends upon the various aspects of the research project. The main objectives of this thesis is however to examine and analyze the profit planning and control system adopted by Popular Plastic Pvt. Ltd.

Besides this thesis is also means for analyzing the position of deposit, loan recoding and investment policy and to provide the appropriate suggestion and recommendation.

Thus, the researcher has tried to undergo the following methodology for the evaluation of various aspects of financial position of Popular Plastic Pvt. Ltd.

3.2 Research Design

A research design is the arrangement of conditions for collections and analysis of data that aims to combine relevance the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances. To achieve the objective of this study descriptive and analytical research design has been used. Some financial and statistical tools have also been applied to examine facts and descriptive techniques have been adopted to evaluate investment performance of Popular Plastic Pvt. Ltd.

3.3 The population and sample

This research work is designed with profit planning and control is Nepalese Manufacturing Company. The total number industries in Nepal are the population of the study. Among the total population of Popular Plastic Pvt. Ltd. has been chosen randomly for case study purpose.

3.4 Period Covered

Profit planning has two time dimension long rage and short range. This study covers a time period four year from 2063/064 to 2067/068 data are taken from PPPL and the analysis is basically made an on the basis of these 5 years data. For the purpose of the analysis of short-range tactical profit plan analysis data are taken from fiscal year 2067/068. Strategic or long range trend are taken from fiscal year 2063/064 to 2067/068.

3.5 Nature and Sources of Data

This study is mostly based on secondary data. However, primary data have also been used:

3.6 Data collection procedures

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

Primary data is collected from the following sources.

I. Personal approach, interview and unstructured dialogues.

II. Questionnaires.

Secondary data is collected from the following records.

I. Publication of Popular Plastic Pvt. Ltd & Office records.

II. Published and unpublished documents related to Popular Plastic Pvt. Ltd

III. Report of Auditor.

3.7 Statistical Tools Used

Data collected from various sources are managed, analyzed and presented in proper tables and formats. Such formats and tables are interpreted and explained wherever necessary.

To analyze the collect data financial and statistical tool are used the financial tools mainly used are financial ratio. CVP analysis and flexible budget similarly the statistical tools used are mea correlation regression, time series, coefficient of variance standard deviation, graphs diagrams etc.

3.8 Research Variables

Loan disbursements, deposit collection, capacity utilization, profit and loss, total assets total capital employed, capital expenditure outstanding balance of letter of credit and bank guarantees and cash flow relating to short term and long term periods of PPPL are the research variable of the present study.

3.9 Research Methodology

This study will be confined to examine the profit planning and control of PPPL bank wherever financial, mathematical and statistical tools will be used to analysis the presented data which will includes ratio analysis is percentage, regression analysis, test of goodness of fit of the regression estimate (r2) correlation mean standard deviation, coefficient of variance etc.

CHAPTER-FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1Introduction

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

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

Long range profit plan encompasses five year time horizon and short range practical profit plan encompasses one year time horizon segmenting in to month, quarter and half year.

In respect to Popular Plastic Pvt. Ltd. has no practice preparing long range strategic profit plan. Therefore, the analysis of long range profit plan is limited, so the research is mainly focused on the short range tactical profit plan of Popular Plastic (P) Ltd. while developing the short range profit plan it has no practice of segmenting annual target into monthly and quarterly basis. The fiscal years starts from shrawan to end Ashad .

Various functional budgets will be analyzed, comparison of budgeted target and actual results to analyze. Variances are included for analysis purpose. For study purpose, it covers the prides of five years from 063/064 to 067/068 and details analysis is made for f.y 066/067 & 067/068 .

4.2 Defined Objectives & Goals as Basic Element of profit Planning.

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

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

So far Popular Plastic Pvt. Ltd. is concerned basis objectives of the organizations are as follows.

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

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

4.3 Sales Budget /Plan

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

The sales plan is the foundation for periodic planning in the enterprises. Most of the operation aspects including manpower requirements materials, cash etc. depend upon the volume of sales. Sales plan is prepared on the basic of sales plan involve the following four interrelated steps.

a) The sales forecast

b) The marketing plan

c) The advertising & Promotion Budget

d) The selling expenses.

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

4.3.1 Sales plan in Popular Plastic Pvt. Ltd.

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

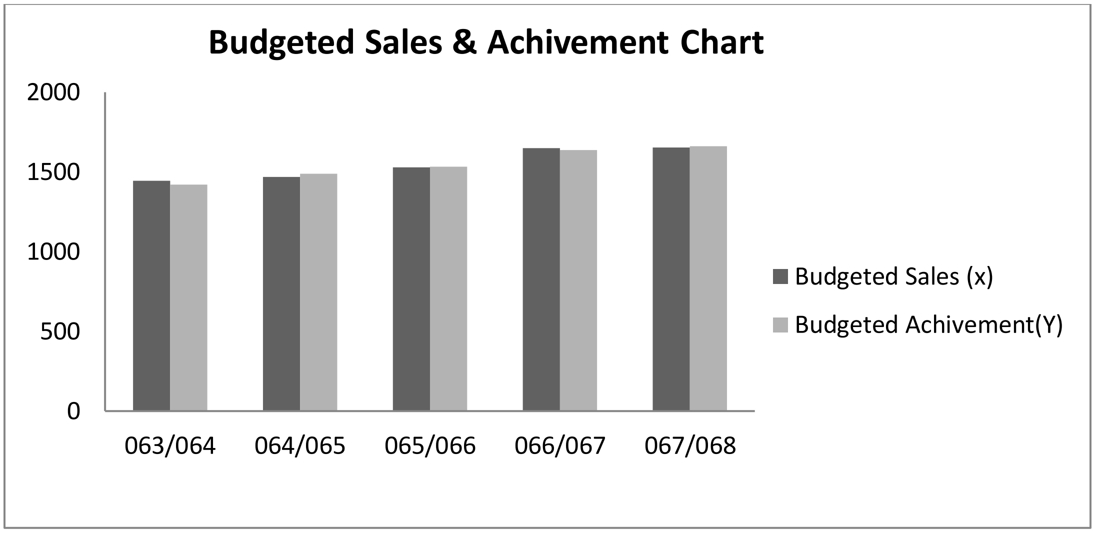
Table No.1

F/Y	Sales		Ratio %	Change%
	Budgeted (MT.)	Achievement (MT.)		
063/064	1500.000	1444.672	96.31	-
064/065	1400.000	1470.112	105.00	8.70
065/066	1600.000	1528.905	95.56	-9.45
066/067	1700.000	1648.186	96.95	1.40
067/068	1700.000	1652.807	97.22	0.27

The above table shows that Fy 064/065 actual sales achievements are higher the budget sales but in Fy 063/064,065/066,066/067 & 067/068 actual achievements are lower than budget sales. By the analysis the above table it is said that budget are not based on historical data .The gap between actual and budget sales figure is fluctuating year by year. In F/y 064/065 the actual achievement was 105.008% while in fy 063/064 the actual achievement was 96.311% based on budgeted sales of corresponding year. Such large gap indicates weak point of planning. It means budget are not fixed according to last year performance and market research. Sometimes budget is made with pessimistic way and same time, with optimistic way .All these prove that management of Popular Plastic Pvt. Ltd. does not follow modern management tool of planning.

The above gap between budget sales and actual sales can be presented in the graph.

<u>**Graph No.1**</u>



The above graph shows that the trend of sales budget & actual sales is fluctuating .Because of indefinite fluctuating nature of sales trend it is impossible to project the future potential sales.

To find out the nature of variability arithmetic mean, standard deviation, Coefficient of variation and correlation of the budgeted and actual sales figure of Nepal Plastic are calculated. The details calculation of those is shown in appendix-1

<u>**Summarizing the result from Appendix-1**</u>

Description	Sales Budget (MT.)	Sales Achievement (MT.)
Mean	1580	1548.936
Standard Deviation	116.619	87.321
Coefficient of Variation	7.380	5.637
Coefficient of Correlation	0.913	0.913
Probable Error	0.050	0.050
6 Times of PE(r)	0.300	0.300

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

To find out the correlation of coefficient between budgeted sales & actual sales, Karl person's Coefficient of correlation (r) is determined .for this purpose target sales figures (X) are assumed to be independent variable & actual sales (Y) are assumed as dependent variable. The value of r always lies between -1 to and 1 .when r=1,it means here is perfect positive correlation between budget sales and actual sales. When r=1,it means there is negative correlation between budget sales & actual sales. where r=0 it means there is no relationship between two variable .Here the value of r=0.913,it mean there is positive correlation between budgeted sales and actual sales .The test of significance of the value of six times probable error p (E) 0.050.Here, the value of six times probable error (0.913>0.300) . Therefore, it can be concluded that the value of r is significant. So ,it may be concluded that there is significant relationship between budgeted sales & actual sales. A regression line also can be fitted to show the degree of relationship between target sales & actual sales.

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

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

From Appendix-2,we have

σy = 116.619

σx= 87.321

r =0.9133

$\bar{x}$ = 1580

$\bar{y}$ = 1548.936

Regression Line Y on X

$$y-1548.936 = \frac{0.9133X116.619}{87.321} (x-1580)$$

$$\text{or } y-1548.936 = \frac{106.5081}{87.321} (x-1580)$$

or y-1548.936=1.2197(x-1580)

or y-1548.936=1.2197x-1580

or y=1.2197x-31.0640

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

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

Table No.2

F/Y	Actual Sales in Mt. (Y)	x	X^2	xy
063/064	1444.672	-84.233	7095.198	-121890.056
064/065	1470.112	-58.793	3456.616	-86432.295
065/066	1528.905	0	0	0
066/067	1648.186	119.281	14227.956	196597.274
067/068	1652.807	123.902	15351.705	204786.093
N=5	∑Y=7744.682	∑X=100.157	$\sum x^2$=40131.475	∑xy= 193262.016

F/y 2065/066 Assumed based year

Straight line trend equation

$Y = a + bx$

$$a = \frac{\sum Y}{N} = \frac{7744.682}{5} = 1548.936$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{193262.016}{40131.475} = 4.4157$$

$Y = a + bx$

$Y = 1548.936+4.4157\ x$

This trend line shows the positive figures of sales, which mean the sales, will increase by 4.4157 Metric ton in the next year.

Fiscal year 065/066 is assumed as base year. Therefore, the value if x in Fy 065/066 is Zero. X is calculated by subtracting the figures of Fy 064/065 from each year's actual sales (x=y-1528.905).

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

1. Nepal Plastic does not prepare long term sales plan. Only short term sales plan is prepared on the annual basis.
2. Which fixing the price .BEP analysis & cost of production is not seriously considered.
3. There is large gap between budgeted sales & actual sales in Fy 065/066
4. There is positive Correlation between budgeted sales & actual sales.
5. The straight line trend shows the increasing trend of sales in future.
6. Nepal Plastic does not have experts and skilled planners. The management of PPPL has in adequate knowledge of budgeting.

4.4 Production Budget

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

Production Unit = Sales Unit + Closing Unit – Opening Unit

4.4.1 Production Budget in Popular Plastic Pvt. Ltd.

There is no effective preparation of long range and short range production plan generally Nepal Plastic only prepares short range production plan of coming year in annual figure .There is no provision of segmenting annual figure in to half yearly, quarterly or monthly. General Manager prepares production budget with the half of production section in Popular Plastic Pvt. Ltd. General Manager & Production Manager is same .while preparing production budget neither sales budget is considered nor inventory policy or inventory level is considered. There are no hard and fast rules regarding production & inventory. Plant capacity is another factor in production budget. Popular Plastic has sufficient capacity (3000 MT) to meet production target but it is not utilizing its capacity due to market .

The following table shows the production target achievement (capacity Utilization 3000 MT)

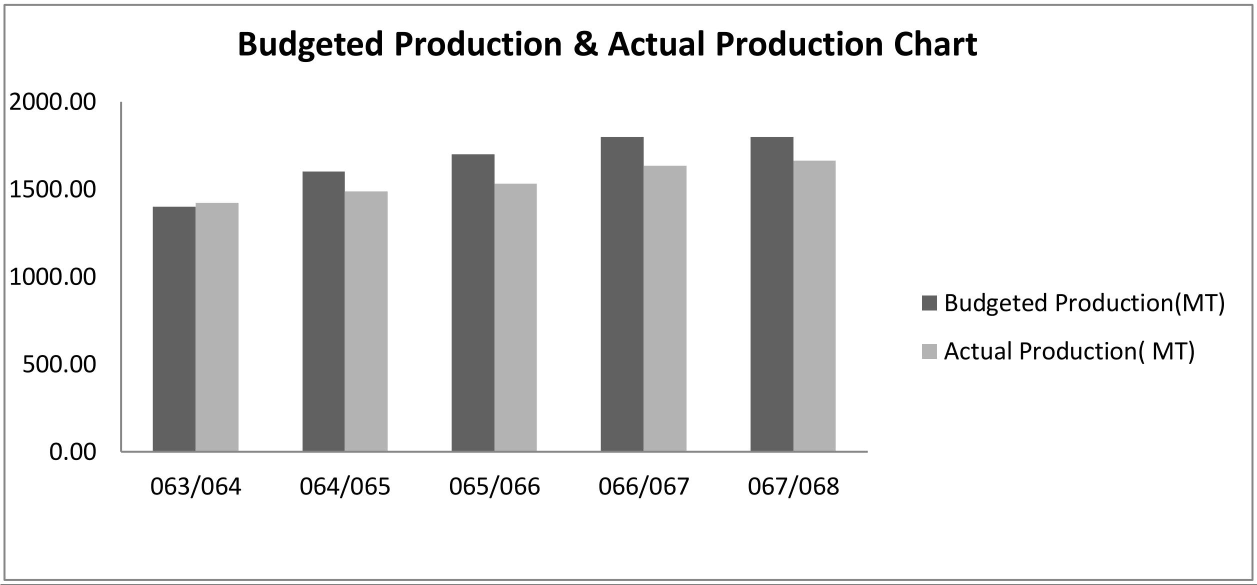
Table No.3

F/Y	Production			Ratio%	Change %
	Budgeted MT.	Capacity%	Actual MT.		
063/064	1400.000	46.67	1422.162	101.58	-
064/065	1600.000	53.33	1489.520	93.10	-8.49
065/066	1700.000	56.67	1531.040	90.06	-3.03
066/067	1800.000	60.00	1635.872	90.88	0.82
067/068	1800.000	60.00	1662.199	92.34	1.46

The above table shows that the percentage of actual of budgeted fluctuating in year by year. This is due to fluctuating nature of sales achievement is below than budgeted production. The actual achievement range from 90.06% to 101.58% of budget production. Only f/y 063/064 actual achievement production is higher than the budgeted production but in f/y 064/065 to 067/068 actual achievement are lower than budgeted production. All these indicate poor situation of planning .on the other hand, capacity utilization percentage is not satisfactory. It is low .It means fixed assets are not fully utilized which increases fixed cost.

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

Graph No.2



To find out the nature of variability of production budget & achievement of different year arithmetic mean, Standard deviation, & coefficient of correlation should be calculated. The details calculation is shown in Appendix-2.

Summarizing the results from Appendix-2

Description	Production	
	Budgeted in MT.(X)	Actual in MT.(Y)
Mean	1660	1548.158
S.D	149.666	89.783
C.V	9.016%	5.799%
Correlation (r)	0.950	0.950
P.E (r)	0.0293	0.0293
6 time PE (r)	0.1758	0.1758

The above analysis shows that coefficient of variation is lower in budget production than actual production .it means the nature of variability is more in actual production than in budgeted production. The find out the correlation between target figures and actual figures, Karl person's coefficient of correlation

(r) is determined .for this figures (x) are assumed to be independent variable and achievement figures of production (y) are assumed to be dependent variable. Here ,Karl Person's coefficient of correlative (r=0.950) indicates that there is normal positive relationship between budgeted production & actual production .The test of significance of the value of r can be calculated by probable error of relationship between target & actual production . Here the value of r can be calculated by probable error of relationship between target & actual production. Here the value of six times P.E (r) =0.1758. Coefficient of correlation is greater than the value of six times probable error (0.950>0.1758). It means value of r is significant .So, It may be concluded that there is significant relationship between budgeted production and actual production.

A regression line also can be used to find out the relationship between targeted and achieved production. For this purpose achievements (Actual) have been assumed to be dependent upon targets. So, the regression line of achievement (y) on targets (x) or y on x is as under:

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

From Appendix-2,we have

σx =149.666

$\sigma y = 89.783$

r =0.950

$\bar{X}$ =1660

$\bar{Y}$ =1548.158

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

$$Or\ y - 1548.158 = \frac{0.950X89.783}{149.666}\ (x - 1660)$$

Or y-1548.158=0.5699x-946.034

Or y=0.5699x-946.034+1548.158

Or y=0.5699x+602.124

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

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

Table No.4

F/Y	Actual Production in Mt. (Y)	X=y-1531.040	X^2	xy
063/064	1422.162	-108.878	11854.419	-154842.154
064/065	1489.520	-41.520	1723.910	-61844.870
065/066	1531.040	0.000	0.000	0.000
066/067	1635.872	104.832	10989.748	171491.734
067/068	1662.199	131.159	17202.683	218012.359
N=5	**∑Y=7740.793**	**∑x=85.593**	**∑ X^2=41770.761**	**∑ xy =172817.068**

F/y 2065/066 Assumed based year

Straight line trend equation

Y = a + bx

$$a = \frac{\sum Y}{N} = \frac{7740.793}{5} = 1548.158$$

$$b = \frac{\sum XY}{\sum X^2} = \frac{172817.068}{41770.761} = 4.1372$$

Y = a + bx

Y = 1548.158+4.1372 x

This trend line shows the positive figures of production, which means he production will increase by 4.1372 MT. in the next year.

Fiscal year 065/066 is assumed as base year. Therefore the value of x in F/Y 065/066is Zero. x is calculated by subtracting the figure of F/Y 064/065 from each year's actual production (x=y-1531.040).

Following point can be pointed on the production budgeted.

1. PPPL does not prepare long term production budget. It only prepare short term production budget in annual figure.
2. The production budget is prepared based on sales budget.
3. The percent of production achievement is not satisfactory. Generally achievement is less than target.
4. Production target is more variable than actual production.
5. There is normal positive relationship between production budget and actual budget.
6. The actual production is less variable than actual sales.
7.

4.4.2 Relationship between actual sales and actual production

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

The following table shows the actual sales and actual production of Nepal plastic for the past five years.

Table No.5

Actual Sales & Production Table

F/Y	Actual Sales in MT.	Actual Production In MT.
063/064	1444.672	1422.162
064/065	1470.112	1489.520
065/066	1528.905	1531.040
066/067	1648.186	1635.872
067/068	1652.807	1662.199

The above table shows that the actual production & actual sales are nearly similar. To find out the nature of variability, mean, Standard deviation & coefficient of correlation are calculated. The details calculations are shows in appendix-3.

Summarizing the results from Appendix-3

Description	Actual Sales in MT.(X)	Actual Production in MT.(Y)
Mean	1548.936	1548.158
S.D	87.321	89.783
C.V	5.6375%	5.799%
Correlation (r)	0.986	0.986
P.E (r)	0.0084	0.0084
6 time PE (r)	0.0504	0.0504

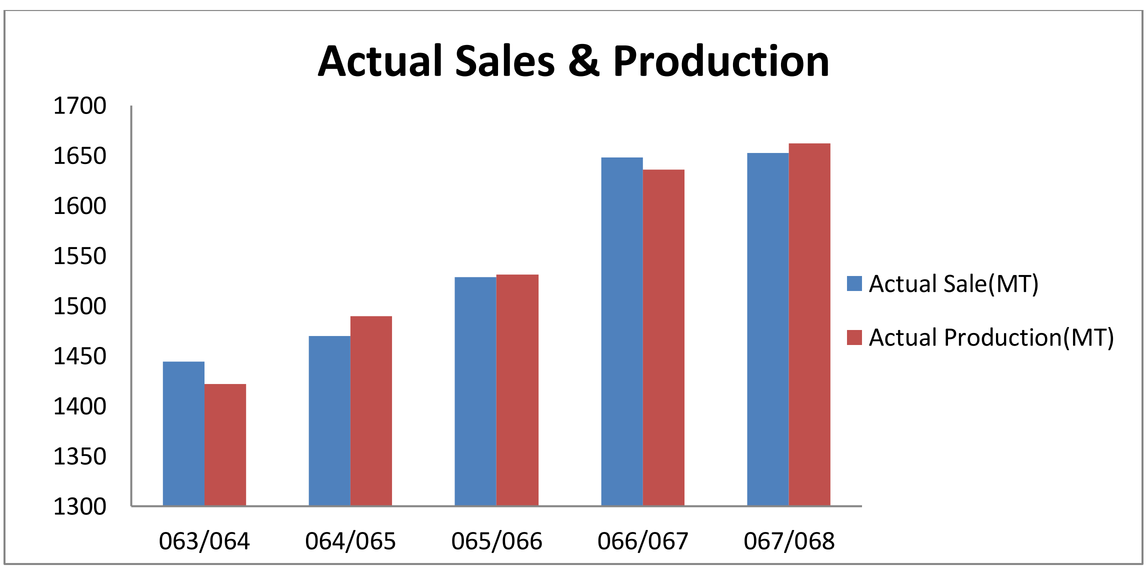
The above result shows that the coefficient of variation (C.V) of actual sales is greater than that of actual production. Therefore, an actual production has the nature of more variability than actual sales.

If the sales are lower than production should be lower to meet the demand of sales .so, actual sales & actual production should be positively correlated. To find out such relationship, coefficient of correlation is calculated. After calculating the karl person's coefficient of correlation, it can be examined whether there is positive correlation between actual sales and actual production are not. The details calculation of coefficient of correlation is shown in appendix-2 in which an actual sales is assumed to be independent variable denoted by x and actual production is assumed to be dependent variable denoted by y.

From the details calculation, the value of r (0.986) shows that there is high degree of positive correlation between actual sales and actual production. The calculated value of r is significant because the calculated value of r(0.986) is greater than the value of six times probable error (0.0504).so it may be concluded that there is significant relationship between actual sales (x) and actual production (y).

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

Graph No.3



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

4.5 Inventory Budget

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

There are some policies in maintaining inventory.

a) Unstable inventory policy V/s Stable Production policy.

b) Stable inventory policy V/s unstable production policy.

c) Flexible in both policy & production.

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

a) Timing & quantity & manufacturing needs.

b) Economics in purchasing thought quantity discount.

c) Availability of materials & parts.

d) Lead time (Order & delivery)

e) Permissibility of materials & parts.

f) Store facility needs.

g) Capital requirements to finance inventory.

h) Cost of stores.

i) Risk involved in inventories.

j) Opportunity costs.

The following table shows that the inventories position of raw material & finished goods of Popular Plastic Pvt .Ltd.

Table No.6
Raw Materials

F/Y	Opening Stock		Closing Stock	
	MT.	**Values**	**MT.**	**Values**
063/064				
Plastic Granules	225.065	24,874,247.94	282.066	36,809,595.50
Master Batch	5.140	492,514.80	17.287	1,721,439.46
Total	**230.205**	**25,366,762.74**	**299.353**	**38,531,034.96**
064/065				
Plastic Granules	282.066	36,809,595.50	221.862	30,812,711.12
Master Batch	17.287	1,721,439.46	15.107	1,526,577.46
Total	**299.353**	**38,531,034.96**	**236.969**	**32,339,288.58**
065/066				
Plastic Granules	221.862	30,812,711.12	208.710	21,163,310.27
Master Batch	15.107	1,526,577.46	1.919	149,682.00
Total	**236.969**	**32,339,288.58**	**210.629**	**21,312,992.27**
066/067				
Plastic Granules	208.710	21,163,310.27	239.050	29,427,998.12
Master Batch	1.919	149,682.00	4.120	721,000.00
Total	**210.629**	**21,312,992.27**	**243.170**	**30,148,998.12**
067/068				
Plastic Granules	239.050	29,427,998.12	143.720	19,570,175.59
Master Batch	4.120	721,000.00	32.357	7,126,748.24
Total	**243.170**	**30,148,998.12**	**176.08**	**26,696,923.83**

Table No.7

Finished Goods

F/Y	Opening Stock		Closing Stock	
	MT.	Value	MT.	Value
063/064	30.520	3,677,660.00	10.592	1,271,140.26
064/065	10.592	1,271,140.26	30.000	3,892,408.45
065/066	30.000	3,892,408.45	32.135	4,426,692.40
066/067	32.135	4,426,692.40	28.806	3,977,651.28
067/068	28.806	3,977,651.28	38.940	5,351,192.10

The above table shows that the closing stock of PPPL has been fluctuated year by year . It has been fluctuated from 10.592 Mt. to 38.940 Mt. in the study period .It is clear that PPPL is unable to reduce the inventory in F/Y 065/066 as compared to F/Y 066/067 total closing stock in F/Y 065/066 is 32.135 MT. whereas the total stock in F/Y 066/067 was 28.806MT.The inventory is increased F/y 067/068 .PPPL Neither follows any appreciate inventory policy nor coordinated among production, purchasing & sales department.

4.6 Capacity Utilization

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

Following tables shows the trends of capacity utilization Popular Plastic Pvt. Ltd.

Table No.8

Production capacity Unit-3000 Metric Ton

F/Y	Production Capacity(MT.)	Capacity Utilization(MT.)	% of Capacity utilization
063/064	3000	1422.162	47.41
064/065	3000	1489.520	49.65
065/066	3000	1531.040	51.03
066/067	3000	1635.872	54.53
067/068	3000	1662.199	55.41

The above table shows that more than 70% capacity has been idle. It means investment on fixed cost has been idle which creates serious adverse impact in their profit position. The trend of capacity utilization is fluctuating in each year. In F/Y 063/064 capacity utilization is 47.41% but in 067/068 capacity utilization is 55.41% which indicates very poor knowledge about profit planning. To improve profitability of Popular Plastic Pvt. Ltd. should strictly follow profit planning technique.

4.7 Raw Material Purchase Budget of Popular Plastic Pvt. Ltd.

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

The following formula should be used to determine material

Requirements for the planned period.

Raw material required for production=Production units x required unit of raw material for each unit of period

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

Raw materials Purchase Unit =Production +Closing Stock –Opening Stock

Preparation of raw materials budget plans the prime importance in profit planning. PPPL does not prepare raw material budget. It only records the cost of raw materials purchase in profit & loss a/c by material types.

The following table shows the quantity in profit & loss a/c by material types. The following table shows the quantity and amount of raw material purchase from fy 063/064 to 067/068

Table No.9

F/Y	Plastic Granules		Master Batch		Total	
	MT.	Value	MT.	Value	MT.	Value
063/064	1677.652	204,057,828.46	40.200	3,968,473.77	1717.852	208,026,302.23
064/065	1580.380	212,071,901.73	28.285	2,836,023.91	1608.665	214,907,925.64
065/066	1729.378	208,759,947.05	35.779	3,522,547.11	1765.157	212,282,494.16
066/067	2031.250	229,505,974.56	55.416	7,989,685.99	2086.666	237,495,660.55
067/068	2017.750	229,198,384.96	60.709	13,706,437.53	2078.459	242,904,822.49

The above table no.9 shows, it is clear that Popular Plastic Pvt. Ltd. does not prepare material purchase budget nor adopts any inventory policy. Raw material purchase of Popular Plastic Pvt. Ltd. is fluctuating year by year Purchase of plastic granules above table It is proves that PPPL has no knowledge about material purchase budget. So, purchasing manager of Popular Plastic should determined economic order quantity and should prepare material budget to improve their profit position.

4.8 Direct Labour Budget

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

Planning and controlling direct labour cost refer the area of personnel needs recruitment training, Job description and evaluation, performance evaluation union negotiations and wages and salary administration.

Popular Plastic Pvt. Ltd. does not prepare direct labour budget 190 male employees is working in it as a permanent staff. As per requirement .Other temporary staffs are hired. Permanent staff is paid salary as monthly basis and temporary staffs are hired. Permanents staff is paid salary as monthly basis and temporary staffs are paid daily wages .wages and salaries are treated in three ways. They are (a) Manufacturing wages. (b)Administration staff salary (c) Selling & distribution staff salary.

The following table shows the actual manufacturing wages for labour of previous years.

Table No.10

F/Y	Manufacturing Wages (Rs.)
063/064	5,065,487.08
064/065	6,089,121.09
065/066	5,264,847.04
066/067	4,211,514.37
067/068	3,832,762.26

The following table shows the actual administration staff salary and selling & distribution staff salary of previous years.

Table No.11

F/Y	Staff Salary	
	Administrative Expenses	Selling & Distribution Exp.
063/064	2,071,972.42	985,243.20
064/065	2,504,799.36	865,421.25
065/066	2,888,679.13	965,412.10
066/067	2,761,780.90	872,181.20
067/068	2,311,739.98	986,512.10

4.9 Overhead Budget

Expenses planning and controlling is not reduction of cost but it means better utilization of limited resources. Overhead budget should be focus on the relationship between expenditure and benefits derived from that expenditure. Knowledge of cost behavior is essential in cost planning & control. These are three types of expenses.

1. Fixed Expenses
2. Variable Expenses
3. Semi Variable Expenses

Moreover, Expenses can be divided into controllable expenses budget should be developed separately for each responsibility center and by interim periods.

Overhead budget can be divided into three types.

1. Production Overhead Budget.
2. Administration Expenses Budget.
3. Selling & Distribution Budget.

4.9.1 Production overhead Budget

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

Table No.12

Fiscal Year	Production Overhead Expenses (Rs.)
063/064	25,895,621.52
064/065	23,789,104.65
065/066	28,570,056.74
066/067	29,522,275.45
067/068	30,041,231.21

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

Popular Plastic Pvt .Ltd. fixes the annual expenses in rough way and there is no practice to divide these expenses into production, administrative, selling & distribution.

4.9.2 Administrative Expenses Budget

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

The following tables show the actual administrative expenses of previous year

Table No.13

F/Y	Total Administrative Expenses (Rs.)
063/064	7,065,708.08
064/065	7,296,855.92
065/066	8,764,395.59
066/067	8,788,624.58
067/068	8,109,843.39

Detailed Administrative Expenses

Table No.-14

Particular	F/Y 066/067	F/Y 067/068
	Rs.	Rs.
Salaries & Allowances	3,211,413.40	2,782,263.61
Printing & Stationery	95,394.21	113,064.86
Postage & Telephone	237,197.92	272,336.46
Bank Charges & Commission	141,240.10	181,860.25
Repairs & Maintenance-Vehicles	72,670.00	55,186.75
Repairs & Maintenance(Furniture & Fixtures)	-	10,930.00
Repairs & Maintenance(Computer)	-	26,539.32
Repairs & Maintenance(Others)	33,599.35	59,298.32
Travelling & Conveyance	269,890.00	179,880.00
Charity & Donation	8,693.00	17,401.00
Membership & Subscription	346,458.38	188,774.64
Taxes & Fees	148,428.00	191,411.75
Miscellaneous Expenses	25,019.91	47,310.00
Vehicle Fuel	281,445.96	391,361.68
Insurance Premium	589,079.88	559,478.08
Books & Periodical	3,716.40	2,783.00
Security Expenses	396,469.04	333,221.80
Export Expenses	234,824.00	246,295.00
Delivery Charges	1,783,222.65	1,782,834.88
Garden Expenses	48,150.10	14,239.57
Audit Fee	40,000.00	40,000.00
Pooja Expenses	17,366.26	26,210.00
Clearing Expenses	68,400.00	69,800.00

Loading Unloading	346,294.62	85,017.76
Exchange Fluctuation Loss	-	86,523.46
Packing & Forwarding Expenses	2,897.00	-
Bonus	386,754.40	345,821.20
Total	**8,788,624.58**	**8,109,843.39**

4.9.3 Selling & Distribution Expenses Budget

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

In selling & Distribution expenses budget, Popular Plastic Pvt. Ltd, includes following headings.

i. Salary & Allowance (Marketing Department)

ii. Advertisement

iii. Guest Entertainment

iv. Rent

The following table shows the actual selling & distribution Expenses of previous year.

Table No.15

F/ Y	Actual Selling & Distribution (Rs.)
063/064	1,016,443.20
064/065	899,261.31
065/066	996,519.10
066/067	999,647.72
067/068	1,071,656.98

The Details Selling & Distribution expanses Budget incurred in fy 066/067 & fy 067/068 are presented below.

Table No.16

Particular	FY 066/067	FY 067/068
Staff Salary -Selling	872,181.20	986,512.10
Advertisement	3,000.00	8,000.00
Rent	15,750.00	3,000.00
Guest Entertainment	108,716.52	74,144.88
Total	**999,647.72**	**1,071,656.98**

4.10 Other Expenses Budget

Other expenses budget included those expenses which are not mentioned in above. Such as depreciation, Interest & bank charges, amortization cost etc. In case of Nepal Plastic, Factory depreciation, Office Depreciation, Interest & bank Charges are included in other expenses budget. Amount them depreciation has been treated as operating expenses and interest and bank charges have been treated as non –Operating expenses

The following table shows the factory & other depreciation incurred in past year.

Table No.17

Depreciation Expenses Budget

F/Y	Depreciation		
	Factory	Office	Total
063/064	2,388278.96	68542.24	2,456,821.20
064/065	3,660,033.68	71,259.54	3,731,293.22
065/066	3,065,516.91	73,555.94	3,139,072.85
066/067	2,616,416.69	81,566.26	2,697,982.95
067/068	2,501,753.59	90,857.97	2,592,611.56

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

4.11 Cash Budget

Cash Budget is the most essential tools of cash management. It is an integral part of cash planning. The cash budget is a plan of future cash receipt and payment .cash budget is known as the statement showing the estimated cash income (cash inflow) and expenditure (cash out flow) over a projected time period .The cash flow statement report s the firms cash flows during a period ,outlining where cash generated from and where it was spent . in other words cash flow statement is an indicator of the amount of cash receipt and the amount of cash payments or disbursements during a specified period .Operating, Financing and investing activities are the major business activities that result in either a net cash inflow or a net cash outflow .The cash flow statement shows the net increase or decrease in cash during a particular time period and explains the causes for the changes in the cash balance.

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

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

The following table shows the cash flow statement of f/y 066/067 and 067/068

Table No.18

Cash flow Statement

Particulars	F/y 066/067	F/y 067/068
1) Cash Flow from Operating Activities		
Profit & Loss Account	3,867,544.05	785,099.75
Add-Depreciation	2,697,982.95	2,592,278.23
Cash Flow before Working Capital Adjustment	**6,565,527.00**	**3,377,377.98**
Income Tax Provision	(926,908.00)	(229,346.00)
(Increase)/ Decrease in Current Assets	(18,051,383.53)	21,480,819.45
Increase /(Decrease) in Current Liabilities	13,841,156.72	(22,460,340.08)
Net Cash Flow from Operating Activities	**1,428,392.19**	**2,168,511.35**
2) Cash Flow from Investing Activities		
Investments	(9,600.00)	(6,600.00)
Purchase of Assets	(672,118.32)	(3,190,033.02)
Assets Sold/Adjustments	15,595.63	100,000.00
Net Cash flow from Investing Activities	**(666,122.69)**	**(3,096,633.02)**
3) Cash Flow from Financing Activities		
Increase in Share Capital	-	-
Increase/(Decrease) in Advances against share capital	-	-
Net Cash Flow from Financing Activities	**-**	**-**
Total Cash Flow	**762,269.50**	**(928,121.67)**
Opening Cash & Bank Balances	1,790,506.50	2,552,776.00
Closing Cash & Bank Balances	**2,552,776.00**	**1,624,654.33**

Above highlight the sources and utilization of cash. Cash flow statement used here to check the liquidity of the company accurately. The closing balance is highest in fy 066/067 & 067/068.

4.12 Profit & Loss Account of PPPL

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

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

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

The following table shows the profit & loss trend of Popular Plastic Pvt. Ltd. of the past years.

Table No.19

Summary Profit & Loss Trend of PPPL

F/Y	Amounts
063/064	21,310,704.07
064/065	22,414,312.32
065/066	24,995,532.48
066/067	17,940,708.94
067/068	8,527,185.24

By the analysis of above table, PPPL is able to earn certain level of profit. However, percentage of profit on the turnover is not satisfactory. In fy 065/066. PPPL is able achieve the higher profit than other years profit and in the fy 067/068 PPPL made the lower profit of Rs. **8,527,185.24** in the analysis period.

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

The following table shows the actual P/L a/c of the F/y 063/064 & 067/068

Table No.20

Popular Plastic Pvt.Ltd, Dharan
Comparative Profit & Loss Account
For the Fiscal Year 063/064 to 067/068

Particulars	063/064	064/065	065/066	066/067	067/068
Sales	220,130,738.90	234,134,731.94	253,557,703.81	280,591,087.48	291,348,739.05
Cost of Sales	204,721,587.18	217,247,935.98	235,284,542.79	262,262,451.08	274,381,029.97
Gross Profit	**15,409,151.72**	**16,886,795.96**	**18,273,161.02**	**18,328,636.40**	**16,967,709.08**
Add-Other Income	59,521.25	49,953.60	135,738.86	227,074.99	446,171.53
	15,468,672.97	**16,936,749.56**	**18,408,899.88**	**18,555,711.39**	**17,413,880.61**
Less-Administrative, Selling & Distribution Expenses	8,082,151.28	8,196,117.23	9,760,914.69	9,788,272.30	9,181,500.37
	7,386,521.69	**8,740,632.33**	**8,647,985.19**	**8,767,439.09**	**8,232,380.24**
Less-Interest	2,154,212.02	2,135,202.84	2,097,467.02	2,201,912.09	4,855,002.26
Less-Depreciation	2,456,821.20	3,731,293.22	3,139,072.85	2,697,982.95	2,592,278.23
Net Profit Before Tax	**2,775,488.47**	**2,874,136.27**	**3,411,445.32**	**3,867,544.05**	**785,099.75**
Tax Expenses					
Current Tax	(641,137.00)	(664,581.91)	(742,391.00)	(926,908.00)	(229,346.00)
Deferred Tax	-	(16,379.63)	34,097.86	4,540.41	30,722.55
Net Profit/ (Loss) For the Year	**2,134,351.47**	**2,193,174.73**	**2,703,152.18**	**2,945,176.46**	**586,476.30**
Less: Prior Sundry Debtors Written Off	-	(797,497.89)	-	-	-
Less: Prior Years Taxes	-	(233,987.27)	(121,932.02)	-	-
Add: Profit/(Loss) upto Previous Year	19,176,352.60	21,310,703.53	22,414,312.32	24,995,532.48	17,940,708.94
Profit available for Appropriation	**21,310,704.07**	**22,472,393.10**	**24,995,532.48**	**27,940,708.94**	**18,527,185.24**
Deferred Tax up to Previous Years	-	(58,080.78)	-	-	-
Less: Proposed Dividend	-	-	-	10,000,000.00	10,000,000.00
Balance Transferred to Balance Sheet	**21,310,704.07**	**22,414,312.32**	**24,995,532.48**	**17,940,708.94**	**8,527,185.24**

The above table shows that, the maximum profit is in F/y 066/067 is **2,945,176.46** but profit decreasing in F/y 067/068 .which is not good symptom for company. So the staff & manager should be decreased the expanses & increase the revenue.

4.13 Balance Sheet of PPPL

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

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

The balance sheet for f/y 063/064 & 067/068 are presented below.

Table No.21

Balance Sheet of PPPL
Popular Plastic Pvt. Ltd, Dharan
Comparative Balance Sheet
For the Fiscal Year 063/064 to 067/068

F/Y	063/064	064/065	065/066	066/067	067/068
Capital & Liabilities					
Share Capital	25,000,000.00	25,000,000.00	25,000,000.00	25,000,000.00	25,000,000.00
Reserves & Surplus					
Income statement Balance	21,310,704.07	22,414,312.32	24,995,532.48	17,940,708.94	8,527,185.24
Deferred Tax Liabilites	-	74,460.41	40,362.55	35,822.14	5,099.59
Current Liabilities & Provision					
Sudry Creditors & Other Payable	28,658,062.39	31,415,167.36	18,826,165.57	32,014,600.23	25,479,466.97
Short term Loans	40,154,253.52	47,029,663.42	42,392,456.15	53,045,178.21	47,119,971.39
Total Capital & Liabilities	**115,123,019.98**	**125,933,603.51**	**111,254,516.75**	**128,036,309.52**	**106,131,723.19**
Assets					
Fixed Assets	19,859,825.25	18,712,583.89	16,390,196.18	14,348,735.92	14,846,490.71
Invesments	869,300.00	869,300.00	869,300.00	878,900.00	885,500.00
Currents Assets,Advances & Depoisted					
Inventory	50,124,995.08	40,840,792.58	27,556,529.14	37,094,766.80	37,149,771.30
Sundry Debtors	40,586,582.96	46,746,734.34	44,370,456.23	50,073,465.21	33,508,504.76
Cash & Bank Balance	1,895,462.41	1,475,773.44	1,790,506.50	2,552,776.00	1,624,654.33
Advance & Deposits	1,786,854.28	17,288,419.26	20,277,528.70	23,087,665.59	18,116,802.09
Total Assets	**115,123,019.98**	**125,933,603.51**	**111,254,516.75**	**128,036,309.52**	**106,131,723.19**

The above presented the balance sheet of PPPL. It is showing the picture of various assets, liabilities and capital up to two years study period, which shows the financial condition of the company.

4.14 Performance Evaluation

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

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

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

1. Financial Ratio
2. Identification of cost variability & cost volume profit analysis
3. Flexible Budget
4. Variance Analysis

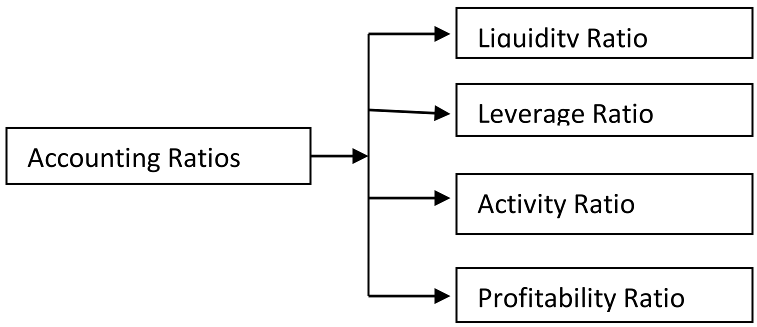
4.14.1 Financial Ratio

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

Ratio analysis is the numerical or arithmetical relationship between two figures. It is expressed when one figure is divided by another. Ratio analysis is the process of determining and interpreting numerical relationship between figures of financial statements. Ratio is used as an index or yardstick for evaluating the financial position and performance. It helps analysts to make quantitative judgment about the financial position and performance of the firm.

According to **Wixom Kell & Bedford** ,"A ratio is a expressed of the quantitative relationship between two numbers".

Types of accounting ratios.



i. Current Ratio:

The ratio is the relationship of current assets and current liabilities. The current ratio is calculated by dividing current assets by current liabilities. The current ratio is a measure of the firm's short term solvency. It indicates the availability of current assets in rupees for every one rupee of current liabilities .The Standard current ratio 2:1 which means enterprises should have the current equal to two times of current liabilities. The comparison to current liabilities investment in current assets is very high in PPPL.

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$$

ii. Quick Ratio:

The quick ratio shows the relationship between quick assets and current liabilities. The objective of computing this ration is to measure the ability of the firm to meet its short term obligation as and when due without relying upon the realization of stock.

$$Quick\ Ratio = \frac{Quick\ Assets}{Current\ Liabilities}$$

iii. Debt Assets Ratio:

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

$$Debt\ Assets\ Ratio = \frac{Total\ Debt}{Net\ Trangible\ Assets}$$

iv. Inventory Turnover Ratio:

It shows the relationship between cost of goods sold and average stock of net sales and closing inventory. The objective of computing this is to determine the efficiency with which the inventory is converted into sales. The standard ratio 9 times or more. Inventory turnover ratio range is 4.69 to 8.11. A high inventory turnover ratio is indicative of goods inventory management. A low inventory turnover ratio implies excessive inventory level than warranted ratio of PPPL indicates excessive inventory level than necessary, which is not favorable to the organization .So, PPPL should increase sales and reduce the stock level to improve the inventory turnover position.

$$Inventory\ Turnover\ Ratio = \frac{Cost\ of\ Goods\ sold}{Average\ Inventory}$$

v. Capital Employed Turnover Ratio:

It is the relationship of sales & total capital employed. Higher capital employed turnover ratio is preferable which shows that firm is very efficient on sales activity. the standard capital employed turnover ratio is capital employed turnover ratio is ranges in between 4.75 to 8.69 which is not satisfactory because this ratio is less than standard capital employed turnover ratio.

$$Capital\ Employed\ turnover\ Ratio = \frac{Sales}{Total\ Capital\ Employed}$$

vi. Total Assets Turnover Ratio:

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

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

vii. Return on Capital Employed Ratio:

It is the relationship between net profit and capital. A higher percentage of return on capital employed is preferable which indicates higher operating profit . The standard return on capital employed ratio is 31%. The ranges of return on capital employed ratio are 1.75% to 6.85% .This ratio of PPPL is not satisfactory because there is not very low percentage in each year. Low percentage of return on capital employed shows that PPPL is unable to yield desired return. To improve this situation PPPL should increase operating profit & should curtail the unnecessary cost.

$$Return\ on\ Capital\ Employed\ Ratio = \frac{Net\ profit\ AT}{Total\ Capital\ Employed}\ x100\%$$

viii. Operating Ratio:

It is the relationship between operating expenses including cost of goods sold and sales. A low percentage of operating ratio indicate good management and high percentage indicates the inefficiency of management in minimizing operating cost . Low operating ratio means the higher operating profit. So, the minimum percentage is preferable. The standard operating ratio is less than 80%. The operating ratio of PPPL ranges from 96.29% to 97.33% which indicates poor situation of the organizations. So, PPPL should increase its sales volume & reduce the operating expenses.

$$Operating\ Ratio = \frac{Cost\ of\ goods\ sold + operating\ exp.}{Sales}\ x100\%$$

ix. Gross Profit Margin Ratio:

It is the relationship between gross profit margin& sales. Higher percentage of gross profit margin ratio is preferable which shows efficiency in minimizing the cost of goods sold and maximizing the profit. The standard gross profit margin ratio is 45% or more. In case of PPPL, Gross profit margin ranges in between 5.82% to 7.21% in analysis period which indicates not so satisfactory situation because gross profit margin ratios are less than standard in each year. So, to improve further PPPL should minimize the direct expenses.

$$Gross\ Profit\ Margin\ Ratio = \frac{Gross\ Profit}{Sales}\ x100\%$$

x. Net Profit Margin Ratio:

It is the relation between net profit &sales. Higher percentage of net profit margin indicates the higher overall efficiency of the business and better utilization of total resources. The standard net profit margin ratio is 10% or more. In case of PPPL, net profit margin ratio ranges in between 0.02% to 1.07% and it does not show specific trend. However low percentage of positive net profit margin ratio indicates favorable situation in some extent but it is not satisfactory. To improve the situation, PPPL should control the operating cost as well as fixed cost.

$$Net\ Profit\ Margin\ Ratio = \frac{Net\ Profit}{Sales}\ x100\%$$

The following tables shows some important financial ratio of PPPL for five year from 063/064 to 067/068.

Table No.22

Ratio	063/064	064/065	065/066	066/067	067/068
$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$	1.372	1.356	1.535	1.326	1.245
$Quick\ Ratio = \frac{Quick\ Assets}{Current\ Liabilities}$	0.643	0.835	1.085	0.890	0.733
$Debt\ Assets\ Ratio = \frac{Total\ Debt}{Net\ Trangible\ Assets}$	060	0.62	0.55	0.66	0.68
$Inventory\ Turnover\ Ratio = \frac{Cost\ of\ Goods\ sold}{Average\ Inventory}$	4.691	4.776	6.880	8.110	7.391
$Capital\ Employed\ turnover\ Ratio \frac{Sales}{Total\ Capital\ Employed}$	4.75	4.93	5.07	6.53	8.69
$Total\ Assets\ Turnover\ Ratio = \frac{Total\ Net\ Sales}{Total\ Assets}$	1.912	1.859	2.279	2.191	2.745
$Return\ on\ Capital\ Employed\ Ratio = \frac{Net\ profit\ AT}{Total\ Capital\ Employed}\ x100\%$	4.61	4.62	5.40	6.85	1.75
$Operating\ Ratio = \frac{Cost\ of\ goods\ sold + operating\ exp.}{Sales}\ x100\%$	96.67%	96.29%	96.64%	96.96%	97.33%
$Gross\ Profit\ Margin\ Ratio = \frac{Gross\ Profit}{Sales}\ x100\%$	7%	7.21%	7.21%	6.53%	5.82%
$Net\ Profit\ Margin\ Ratio = \frac{Net\ Profit}{Sales}\ x100\%$	0.97%	0.94%	1.07%	1.05%	0.02%

4.15 Planning of Profit with Cost –Volume-Profit Analysis

4.15.1 Identification of Cost Variability

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

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

The following tables show the cost classification in PPPL of FY 066/067 & 067/068.

Table No.23

S.N.	Cost Items	Behavior	FY 066/067	FY 067/068
			Amount	Amount
1.	Raw material purchased	Variable	237,495,660.55	242,904,822.49
2.	Wage manufacturing	,,	4,254,463.56	4,211,514.37
3.	Water & Electricity Charges	,,	5,264,847.04	6,119,093.47
4.	Fuel	,,	6,152,855.54	4,982,058.49
	Total		**253,167,826.69**	**258,217,488.82**
5.	Salaries & Allowances	Fixed	3,854,091.23	3,633,962.10
6.	Staff Welfare	,,	373,753.17	449,632.50
7.	Printing & Stationery	,,	99,630.41	95,394.21
8.	Postage & Telephone	,,	268,067.55	237,197.92
9.	Bank Charges & Commission	,,	162,762.92	141,240.10
10.	Repairs & Maintenance-Vehicles	,,	169,182.55	72,670.00
11.	Repairs & Maintenance-Others (Domestic)	,,	36,221.84	33,599.35
12.	Guest Entertainment	,,	3,657.00	108,716.52
13.	Travelling & Conveyance		53,930.00	269,890.00
	Total		**5,021,296.67**	**5,042,302.70**

By the about shows the total fixed cost is Rs 5,021,296.67 in FY 066/067 & Rs 5,042,302.7 in FY 067/068 and total variable cost is Rs

253,167,826.69 in FY 066/067 & Rs 258,217,488.82 in FY 067/068. Although there is no practice to separate the cost into variable and fixed which is the weakness of the organization?

4.15.2 Cost Volume Profit Analysis

Cost volume Profit analysis is the relationship between Cost Volume &Profit. It is an important tool for studying the relation between Volume & Cost, Profit. It is an important tool used for Profit Planning

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

Cost volume profit analysis helps in managerial decision making, cost & profit planning .Cost volume profit analysis says what sales volume is needed to avoid losses and to each desire profit.

Cost Volume profit a analysis of PPPL is based on some assumption, which are as follows:-

1. The Cost can be divided as fixed & variable.
2. Cost volume structure is based on the accounting data 067/068
3. Activity base is selected in terms of sales volume.
4. Selling price, Variable cost volume ratio & fixed cost per annum are assumed remain constant.
5. Sales mix is constant.
6. Change in inventory has not been considered while analyzing cost volume profit of PPPL.
7. Non operating income & not operating expenses are not included in CVP analysis.
8. The efficiency and productivity will not change in short run.

Following formula will be used to evaluate the PPPL's cost volume profit analysis.

Sales Revenue =291,348,739.05

Total Variable Cost =258,217,488.82

Total fixed cost =5042302.70

Here

1. **Cost Volume Ratio (C/V Ratio):-** CVP analysis is an essential tool for profit planning and control .It is used in the management accounting to show the relationship between cost, selling price, and profit and production volume.

   $$C/V\ Ratio = \frac{Total\ Variable\ Cost}{Sales} = \frac{258{,}217{,}488.82}{291{,}348{,}739.05} = 0.89\ or\ 89\%$$

2. **Profit Volume Ratio (P/V):-**P/v Ratio is not the ratio of net profit to sales revenue. P/v ratio the percentage of marginal profit or change in profit to marginal sales revenue.

   P/V ratio =1-C/V Ratio =1-0.89 = 0.11or 11%

3. **Operating Breakeven Point (BEP) (in Rs.):-**BEP analysis is the term given to the study of the interrelationship between cost volume and profit at various level of activity. The sales unit in which loss ends and profit begins is considered as BEP. It is the level of activity where total costs equal to total revenue. It is a point of no gain loss.

   $$BEP = \frac{Total\ Fixed\ Cost}{P.v\ \ Ratio} = \frac{5042302.70}{0.11} = 45{,}839{,}115.45$$

4. **Financial Breakeven Point (BEP) In Rs.**

   $$BEP = \frac{Total\ Fixed\ Cost + Interest}{P.v\ \ Ratio} = \frac{5042302.70+4855002.26}{0.11} = 89{,}975{,}499.64$$

5. **Margin of safety for budgeted year 067/068:-**Margin of safety ratio shows the relationship between margin of safety and sales volume. The percentage

of margin of safety on the basis of sales volume is known as margin safety ratio.

Budget quantity for fy 067/068 is 1750.000 Mt. and selling price based on f/y 065/066 is rs 170242.37 per MT. so sales will be Rs.297, 924,147.50

Margin of safety =Budget sales - BEP sales

=297,924,147.50 - 89,975,499.64

=Rs.207,948,647.86

6. **Margin of safety Ratio for Fy 067/068**

Margin of safety ratio = $\frac{Margin\ of\ safety}{Budgeted\ Sales}$

$=\frac{207,948,647.86}{297,924,147.50}\ x100$ =69.80%

7. **Budgeted Profit**

Budgeted Profit=Margin of safety x p/v ratio

= 207,948,647.86 x 0.11

=22,874,351.26

In the above calculation variable cost volume is 89% which means the proportion if variable cost is 0.89 to each rupees of sales and remaining 0.11 (11%) is available to cover all other cost & make a profit. Break Even Point of PPPL is Rs. 45,839,115.45 that is less than actual sales .Analysis if margin of safety indicates there are chances to earn more profit in future. In the conclusions if the company attempts the increase the sales revenue through various sales promotion techniques. It will be able to earn good profit in the future.

4.15.3 Flexible Budget

Flexible Budget is a budget which is prepared for more than one level of activity. The basis of flexible budget is the concept of expanses variability .it show s cost and profits at the various levels .Flexible expanse is also is also called dynamic or output adjusted expanses budget. With the help of flexible budget ,the company can determine the operation level by taking into consideration of the cost & profit at different level of activity .This means that all cost must be identified as to how they behave with a change in volume whether they very or remain fixed

PPPL does not prepare its flexible budget .on the basis of cost and other data of FY065\066, a flexible budget of PPPL has been prepared below .variable cost changes proportionately with the change in level of activity but fixed cost remain constant for a reasonable period of time .flexible budget of PPPL is prepared as below at 60% to120% capacity utilization.

Table No.24

Flexible Budget of PPPL

Particulars	**Activity Levels In Percentage**			
	60%	**80%**	**100%**	**120%**
Sales Qty. (In Mt.)	**1800**	**2400**	**3000**	**3600**
Sales Revenue @ 170,242.37	306,436,266.00	408,581,688.00	510,727,110.00	612,872,532.00
Less-Variable Cost	272,728,276.74	363,637,702.32	454,547,127.90	545,456,553.48
Contribution Margin	**33,707,989.26**	**44,943,985.68**	**56,179,982.10**	**67,415,978.52**
Fixed Cost	5,042,302.70	5,042,302.70	5,042,302.70	5,042,302.70
Operating Net Profit	**28,665,686.56**	**39,901,682.98**	**51,137,679.40**	**62,373,675.82**

The above table shows that if PPPL utilization 60% of its capacity it was earn Rs.28,665,686.56 and at 100% it was earn Rs.51,137,679.40.SO, PPPL has to increase in production volume as well as sales volume to earn more profit in future . More capacity utilization is helpful to decrease the operating cost also.

4.15.4 Variance Analysis

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

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

a) Attainable standard should be developed for material, labour overhead sales yield & profit.
b) Computation of deviation between actual & budgeted results.
c) Significant deviation should be investigated and reasons behind such deviation should be identified and diagnosed as controllable.
d) For controllable cause of unfavorable, responsibility and accountability should be assigned.
e) To improve the unfavorable variances, necessary corrective action should be taken.

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

The following tables show the sales & Yield variances of PPPL.

Table No.25

Sales Variance

F/Y	Sales		Variance	Remarks
	Budgeted (MT.)	Achievement (MT.)		
063/064	1500	1444.672	55.328	Unfavorable
064/065	1400	1470.112	-70.112	Favorable
065/066	1600	1528.905	71.095	Unfavorable
066/067	1700	1648.186	51.814	Unfavorable
067/068	1700	1652.807	47.193	Unfavorable

Table No.26

Yield Variance

F/Y	Production		Variance	Remarks
	Budgeted MT.	Actual MT.		
063/064	1400	1422.162	-22.162	Favorable
064/065	1600	1489.52	110.48	Unfavorable
065/066	1700	1531.04	168.96	Unfavorable
066/067	1800	1635.872	164.128	Unfavorable
067/068	1800	1662.199	137.801	Unfavorable

The above sales variance shows unfavorable in fy 063/064,065/066,066/067& 067/068 and favorable variances in fy 064/065. The above yield variance shows favorable fy 063/064 & unfavorable in fy 064/065 to 067/068 year. The cause of unfavorable variance should be identified & responsible department should be held accountable for those unfavorable sales & output variance and corrective action should be taken to avoid such unfavorable variance in coming year. The cause's favorable variances also should be indented and studies to save for long term.

4.16 Major Findings

The major finding of this research study on profit planning and control in Manufacturing Company, a case study of Popular Plastic Pvt. Ltd. is as follows.

a) Specific goals and financial targets are not defined clearly to achieve the basic objective of PPPL.
b) Under utilization of available capacity less than 61 % of available capacity.
c) Lack of detailed tactical profit plan, only annual amount is fixed.
d) Unrealistic sales forecast and inadequate forecasting system.
e) Level of closing inventory of finished goods is high. It is more than average monthly sales.
f) Excessive amount of cost of goods sold (above 90% of sales)

g) Inadequate profit planning due to planning experts.
h) Lack of defined authority and responsibility. As result there is no proper co-ordination among carious responsible departments.
i) Lack of raw materials in domestic market.
j) Careless in planning to reduce cost.
k) Lack of strategic long range planning.
l) There is no practice of taking corrective actions.
m) There is no practice of performance evaluation system.
n) The company suffering from excessive depreciation cost.
o) There is no practice of classifying expanses in systematic way, which creates huge problem in analyzing expanses
p) Low productivity of man power.
q) Decision making power is reserved in top level management only.
r) According to bench mark dept assets ratio will be 80% or less but dept assets ratio of this company maximum 68% which is less than bench mark (Standard). The firm not good management of debt to total assets ratio.

CHAPTER–FIVE

Summary, Conclusions and Recommendations

5.1 Summary

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

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

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

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

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

This study has been divided in five chapters consisting of introduction, Conceptual background of profit planning and Review of literature, Research Methodology, Data Presentation and analysis and Summary, Conclusion & Recommendation.

5.2 Conclusion

After analyzing in details are the present practice of profit planning and control in PPPL, this study concludes the following.

a. PPPL prepares some functional budgets like sales budget, production budget, annual expanses budget. But, there is no practice of dividing annual amounts in to interim periods. Budgets are prepared an annual basis only.
b. PPPL has not prepared overhead budget in smooth manner.
c. selling & distribution expenses are prepared on annual basis
d. PPPL has high amount of depreciation cost.
e. There is no fair working environment and no fair system of reward and punishment to employees on the basis of their work performance.

f. The balance sheet of PPPL shows the huge inventory material and finished goods. Stock turnover also shown high inventory level which creates negative impact upon profitability.
g. PPPL has no practice of sales forecasting. Sales budget is depend upon production budget rather than on sales.
h. In PPPL , profit planning & control concepts are limited top level to lower level.
i. The basic objectives of the company are not clearly specified in annual targets.
j. Cost of production of PPPL is very high due to lack of technological advancement, Excessive burden of cost and high operation cost.
k. Capacity utilization of PPPL is very low due to unavailability of raw material and competitive market position.
l. Correlation brewer actual sales and target sales and actual production and actual sales is highly significant and positive. It means that increase in budgeted sales will also increases actual sales. Similarly increase in actual sales will also increase actual production.
m. The correlation between actual productions 7 budgeted production is no significant.
n. Least square straight line of sales of PPPL shows increasing sales trend by each year.
o. The pricing policy of the company is not based on cost of production. but it is based on competitor price. While fixing the price, cost volume profit relationship is not considered.
p. Costs are not classified neither fixed and variable nor controllable and non controllable. Moreover, the company looks careless to reduce the

controllable cost. So, cost control device are not effectively amplified in PPPL .

q. PPPL does not prepare the raw material purchase budget. As a result company is successful to purchase an economic order quantity (EOQ)
r. PPPL does not prepare cash flow plan in advance. In other hand cash flow statement is not adequately prepared. There is no detail description of sources of cash and uses of cash. It has also not planned of interim financing in case of cash shortage and interim investment in case of excess cash.
s. PPPL does not prepare adequate capital expenditure budget. As a result it is unable to evaluate capital expenditures proposals.
t. Liquidity position of the company is very sound. A high amount of working capital has been utilized in inventory and stock. But, excess investment in such current assets does not produce return.
u. The flexible budget shows that if the company utilizes its full capacity, it well be able to earn handsome profit in future.
v. The operating position of the company is not goods. Its V/V ratio and P/V ratio are 0.89 and 0.11 respectively because of lower contribution margin and high fixed cost. Company is running at minimum profit level. The major reason behind it may be high administrative.

5.3 Recommendations

After the detail analysis of profit planning in Popular Plastic Pvt. Ltd. Some suggestion has been recommended in the basis of major findings to improve the formulation and implementation of profit planning system of the company.

1) All members of company should be participated while formulation plans and policies. Profit planning concept is communicated from top to lower

levels. Adequate budget educations should be provided to improve profit planning system.

2) PPPL should clearly define its basic objectives. Based on basic objectives annual goals and targets should be fixed.

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

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

5) PPPL should try to minimize the gap between planned and actual sales by the help of modern forecasting tools.

6) PPPL needs to increases in production and sales volume for the utilization of available capacity.

7) To control expense PPPL should develop overhead budget in systematic way overhead expense. PPPL should be classified in separate headings.

8) PPPL should classified cost into controllable and uncontrollable, fixed variable implement the effective cost control devices.

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

10) PPPL should manage reward and punishment system to motivate the staff.

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

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

13) PPPL should effectively plan to utilize its idle capacity by launching new product of by expanding current product line.

14) Flexible budget system should be considered while formulating profit plan.

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

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

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

18) Performance evaluation system should be followed strictly to improve poor performance of to take corrective action.

19) Inventory level should be maintained o economic order quantity of optimum level.

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

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Appendix-1

Calculation of mean, Standard deviation, Coefficient of Variation, Correlation, Probable error of Budget Sales & Actual Sales.

FY	Budget sales (X)	Actual Sales (Y)	x=X-$\bar{X}$	y=Y-$\bar{Y}$	xy	x^2	Y^2
063/064	1500.000	1444.672	-80.000	-104.264	8341.152	6400.000	10871.065
064/065	1400.000	1470.112	-180.000	-78.824	14188.392	32400.000	6213.286
065/066	1600.000	1528.905	20.000	-20.031	-400.628	400.000	401.257
066/067	1700.000	1648.186	120.000	99.250	11909.952	14400.000	9850.483
067/068	1700.000	1652.807	120.000	103.871	12464.472	14400.000	10789.102
N=5	**∑X=7900.000**	**∑Y=7744.682**	**∑X=0.000**	**∑y=0.000**	**∑xy= 46503.340**	**$\sum x^{2=}$68000.000**	**$\sum y^{2=}$38125.193**

Arithemetic mean of Budget Sales.

$$\overline{X} = \frac{\sum X}{N} = \frac{7900}{5} = 1580$$

Arithemetic mean of Actual Sales.

$$\overline{Y} = \frac{\sum Y}{N} = \frac{7744.682}{5} = 1548.936$$

Standard deviation of Budget Sales.

$$\sigma X = \sqrt{\frac{\sum x2}{N}} = \sqrt{\frac{68000}{5}} = 116.619$$

Standard deviation of Actual Sales.

$$\sigma Y = \sqrt{\frac{\sum Y2}{N}} = \sqrt{\frac{38125.193}{5}} = 87.321$$

Coefficient of Variation of Budget Sales

$$CVX = \frac{\sigma x}{\bar{X}} x100\% = \frac{116.619}{1580}\ x100\% = 7.3809$$

Coefficient of Variation of Actual Sales

$$CVY = \frac{\sigma y}{\bar{y}} x100\% = \frac{87.321}{1548.936}\ x100\% = 5.637$$

Coefficient of Correlation

$$r = \frac{XY}{\sqrt{x2y2}} = \frac{46503.340}{\sqrt{68000X38125.193}} = \frac{46503.340}{50916.727} = \ 0.9133$$

Probable Error

$$PE(r) = \frac{0.6745\ (1 - r2)}{\sqrt{N}} = \frac{0.6745\ (1 - 0.8341)}{\sqrt{5}} = \frac{0.1118}{2.2361} = 0.0500$$

6 Times of PE(r) =6X0.050=0.300

Appendix-2

Calculation of mean, Standard deviation, Coefficient of Variation, Correlation, Probable error of Budget Production & Actual Production .

Figure in '000'

FY	Budget Pro.(X)	Actual Pro. (Y)	$x=X-\bar{X}$	$y=Y-\bar{Y}$	xy	x^2	Y^2
063/064	1400.000	1422.162	-260.00	-125.997	32759.116	67600	15875.143
064/065	1600.000	1489.520	-60.00	-58.639	3518.316	3600	3438.485
065/066	1700.000	1531.040	40.00	-17.119	-684.744	1600	293.046
066/067	1800.000	1635.872	140.00	87.713	12279.876	19600	7693.641
067/068	1800.000	1662.199	140.00	114.040	15965.656	19600	13005.213
N=5	**$\sum X$=8300.000**	**$\sum Y$=7740.793**	**$\sum x$=0.000**	**$\sum y$=0.000**	**$\sum xy$=63838.220**	**$\sum x^2$=112000.000**	**$\sum y^2$=40305.528**

Arithemetic mean of Budget Production

$$\bar{X} = \frac{\sum X}{N} = \frac{8300}{5} = 1660$$

Arithemetic mean of Actual Production

$$\bar{Y} = \frac{\sum Y}{N} = \frac{7740.793}{5} = 1548.158$$

Standard deviation of Budget Production

$$\sigma X = \sqrt{\frac{\sum x2}{N}} = \sqrt{\frac{112000}{5}} = 149.666$$

Standard deviation of Actual Production

$$\sigma Y = \sqrt{\frac{\sum Y2}{N}} = \sqrt{\frac{40305.528}{5}} = 89.783$$

Coefficient of Variation of Budget Production

$$CVx = \frac{\sigma x}{\bar{X}} x100\% = \frac{149.666}{1660}\ x100\% = 9.016\%$$

Coefficient of Variation of Actual Production

$$CVy = \frac{\sigma y}{\bar{y}} x100\% = \frac{89.783}{1548.158}\ x100\% = 5.799\%$$

Coefficient of Correlation

$$r = \frac{XY}{\sqrt{x2y2}} = \frac{63838.220}{\sqrt{112000X40305.528}} = \frac{63838.220}{67187.938} = 0\ .950$$

Probable Error

$$PE(r) = \frac{0.6745\ (1 - r2)}{\sqrt{N}} = \frac{0.6745\ (1 - 0.903)}{\sqrt{5}} = \frac{0.0654}{2.2361} = 0.0293$$

6 time PE=6 X 0.0293=0.1758

Appendix-3

Calculation of mean, Standard deviation, Coefficient of Variation, Correlation, Probable error of Actual Sales & Actual Production .

Figure in '000'

FY	Actual Sales(X)	Actual Pro. (Y)	$x=X-\bar{X}$	$y=Y-\bar{Y}$	xy	x^2	Y^2
063/064	1444.672	1422.162	-104.26	-113.997	11885.7871	10871.06511	12995.225
064/065	1470.112	1489.520	-78.82	-46.639	3676.259662	6213.286035	2175.159
065/066	1528.905	1471.040	-20.03	-65.119	1304.416724	401.256986	4240.432
066/067	1648.186	1635.872	99.25	99.713	9896.515065	9850.4831	9942.762
067/068	1652.807	1662.199	103.87	126.040	13091.89197	10789.10154	15886.182
N=5	**$\sum X$=7744.682**	**$\sum Y$=7680.793**	**$\sum X$=0.000**	**$\sum y$=0.000**	**$\sum xy$=39854.871**	**$\sum x^2$=38125.193**	**$\sum y^2$=45239.760**

Arithemetic mean of Actual Sales

$$\overline{X} = \frac{\sum X}{N} = \frac{7744.682}{5} = 1548.9364$$

Arithemetic mean of Actual Production

$$\bar{Y} = \frac{\sum Y}{N} = \frac{7680.793}{5} = 1536.1586$$

Standard deviation of Actual Sales

$$\sigma X = \sqrt{\frac{\sum x2}{N}} = \sqrt{\frac{38125.193}{5}} = 87.3214$$

Standard deviation of Actual Production

$$\sigma Y = \sqrt{\frac{\sum Y2}{N}} = \sqrt{\frac{45239.760}{5}} = 95.1207$$

Coefficient of Variation of Actual Sales

$$CVX = \frac{\sigma x}{\bar{X}} x100\% = \frac{87.3214}{1548.9364} \; x100\% = 5.6375$$

Coefficient of Correlation

$$r = \frac{XY}{\sqrt{x2y2}} = \frac{39854.871}{\sqrt{38125.193X45239.760}} = \frac{39854.871}{41530.4055} = 0.9596$$

Probable Error

$$PE(r) = \frac{0.6745\ (1 - r2)}{\sqrt{N}} = \frac{0.6745\ (1 - 0.9209)}{\sqrt{5}} = \frac{0.0533}{2.2361} = 0.0238$$

Appendix-4

Popular Plastic Pvt. Ltd, Dharan
Comparative Profit & Loss Account
For the Fiscal Year 063/064 to 067/068

Particulars	063/064	064/065	065/066	066/067	067/068
Sales	220,130,738.90	234,134,731.94	253,557,703.81	280,591,087.48	291,348,739.05
Cost of Sales	204,721,587.18	217,247,935.98	235,284,542.79	262,262,451.08	274,381,029.97
Gross Profit	**15,409,151.72**	**16,886,795.96**	**18,273,161.02**	**18,328,636.40**	**16,967,709.08**
Add-Other Income	59,521.25	49,953.60	135,738.86	227,074.99	446,171.53
	15,468,672.97	**16,936,749.56**	**18,408,899.88**	**18,555,711.39**	**17,413,880.61**
Less-Administrative, Selling & Distribution Expenses	8,082,151.28	8,196,117.23	9,760,914.69	9,788,272.30	9,181,500.37
	7,386,521.69	**8,740,632.33**	**8,647,985.19**	**8,767,439.09**	**8,232,380.24**
Less-Interest	2,154,212.02	2,135,202.84	2,097,467.02	2,201,912.09	4,855,002.26
Less-Depreciation	2,456,821.20	3,731,293.22	3,139,072.85	2,697,982.95	2,592,278.23
Net Profit Before Tax	**2,775,488.47**	**2,874,136.27**	**3,411,445.32**	**3,867,544.05**	**785,099.75**
Tax Expenses					
Current Tax	(641,137.00)	(664,581.91)	(742,391.00)	(926,908.00)	(229,346.00)
Deferred Tax	-	(16,379.63)	34,097.86	4,540.41	30,722.55
Net Profit/ (Loss) For the Year	**2,134,351.47**	**2,193,174.73**	**2,703,152.18**	**2,945,176.46**	**586,476.30**
Less: Prior Sundry Debtors Written Off	-	(797,497.89)	-	-	-
Less: Prior Years Taxes	-	(233,987.27)	(121,932.02)	-	-
Add: Profit/(Loss) upto Previous Year	19,176,352.60	21,310,703.53	22,414,312.32	24,995,532.48	17,940,708.94
Profit available for Appropriation	**21,310,704.07**	**22,472,393.10**	**24,995,532.48**	**27,940,708.94**	**18,527,185.24**
Deferred Tax up to Previous Years	-	(58,080.78)	-	-	-
Less: Proposed Dividend	-	-	-	10,000,000.00	10,000,000.00
Balance Transferred to Balance Sheet	**21,310,704.07**	**22,414,312.32**	**24,995,532.48**	**17,940,708.94**	**8,527,185.24**

Appendix-5

Popular Plastic Pvt. Ltd, Dharan
Comparative Balance Sheet
For the Fiscal Year 063/064 to 067/068

F/Y	063/064	064/065	065/066	066/067	067/068
Capital & Liabilities					
Share Capital	25,000,000.00	25,000,000.00	25,000,000.00	25,000,000.00	25,000,000.00
Reserves & Surplus					
Income statement Balance	21,310,704.07	22,414,312.32	24,995,532.48	17,940,708.94	8,527,185.24
Deferred Tax Liabilites	-	74,460.41	40,362.55	35,822.14	5,099.59
Current Liabilities & Provision					
Sudry Creditors & Other Payable	28,658,062.39	31,415,167.36	18,826,165.57	32,014,600.23	25,479,466.97
Short term Loans	40,154,253.52	47,029,663.42	42,392,456.15	53,045,178.21	47,119,971.39
Total Capital & Liabilities	**115,123,019.98**	**125,933,603.51**	**111,254,516.75**	**128,036,309.52**	**106,131,723.19**
Assets					
Fixed Assets	19,859,825.25	18,712,583.89	16,390,196.18	14,348,735.92	14,846,490.71
Invesments	869,300.00	869,300.00	869,300.00	878,900.00	885,500.00
Currents Assets,Advances & Depoisted					
Inventory	50,124,995.08	40,840,792.58	27,556,529.14	37,094,766.80	37,149,771.30
Sundry Debtors	40,586,582.96	46,746,734.34	44,370,456.23	50,073,465.21	33,508,504.76
Cash & Bank Balance	1,895,462.41	1,475,773.44	1,790,506.50	2,552,776.00	1,624,654.33
Advance & Deposits	1,786,854.28	17,288,419.26	20,277,528.70	23,087,665.59	18,116,802.09
Total Assets	**115,123,019.98**	**125,933,603.51**	**111,254,516.75**	**128,036,309.52**	**106,131,723.19**

Appendix-6

Popular Plastic Pvt. Ltd, Dharan

Different Ratio Test From FY 063/064 to 067/068

Ratio	063/064	064/065	065/066	066/067	067/068
$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$	$\frac{94393894.73}{68812315.91} = 1.372$	$\frac{106351719.62}{8444830.78} = 1.356$	$\frac{93995020.57}{61218621.72} = 1.535$	$\frac{112808673.6}{85059778.44} = 1.326$	$\frac{903997328}{72599438.36} = 1.245$
$Quick\ Ratio = \frac{Quick\ Assets}{Current\ Liabilities}$	$\frac{44268899.65}{68812315.91} = 0.643$	$\frac{65510927.04}{78444830.78} = 0.835$	$\frac{66438491.43}{61218621.72} = 1.085$	$\frac{75713906.8}{85059778.44} = 0.890$	$\frac{53249961.18}{72599438.36} = 0.733$
$Debt\ Assets\ Ratio = \frac{Total\ Debt}{Net\ Trangible\ Assets}$	$\frac{68812315.91}{115123019.98} = 060$	$\frac{78444830.78}{125933603.51} = 0.62$	$\frac{61218621.72}{111254516.75} = 0.55$	$\frac{85059778.44}{128036309.52} = 0.66$	$\frac{72599438.36}{106131723.19} = 0.68$
$Inventory\ Turnover\ Ratio = \frac{Cost\ of\ Goods\ sold}{Average\ Inventory}$	$\frac{204721587.18}{43637383.19} = 4.691$	$\frac{43637383.19}{45482893.83} = 4.776$	$\frac{235284542.79}{34198660.86} = 6.880$	$\frac{262262451.08}{32325647.97} = 8.110$	$\frac{274381029.97}{37122269.05} = 7.391$
$Capital\ Employed\ turnover\ Ratio \frac{Sales}{Total\ Capital\ Employed}$	$\frac{220130738.9}{46310704.07} = 4.75$	$\frac{234134731.94}{47488772.73} = 4.93$	$\frac{253557703.81}{50035895.03} = 5.07$	$\frac{280591087.48}{42976531.08} = 6.53$	$\frac{291348739.05}{33532284.83} = 8.69$
$Total\ Assets\ Turnover\ Ratio = \frac{Total\ Net\ Sales}{Total\ Assets}$	$\frac{220130738.9}{115123019.98} = 1.912$	$\frac{234134731.94}{125933603.51} = 1.859$	$\frac{253557703.81}{111254516.75} = 2.279$	$\frac{280591087.48}{128036309.52} = 2.191$	$\frac{291348739.05}{106131723.19} = 2.745$
$Return\ on\ Capital\ Employed\ Ratio = \frac{Net\ profit\ AT}{Total\ Capital\ Employed}\ x100\%$	$\frac{2134351.47}{46310704.07} x100 = 4.61$	$\frac{2193174.73}{47488772.73} x100 = 4.62$	$\frac{2703152.18}{50035895.03} x100 = 5.40$	$\frac{2945176.46}{42976531.08} x100 = 6.85$	$\frac{586476.3}{33532284.83} x100 = 1.75$
$Operating\ Ratio = \frac{Cost\ of\ goods\ sold + operating\ exp.}{Sales}\ x100\%$	$\frac{212803738.46}{220130738.9} x100 = 96.67\%$	$\frac{225444053.21}{234134731.94} x100 = 96.29\%$	$\frac{245045457.48}{253557703.81} x100 = 96.64\%$	$\frac{272050723.38}{280591087.48} x100 = 9696\%$	$\frac{283562530.34}{291348739.05} x100 = 97.33\%$
$Gross\ Profit\ Margin\ Ratio = \frac{Gross\ Profit}{Sales}\ x100\%$	$\frac{15409151.72}{220130738.9} = 7\%$	$\frac{16886795.96}{234134731.94} = 7.21\%$	$\frac{18273161.02}{253557703.81} = 7.21\%$	$\frac{18328636.4}{280591087.48} = 6.53\%$	$\frac{16967709.079}{291348739.05} = 5.82\%$
$Net\ Profit\ Margin\ Ratio = \frac{Net\ Profit}{Sales}\ x100\%$	$\frac{2134351.47}{220130738.9} x100 = 0.97\%$	$\frac{2193174.73}{234134731.94} x100 = 0.94\%$	$\frac{2703152.18}{253557703.81} x100 = 1.07\%$	$\frac{2945176.46}{280591087.48} x100 = 1.05\%$	$\frac{586476.3}{291348739.05} x100 = 0.02\%$