Chapter - I

Introduction

Management, as the term is frequently used, refers to the act or the art of making decisions in controlling and directing activity. The term is also used in referring to the persons who assume responsibility for the control and the direction of any enterprises or activity. In a broad sense everyone is a manager inasmuch as each person assumes responsibility for the management of his own personal affairs business management is an extension of this personal responsibility to the affairs of commercial or public enterprise (Moore and Robertk; 1967:1).

Management is getting the things done throng the people (Drucker; 1975, :13) it is actually a practice management can be defined as the process of defining entity goals and implementing activities to attain those goals by efficient use of human, material, and capital resources. The management process is a set of interdependent activities used by the management of an organization to perform the functions of management such as planning organizing staffing, leading and controlling (Welsch; 1990:2)

A business needs a disciplined explanation methodology if people are to make the form work groups to teas. (June; 1990:56). Managers that present an environment that appeal to innate needs of self determination competency and relatedness their employees perform better. This task of manager is known as general management. As Andrews put "general management is the management of total enterprise of an autonomous sub unit (Andrews; 1978:2)

General Managers hence are CEOs president, vice presidents etc. They are top level managers. Because they perform diverse nature of tasks at a time, they are the generalist and not the specialists, "Rather they are the mover's form specialists" (March; 1998:9). They see the big picture, they understand both vertical and horizontal integration and they bring "real world" perspectives that are unhampered by parochial concern for decisions and department).

A high positive correlation exists between the extent of managerial development in a country and the economic well being of that country (Mee; 1965:18). ".....the developing countries are not underdevelopment rather they are under managed (Drucker; 1975:14). Actually the sound management can help to develop the country by making efficient utilization of man, machine, material and money. The task of creating faith in the people about the and worthiness of management is thus, the greatest challenge to the present managers. There are conceptual or philosophical disagreements as to the real role of management in both business and non- business entities one extreme role has been labeled the market theory, at the opposite end of the spectrum is the planning and control theory. In contrast, the planning and control theory views the management role essentially as an active one that attempts to condition the state of the enterprise the foundation that management must have confidence in its ability to establish realistic objectives and to devise efficient strategies to attain those objectives Welsch; 1990: 6)

1.2 Meaning of Profit Planning and Central

Profit planning is a systematic approach for attaining effective management performance, goal, objective, vision as so on. The concept of comprehensive profit planning and control (PPC) encompass systematic and integrated approach to project planning to tactical planning and strategic planning. Profit planning and control is an important approach, mainly in profit-oriented enterprises. Profit planning is merely a tool of management. It is not an end of management or substute of management. It facilitates the managers to accomplish managerial goals in a systematic way;

Comprehensive profit planning and control (PPC) is a new term in the business of modern age. Though it is a new term, it is not a new concept in management. The other terms which can be used in same, context are comprehensive budgeting, manager budgeting and simply budgeting. The profit planning and control can be defined as process/technique of management that enhances the efficiency of management. (Ojha & Gautam; 2008:1)

Profit is the primary measure of business of success in any economy. It is called the blood of any business organization which are established with profit motives. If a firm can not make profit it can not obtain or hold capital for very long time. If it can not obtain capital, it can not secure and retain other need resources. Such as manpower, material and high efficiency technology. It other work the more profitable enterprises can attract to buy the other need resources through which enterprises capture the ultimate environmental opportunity. The key hear is that capital and other resources are scare they all allocated to the profit makers in regularly descending order of their profit potential. Our economy through a relatively frce an open marked system.

The descriptive term comprehensive profit planning and control used other terms in the same context are business budgeting, is viewed as a process designed to help management effectively perform significant phases of the planning and control functions. The PPC model involves:

- Development and application of broad and long-range objectives of the enterprise.
- Specification of enterprise goals
- Development of a strategic long rang profit plan in broad terms.
- Specification of a tactical short range profit plan detailed by assigned responsibilities (division, departments, projects).
- Establishment of a system of periodic performance reports detailed by assigned responsibilities.
- Development of follow-up procedures. (Welsch; 1999:30)

1.3 Public Enterprises

Public enterprises are owned and managed by the government and which provide goods or services for a price. The ownership with the government should best, or more to make an entity (Narain; 1974: 92) PES are productive entities which are owned and or controlled by the state and the bulk of whose output is sold in the market price. They dominate important sectors in most countries i.e infrastructure and heavy industries etc. They draw extensively on government budgets and of ten employ a large segment of the labour force. Their attempts to improve their performance are critical to the macroeconomic performance of most countries.

PEs play a major role in achieving the twin objectives of social and economic development envisaged in national policy. Their objectives are aimed at creating the necessary infrastructure for developing the economy, establishing prices maintaining a regular supply of essential commodities, import substitution and export promotion and employment generation. To achieve these objectives PEs are endowed with more autonomy than government departments.

Nepal started its planned economic development in 1956 AD with the launching of first five year plan. Since then the number of public enterprises has increased substantially in the various field of national economy (Assail; 1989:153). There are a altogether nearly 43 public enterprises in Nepal out of 43 public enterprises 13 are in industrial sector 6 in trading sector 8 in service sector, 5 in social sector, 3 in public utility sector and 8 in financial sector.

Name of sector's	No. of PEs
industrial sector	13
Trading sector	6
Service sector	8
Public utility sector	3
Financial sector	8
Total PEs	43

Source: Assail 1989:153

In manufacturing sector, there are 13 public enterprises. They are as follow;

- Agro-lime industry Ltd.
- Birgunj Sugar factory Ltd.
- Dairy development corporation
- Herbs production and processing company Ltd.
- Hetanda cement industry Ltd.
- Jankpur cigarette factory Ltd.
- Hetanda Textile industry Ltd.
- Nepal Rojin and Turpentire Ltd.
- Royal Drugs Ltd.
- Udayapur cement industry Ltd.
- Nepal orind magresite Pvt. Ltd.
- Himal cement company

By reason of unestabled political situation, untrained manpower, unsystematic management planning lack of sufficient capital etc many PEs has closed and some of them are going to change in private hands.

1.4 Management of Nepalese Public Enterprises (NPEs)

Management failure because of poor management competence and management ineffectiveness are the common features of many organizations in Nepal (Pradhanany; 1996:11) Adhocism and crisis management predominate the decision making (Gautam; 1933:10), Nepalese manages have not yet been professionalized (Agrawal; 1982:27. They do not feel to be concerned about increasing organization effectiveness through effective decision making. Rather they are more concerned about safeguarding their jobs, chairs and promoting their self interest management failure, poor management competence and management ineffectiveness are the common features of many organizations in Nepal (Pradhanay; 1996:11). Adhocism and crisis management predominate the decision making (Gautam; 1903:90). As or Agrawal puts "management has been the process of decision avoiding rather than decision making". This is evident form the following points which characterize the decision making process of Nepalese public enterprises. (Agrawal; 1982:47)

a. Postponement for Bholi which never seems to come.

b. Formation of committees to pass the responsibility for decision making.

c. Managers are either action less yes man or abominable no men.

d. They are practice of writing memes which travel upward and downward in the hierarchy frequently.

e. A look up syndrome is prevailing whenever a situation arises for decision making.

1.5 General Background

Nepal is an agricultural country where as more than 90 percent people live Li areas. In the country, more than 80% of the total labour force of e engaged in agricultural sector. Being an agriculture country its economy is dependent on agriculture. About eighty percent of total land of agriculture has been brought under agriculture operation. Agriculture, which dominates the economy of Nepal access of about 52% of G.D.P. provides employment opportunity to more than 9 of the economically active population and supplies about eighty percent of the nations industrial raw-material.

Although agriculture is therefore cent- to national development strategy, agriculture productivity has failed to size, thus slowing down overall economic growth. Law rates of investment and low level of output and income have resulted from low productivity in this sectors. Approxmaly 38% of the total population of this country live under the poverty line. Nepal, bas been trying to develop economy and poverty elimination.

Nepal is one of the least development it country of the world. Estimated per capita G.D.P. for the year 2009/2001 is US$340. For the period development of developing country like Nepal, development in agriculture sector alone is not sufficient. It is essential to develop in industrial sector too. Rapid sand sound economic development is not possible only from the side of private sector due to the lack of adequate infraction as appropriate technology required to setup large industries. So the establishment of public enterprises was felt necessary to create the infrastructure for the balanced regional development public welfare generate employment opportunities import substitution and export promotion and dissemination of the development activities according to the national priorities. So various PEs have established in the different field such as public utilities manufacturing trading service, social and financial enterprises.

Public enterprise have assumed significant role in almost every countries of the world, yet there has so far been no standard definition of its own. The term 'Public enterprise' has been defined differently by different agencies and government to suit their own respective situation. Public enterprises are autonomous or semi autonomous or semi-autonomous corporation and companies owned and control b the state and engaged in industrial and commercial activities.

According to Encyclopedia Britannica Public enterprise may be defined as an undertaking that is owned by a nations, state or local government supplies service or at a price and is operated on a more or less self supporting basis. Such enterprise may also be international intended or inter-municipal in character i.e. owned and operated jointly by two or more national state or local government.

According to Laxmi Narain, 1974, 'Public enterprise are autonomous bodies which are owned and managed by the government and which provide goods or services for a price.' The ownership with the government should be 51% or more to take an entity public enterprise.

Public enterprise in Nepal constitute a vital instrument for the socio economy development of the country. It enjoys a strategic and crucial position in our mixed economy. They have been established in many sectors for the overall development of the country with different goals and objectives.

Since B.C. 2013(1956), Nepal has witnessed grow and development of PE. His Majesty's Government of Nepal has to play this purpose HMG/N makes massive investment to create necessary infrastructures and run some of the large manufacturing industries to the people. This has necessitated creation of number of public enterprises as instruments of national development.

Nepal Bank Ltd. a commercial banks w as the first public enterprises to have a separate legal entity in Nepal. Since then, the number of public enterprise has increased substantially in the various field of national economy.

There were 64 PEs before the privatization program of His Majesty's Government and how there are 43 PEs. There are dominate in the production and supply of sugar, cement, cigarettes, agricultural tools, petroleum products anda1J public utilities PEs of Nepal can be categories as;

1. Statutory corporation and

2. Companies

PEs have become both necessary and useful as vehicles of development in developing nations. They are being loaded upon as effective instrument of program implementation of accothp1icing the desired national development goals PEs constitute a large and rapidly growing sector of the economy in the majority of countries in the world today, including Nepal.

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

Public enterprise play a major roe in achieving the twin objectives of social and economic development envisaged in the national policy. The role of PEs in stimulating and augmenting the face of economic growth in Nepal can hardly be under estimated. Nepal is one of the under developed country which is still in its crawling stage of industrial development. So in Nepal PEs are not matter of choice, rather, they are a matter of necessity. PEs have helped to increased the standard of living, regional balance of developing and they have contribute through important substitution export promotion and strengthening the revenue generation of HMG and save foreign currency be reducing import as well as to private the consumable goods/services at a fair price.

1.6 Scenario and Historical prospective of Herbs

Nepal is an agriculture country, where more than eighty percent peoples are engaged in agriculture sector. About 80% of the total land has been engaged in agriculture operation. Agriculture sector contribution to G.D.P. is 52%, this shows that agriculture is the main mode of our life. Herbs production supports agriculture sector as well as industrial sector. Industrialization is the key factors of development. The main factor of weak economic condition of the country is due to lack of enough industries. Herbs have been used as medicines since the early period of our history. People of western countries as also interested to use herbs as medicines. Because of the demand of the herbs around the world we can earn a lot of foreign currency by exporting herbs. There i enough demand of them in the domestic market too.

Wild plant have been a sources of food and medicines from the beginning of human civilization. The improve, and better varieties of fruit, vegetables, cereals and most of other plant product of today are the worlds of modem scientist by making use of technology based on the ancient village folks information on the wild plants. Therefore our ancestors and villagers are the prim contributors to the development of modern science and technologies which is been taking an innovation role in the path of progress welfare of the society.

At the time of unofficial visit of His Majesty of King Birendra development region in 2029 B.S. it was noticed that the people of that region were forced to take plants during food scarcity. Therefore the directives given by His Majesty the king to conduct the feasibility study for development and cultivation of wild edible plants has served as the main guideline also inspired immensity to those who are engaged in field work.

Nepal, Himalayan Kingdom has the privilege of having areas from tropical vegetation within its domain. These has remained as a natural store of a various useful plant resources. Villagers, as they have constant association and dependence on the forests and its products for their daily needs, seem to have developed and intimate knowledge on the wild plants and their utility in various ways. This is how the concept of ethno botany came into being and as such this aspect has tremendous potentiality in our development endeavors.

Major parts of country are hills and mountains and at the same time remote. Many of them are good deficit areas. People have been taking roots, tubers, rhizomes, leaves and fruits derived from wild resources during the food scarcity. Period, besides, these plant materials can be seen being sold as vegetable and fruits in the market during different seasons. Therefore this field of natural resources requires the scientific emphasis for proper conservation and utilization.

Medicinal and aromatic plants are the valuable forest resources of the kingdom of Nepal. It has food recognition in the Indian market science ancient time. According to Hindu mythology lord Dhan Wantri had invested cure of living creatures from the Himalayan Herbs. The highest peak of the world Mt. Everest and series of Himalayan range found in the try are symbol of the existence of valuable medicinal and aromatic plant.

1.7 Introduction of HPPCL

A herbs production and processing company is public limited company established on 12th Poush, 2038 B.S. as under taking of HMG. The HPPCL was incorporated under the company a 2021. After through research and dedication of the national care of scientists under the department of medical plants this company was established.

HPPCL is the first company in the country to harness the rich treasure of herbs aromas for processing and producing medicinal extracts and essential oils for drug, food and perfumery industries Within the country and abroad. The painstaking research an herbal resources and flora of the country by modern scientific methods resulted the introduction of selective medicine extracts and essential oils on a commercial scale.

At present this company is can be of exporting indigenous products like lichen resin oil, kolila sugandha oil anf eatvamasi oil as well as exotic vanes such as palmarosa oil, citronella oil, emon grass oil and some crude drugs to neighboring and third country. Herbs Production and Processing Company Ltd. (HPPCL) is, fully an HMG undertaking operating in the area of herbal sector. It has an authorized capital of Rs. 500,00.000/- out of which Rs 3,86,00,000/- has already been issued and paid up capital is Rs. 2,75,17,000/-.

Share holder of HPPCL and the percentage of ownership are as:

Shareholders	**Percentage of Ownership**
(a) HMG	80.73
(b) Forest Research Development Committee	3.37
(c) Royal Drugs Ltd.	3.37
(d) Agriculture Development Bank	2.89
(e) Public	9.64
Total	100.00

Source: (Annual Report of HPPCL)

The company has a board for smooth operation as flows:

Particular	Nos.
a) President: MM of forest and environment or the person deleted by the ministry	1
(b) Member: Representative of Ministry of Finance	1
c) Member: Representative of shareholders	1
d) Member. Plant Development	1
(e) Secretary: G.M. of HPPCL	1
Total	5

Source: (Annual Report of HPPCL)

The head office of the company is located at its own land at Koteshowar, Kathmandu. The company has many branches at different location under its ownership.

1. Branch offices and herbs farm:

a) Tamagadhi Herbs Farm	-	Bara
(b) Belbari Herbal Center	-	Morang
c) Tarhara Herbal Farm	-	Sunsari
(d) Nepal uni	-	Banke
(e) Tikapur	-	Kailali
(f) Mahendranagar	-	Kanchanpur

2. Turpentine collection center:

(a) Lamidada	-	Makawnpur
(b) Guthitar	-	Dhankuta
(c) Kusma	-	Parbat

Under the HPPCL, operated development programme are: (a) Herbs-farming and processing programme:

The traditional uses of some medicinal and aromatic plants:

S.No.	Local Name	Botanical Name	Pas Used	Usage in raw from
01.	Abhiiaio	Drymaria diandra	Lea	Sinus
02.	Aduwa	Gingier officinale	Rhizome	Cold/coughiheadache
03.	Ainselu	Rubus sp.	New shoot	Phenunonia
04.	Akasbeli	cqcuta sps.	Whole plants	to protect insect attack in outer body
05.	niaia	Emblica offinalis	Fruit	Tonic, appetizer
06.	Amphi	Phralaaria edulis	Fait	Scabls, other wounds
07.	Angeri	Lyonia ovalifolia	Shoot	Scabies
08.	Asuro	Adhtod vasica	Leaf, flower	Asthama
09.	Babari	Ocimum basilic	Leaf	Headche, appetizer
10.	Banamara	Eupatorium sps.	Leaf	Tincture

11.	Bairadanti	Potentillaa fulgens	Root	Tooth problems
12.	Barro	Terminalia sps.	Fruit	Cough
13.	Bhuin	Ainselu	Fragaria nulicola	Root Gastic
14.	Bhuin champa	Himiltonia suaveolens	Root	Bone frcture
15.	Basak	Shoot Malaria		
16.	Bisma	Aconitum sps.	Root	Diarrhoea as poison tranquilizer
17.	Bojho	Acor Calamus	Root	Cough, cold
18.	Boke timur	Xanthoxylum arrnarum	Fruit	Stomch problem
19.	Batule pate	Stephania hernandiolia	Plant	Bledding by livestock
20.	Brmhi		Whole plant	Memory power
21.	Bukiful	Anaphalis sps.	Flower, leaf	Stomachache
22.	Chari amilo	Oxalis crniculat=	Leaf/Root	Wound
23.	Chhiku	Crtalaria	Root	Stomach problem, scabies.
24.	Chirata	Swertia	chirata	Whole plant Fever, malaria
25.	Chutro	Berberis arstata	Bark, root	Fever, Jaundice

S.No.	Local Name	Botanical Name	Parts Used	Usage in raw f
26.	Chyaree		Fruit	Diarrhoea
27.	Dhaniya	Corriandrum sativ	Seeds	Bad breath
28.	Dhasingre	Gatniheria sp.	Leaf	Cold, massage
29.	Dranapuspi	Leucas cephatotes	Whole plant	Jaundice
30.	Dubo	Cyndodon dacty on	Whole plant	Preumonia
31.	Ekle Thar	Anapbalis busua		Woundrelief
32.	Garde	Whole plant		Appetizer
33.	Gantamali	Root		Inseclicide
34.	Ghodtapri	Centella asiatica	Whole plant	Bone fracture
35.	Gurjo	Tinospora	cordifoia	-Root Asthama
36.	Ghyukumari	Aloe vera	Leaf	Antiaging
37.	Gurans	Rhododendron sps.	Flower	Throns of fish w in throat.
38.	Gokhur	Tribulus terrest is	fruit	Tonic aphrodis &

				kidney disese
39.	Gurashkoful	Rhododendron	Young Leaf	Headache
				arboreum
40.	Harro	Terminalia chebuia	Sed coat	Flu, cold
41.	Halhle	Elephantopus sn.	Rhizome	Anti poison, Jane-e
42.	Harchur	Viscum articubtum	Root	Cracking of rah
43.	Indreni	Trichosanths paima:a	Rhizome	Bleeding in chi
44.	Jatamansi	Nardostachys Root	Agerbathi	
45.	Jhtau	Lichen sp.	Whole plant	Joint disorder
				grandiflora
46.	Jamane mandro	Mahonia variegata	Bark	Eye disease
47.	Jethi madhu	Glycyrrhiza giabra	Root	Tonic, throat cie
48.	Jhulo	Leaf,	root	Antihelmentic
49.	Jatamashi	Nardostnehys	Root	Cholera
				grandiflora
50.	Kyamuna	Careya arborea	Whole plant	Headche

S.No.	Local Name	Botanical Name	Parts Used	Usage in raw from
51.	Koiralo	Baurenia varigata	Flower	Dysentry
52.	Kum-kum	Didymocaarpus	Leaf	Aromatic leicocalyx
53,	Kharanee		Fruit	Scbies
54.	Kukur dino	Smila mcrophiila	Leaf	Sinus
55	Kera	Musa paradisica	Hans of flower	Typhoid
56.	Kaphai	Myrica esculenta	Root/Fruit	Aching of body
57.	Kuirilo	Asparagus racemosus	Root	Delivery case
58.	Kauso	Mucuna higricans	Bark	Tonic
59.	Kutki	Picrorhi ar kurroa	Root	Fever
60.	Knolme	Symplocu phrifolia	Fruit	Tapeworms in cattle
61.	Kapse jhuio	Sussurea gossipiphora	Leaf	Hedache
62.	Kackaro	Colocacia sps.	Rhizome	Shakes bite
63.	Khokim		Root	Cold
64.	Lasun	Ailium stivurn	Root	Gastic, altitude problem
65.	Lauth Salla	Taxus baccata	Leaf	Spinal pain, anti cancer
66.	Mula	Raphanus sativus	Seed	Nervous disorder
67.	Machhino	Gaultheria sps.	Root	Pnemonia, pain
68.	Majitho	Rubia cordifodia	Whole plant	Dyeing
69.	Mush	Aneilema scapifolorcurn	Root	Bite of rabit, dog
70.	Malagiri	Cinnamomum Seeds	yuvedic and	Dyning ilanduliferum
71.	Nundhiki	Osyris Wightiana	Leaf/Stem	Bone crack
72.	Neem	Ajadirachta Indica	StemiLeaf	Antipyretic
73.	Nimeghar		Whole plant	Wound relief
74.	Nagbeli	Lycopodum sps.	Powder	Fire Burn

S.No.	Local Name	Botanical Name	Parts Used	Usage in raw from
75.	**Panchaunle	Dactylarhiza	Root	Eye pain
76.	Pireejhar		Leaf	Sinus
77.	Pipiree		Root/coat	Wound relife
78.	Pate jhulo		Root	Anti helmentio
79.	Padamchal	Rheum emodi	Root	Spinal pain
80.	Phrsi		Fruit	Phenumonia
81.	Pkhanbed	Berginia cilia a	Root	Delivery case
82.	Phusre jhare	Indigofera puihella	Steam	Antihelmenthii
83.	Pani amal	Nephrolepsis ca	Fruit	Jaundice
84.	Paha		Whole plant	Diarrhoea
85.	**Panchaule	Dactyloshiza hatag2ra	Tubers	Tonic
86.	Ranisinka	Cheilanthes ances	Leaf	Wounds
87.	Rakta chndan	Pterocarpus sp.	Root	Typhoid
88.	Satuwa	Paris polyphylla	Root	Fever, fracture for domestic cattles.
89.	Siltimur	Lindera neesiana	Fruit	Gstic
90.	Sisnu	Urtica dioca	New shoot	Bonefrcture
91.	Suntola	Citrus recuiata	Bark	Posion in cattle
92.	Sunpati	Rhodod ndron	Leaf	As pain killer enthopeon
93.	Sarmagura	Swerti multicauiis	Root	Wound
94	**Sugaudhawal	Waleriana jatamansi	Root	Mental disorder
95.	Sundhupi		Fruit/Leaf	Aromtic
96.	*Sarpagandha	Rowlfia serperntina	Root	Blood pressure
97.	Titepati	Artemisia vulganis	Root	Tonic & Antispa:

1.7.1 Objectives of HPPCL

The main objective of herbs production and processing company Ltd. is to utilized and to save the valuable herbs resources of the nation and to contribute in the national economy other objectives are;

1. To encourage the private sectors in herbs farming, collection, and processing.
2. To collect and processing crude herbs.
3. To promote export of processed herbs.
4. To import and employment.
5. To provide essential oils to the companies involving in drug manufacturing.
6. To cultivate the essential herbs.

1.7.2 General Programme of HPPCL

- Processing the crude herbs.
- Collecting purchasing, cultivating grading and sales of crude herbs.
- To produce perfumes and to serve to the soap, pent, confectionery, paper tooth paste, rubber, turpentine.
- To promote export of processed drugs in place of raw herbs.

1.8 Statement of the problem

To earn a reasonable profit is one of the major objectives of the company. Profit is usually influenced by planning and control system. We know profit to just happen. It should be managed properly so every commercial enterprise should systematically plan for profit in a manner that does not result in a loss profit planning provides various tools for practical administration of a business as a whole. The financial performance of an organization depends significantly how the use of its resources is planned and controlled. Profit planning and control in the key to productive financial planning and control profit planning is heart of management and budgeting is the role appropriate techniques for this

Most of the Nepalese public companies have been suffering form the problem of poor performance. So, the reason for this they have to adopted a systematic profit planning process to improve their profit performance.

HPPCL was established in Nepal to fulfill herbs aromas for processing and producing medicinal extract and essential oils for drugs, food and perfumery industries within the country and abroad. With the help of this study it is tried to reveal the following basic research paper intend to explore the following:

- What component of sales & cost planning are being following HPPCL?
- How is performance of HPPCL evaluated?
- What are the major problem faced by the HPPCL in developing and implementing revenue plans?

1.9 Objectives of the study

Objectives of enterprises are rests on at higher degree with the proper execution of plan. So, this study tries to focus on the need of comprehensive profit plan to improve the performance of the enterprises. In the context of poverty and unemployment line of Nepalese people, HPPCL has played a vital role by providing various opportunist of unemployed manpower and farming opportunist to farmers. The general objectives of this study is to appraise HPPCL appropriately for the application of comprehensive profit planning system and specific aims are as given below:

- To evaluate and analyze the sales (revenue) plan of HPPCL.
- To analyze the Cost-Volume Profit analysis of HPPCL
- To evaluate and analyze the cost variability as the fixed & variable cost of HPPCL
- To evaluate performance of HPPCL in terms of degree of operating leverage and profitability analysis.
- Conclusion and Recommendation to HPPCL.

1.10 Signification of the study

The irregularities that are existing now due to the weakness that were made by the prevailing planers have to be corrected in PEs. Public enterprises can help to make future planning on the basis of fore going in formation the enterprise can identify their strength and weakness in respect of profit planning. This will be of great help to develop and improve the efficiency of the enterprises. Firstly, the public sector is still large so knowledge about the corporations as a representative member of a relatively small sector to day can provide a useful representative member of fan important sector a few years hence secondly, the corporation sector is more sensitive and more amenable to monetary control measures. It also acts as a vital interment for minimizing further risks maximizing the output form scare resource and products the future.

Comprehensive budgeting is a fine idea for must business but our id different or it is impossible to project our revenue.

1.11 Focus of the study

The study is focuses in evaluating the uses of different types of functional budgets and corporate planning system for the effective implementation of profit planning and control in 'HPPCL'. This study in designed to describe the purpose of different kinds of budgets used, so they assist in policy making.

The study is intended to clarify the purpose of different budgets and to identify the person responsible for different item in the budget.

The focus of the study will be as follows

- Sales budgets
- Overhead (expensive budgets)
- Degree of Operating Leverage
- Profitability Analysis
- Capital expenditure budget
- Control mechanism by apply variance
- CVP Analysis

1.12 Scheme of the study

This study has been segregated into five different chapter which are as follows:

1. Introduction: This chapter deals with background of the study of research problem, objective, scope, limitation and history.

2. Review of Literature

- **Conceptual Review:**

In this chapter mainly includes the introduction of profit planning importance of profit planning and other concept about profit planning and control.

- **Review of Literature**

In this chapter includes different previous research work, thesis paper etc.

3. Research Methodology

The third chapter includes research design data collection and its procedure period covered nature and scope of source of data. Data gathering statistical tools.

4. Presentations and Data Analysis

In this chapter the data collection through various source have been presented in the number of tables, as they are required by the resource object.

5. Summary Conclusion and Recommendation

In fifth chapter conclusion of research major recommendation and summary are presented.

Beside these chapter, appendix and bibliography will be included in the last of the thesis

1.13 Research design (Methodology of the study)

In order to make analysis this work will use primary as well as secondary data. For the purpose of the gathering primary data some questionnaires are set. The enterprises under study will be visited and the top managers interviewed to find out their responses regarding the questionnaires. The secondary data have mostly been gathered from the financial statements published in the annual report of the enterprise. The various issues of the report contain the and balance sheet and profit and loss accounts of the public enterprises

Nature and source of data

The analyze will be specially based upon most on primary and secondary data and the source of secondary data relating to this study may as under.

- Financial statement of HPPCL

- Progress report of HPPCL
- Published and unpublished articles
- Magazines and news papers
- Previous studies made in the field
- Head official of HPPCL

Kinds of research

Descriptive as well as analytical research will be applied as the research design for this study.

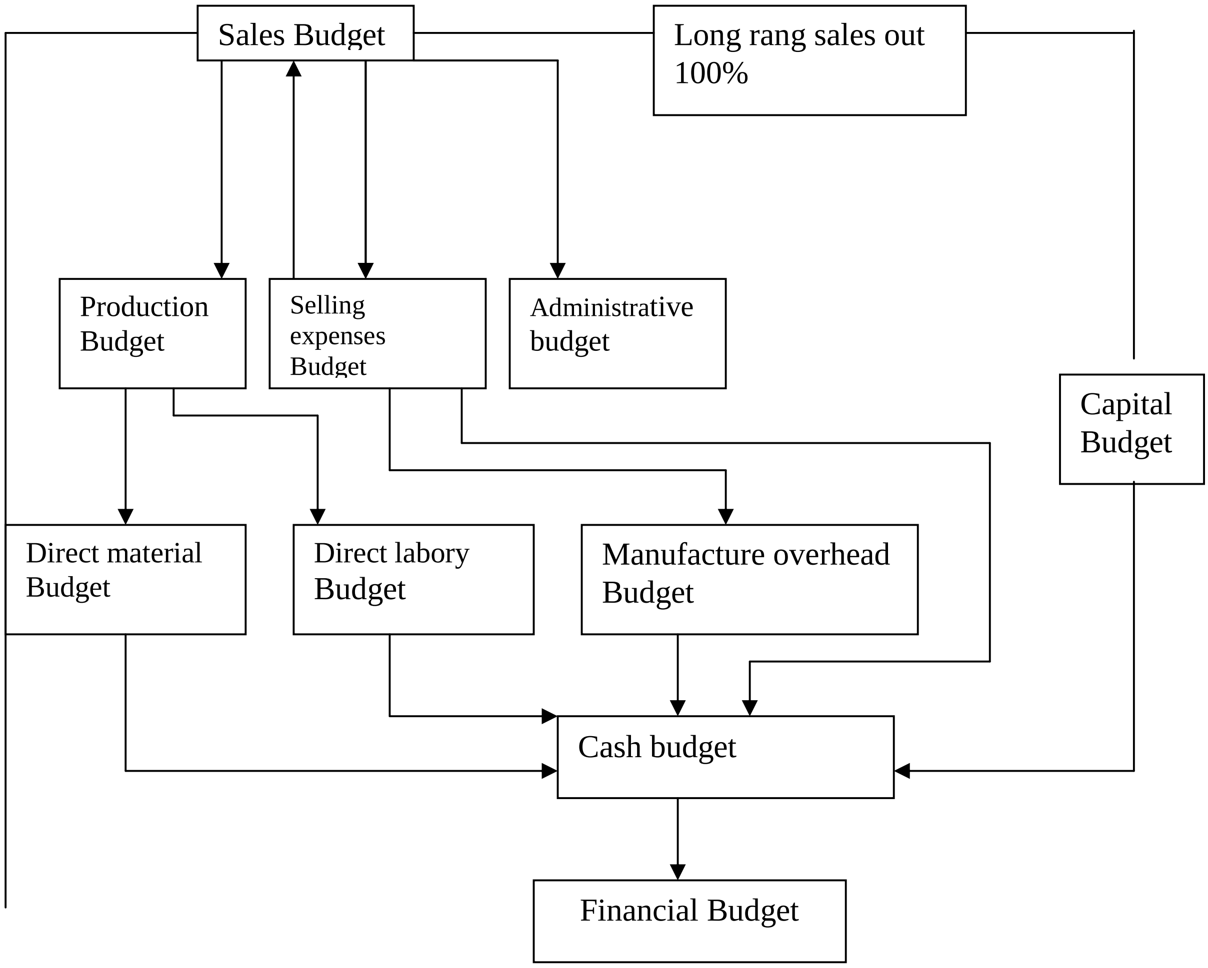
1.14 Limitation of the study

Every books, journal, novels, story and articles have some limitation therefore this study also have limitations which are as follows:

- It is included only five year data.
- It is mainly based on secondary data throughout primary sources.
- Research has conducted on Top level of the company and central office.
- Time and resource contents may limit the areas covered by the study.

Budget relationships: In Budgeting, various limitation have to be observed, Ordinarily, the sales forecast as translated into a sales budget for the company is looked upon as the limit that will be used in establishing production budgets and so forth. But this may not always be the case; sales may have to be turned away because of a lack of productive capacity shortage in materials inability to meet specifications on the orders or other reasons.

The sales budget that fits the limitation serves as the keystone for the total budget. All other budget are then related to the sales budget either directly or indirectly. The individual budgets and there relationship to one another are set forth in the diagram below.


Sales Budget
Long rang sales out 100%
Production Budget
Selling expenses Budget
Administrative budget
Capital Budget
Direct material Budget
Direct labory Budget
Manufacture overhead Budget
Cash budget
Financial Budget

Chapter - II

Review of Literature

Review of literature means the study of relevant topics in the related field of research or receiving related research studies and findings such that all past studies, their conclusion and definitions may be known and further research can be done. After topics selection review of literature is essential to develop concepts and ides about the selected topics by studying relevant materials. Review of literature provides the knowledge about the field study.

After the identification work (problem) of related study has finished the review of literature process should be started. It is the surveys of related material, books, journal, magazines, abstracts, previous thesis work paper, references, newspaper etc. We have divided into two parts. They are as follows:

a. Conceptual Framework

b. Re-view of various this and

A. Conceptual Framework

Every business organization establishes for earning profit does not happen; it is to be managed by effective planning and managerial skill. Planning means the effective planning and managerial skill. Planning means the determination in advance what is to do? Without effective planning we can not get target profit. So, profit planning refers to make plans to achieve or meet the target profit easily. In profit planning, there are so many tools and techniques to be used such as profit planning an control etc.

Promotes that use of more efficient methods and pro- ides the basis for the managerial function of control there by assuring focus on organization objectives (Edwin et.al. 6^{th} : 49)

2.1 Planning

Planning is a serious business; what make planning is not the targets, which merely express what we would like be see happen, but the action that is taken to achieve these targets.

Planning may be defined as the conscious and deliberate choice of economic priorities by some public authority. (Woottoon; 1979:12)

An economic plan may be defined as a totality of arrangement decided up on in order to carryout a project concerned with economic activity of an economic.

The planning process both short and long term is the most crucial component of the whole system. It is both the foundations and the bond for the other elements, because it is through the planning process that we determine what we are going to do, how we are going to do it and who is going to do it. It operates as the brain center of an organization and like the brain it both reasons and communicates. (Gentles; 1984:32)

Planning entails regular measurement of progress toward objectives and goals and the execution of strategies and action program. Yet it is clearly recognized the plans often have to be altered in the light of new circumstances.

Planning should be continuous, process and not a once a year exercise. It should involve all these whose jobs have a significant effect on-the fortunes of the company.

It is clearly distinct from forecasting. Forecasting, one of the essential elements of planning in a prediction of what will happen on the basis of certain assumption: planning is an attempt to determine what should -happen and then to take steps that will make it likely to happen.

2.2 Profit Planning

When management plan its profit performance, that is know as profit planning and control may be broadly defined as a systematic and formalized approach for accomplishing the planning coordination and control responsibilities of management, Profit planning models involves.

- The development and application of broad and long range objective for the enterprises.
- The specification of the enterprises goals,
- Development of strategy long-range profit plan developed in broad terms,
- A system of periodic performance reports detailed by assigned responsibility,

- A short-range profit plan detailed by assigned responsibilities, and
- Development of follow-up procedures.

A profit plan is an advance decision of expected achievement based on the most efficient operating standards in effect or in prospect at the time. It is established, against which actual accomplishment is regularly compared. The primary aim of profit plan is to assist in assuring the procurement of the profit planned and to provide a guide for assisting in establishing for financial control policies, including fixed assets addition, inventories and the cost position. The adoption of a currently constructed profit plans provision provides opportunity for a regular and systematic analysis of incurred of anticipated expenses, organized future planning fixing of responsibilities and stimulation of efforts. In short it provides a tool for more effective supervision of individual operations and practical administration of the business as whole. (Chamberline; 1962:323-335)

Profit planning and control is one of the most important approaches mat has been develop to facilitate objectives performance of the management process, The three most relevant aspect of profit planning and control.

- Profit planning and control requires major planning decision by management,
- Profit planning and control entails pervasive management control activities, and
- Profit planning and control recognizes many of the critical behavioral implication through out the organization. (Welsch; et.al, 1990:31)

Profit planning means the development and acceptance of objectives and moving an organization efficiently to achieve the objectives and goals. Profit planning is not a separate technique that can be through of and operated independently of the total management process. The broad concept of profit planning entails an integration of numerous managerial approaches and techniques that might be exploited such as sales for costing sales quota system, capital budgeting cash flow analysis, cost-volume profit analysis, production, planning, management by objective organizational planning, man power planning and cost control. (Welsch, et.al.1990:35)

- To provide of realistic estimate of income and expenses for a period the financial position at close of the period, detailed by areas management responsibilities.
- To provide a co-ordinate plan of action which is designed achieve the estimates reflected in the budget.
- To provide a comparison of actual results with those budgeted and an analysis and interpretation of deviations by areas of responsibilities to indicated courses of corrective action and to lead to improvement in procedures in building future plans.
- To provide a guide for management decision in adjusting plans and objectives as uncontrollable conditions change.
- To provide a ready basic to guide management in making day to day decision.

Profit planning is a well thought out operational plan with its financial imp lection expressed at both long range profit plans and budgets in the from of financial statements and including balance working capital projections sound and intelligent planning of profit. Sales cost and expensive in both more important and more difficult than even before in this age of rapid technological change and lightened recognized the divisional and departmental autonomy and responsibility of managers. Motivation them to strives attainment of their persuade objectives in congruent with the organizations objectives. (Matz & Usurg; 1985:471:472)

Manufacturing company annually prepares two periodic profit plans one is strategic long-term profit plan and second is tactical short-term profit plan.

Strategic long-term profit plan is broad and shows summary data. Part of the long-range plan is more or less informal as represented by tentative commitment made by the executive committee in its planning session. The long-range plan covers all the key areas of anticipated activity; sales, expenses, research, development, capital expenditure, cash profit and return on investment. It usually extending three, five or ten years into future.

The short-term profit plan shows here are primarily annual results, the details by months, responsibility and products. The annual summarize and decisions only those details essential;

- To provide general understanding of the annual profit plan, and
- To provide an overall view of the comprehensive short-range profit plan.

A tactical short-range profit plan encompassing twelve months that correspond with the up coming budget period.

It is the detailed plan for each of its responsibility centers and enterprise. In the short word, profit planning means the development and acceptance of objectives and goals and moving an organization efficiently to achieve the objective and goals.

2.3 Forecasting

Forecasting are indispensable in planning. Forecasts are statements of expected future conditions, definite statements of what will actually happen are patently impossible. Expectations depend upon the assumptions made. If the assumptions are plausible the forecast has a better chance of being useful. Forecasting assumptions and techniques vary with the kind of planning needed.

When estimates of future conditions are made on a systematic basis, the process is referred to as "forecasting" and the figure or statement obtained is known as a "forecast". In a word where the future is not know with certainly, virtually every business and economic decision rests upon a forecast of future conditions. In fact, when a man assumes the responsibility of running a business, he automatically takes the responsibility for attempting to forecast the future and to a very large extent his success or failure would depend upon the ability to forecast successfully the future course of events. Forecasting aims at reducing the areas of uncertainty that surround management decision making with respect to costs, profit, sales, production, pricing, capital investment, and so forth. (Gupta; 1991:82)

Short-term forecasting is needed in budget making. A budget set for the following year will be much more useful it geared to sales levels. Which will eventuate rather than merely to current sales levels. A budget distributed according to current s ales levels may establish policy as lines of emphasis, but will obviously require successive adjustments if sales levels change. (Bran; 1958:1)

Large number of forecasting methods also available to management today. These range from the most native methods such as use of the most recent observations as a forecast to highly complex approaches such as economic system of simultaneous equations. The woids spread introduction of computers has made programs reading available for quantitative forecasting techniques. (Nlarkridakis; et.al. 1985:3)

Forecasting is an integral part of decision making activities of management. An organization establishes goals and objectives, seeks to predict the environmental factors, then selects actions that it hopes will result in attainment of goals and objectives. The need for forecasting in increasing as management attempts to decrease its dependence on chance and becomes more scientific in dealing with its environment. Since each area of an organization is related to all others, a good or bad forecast can effect the entire organization.

A forecasting system must establish a mutual relationship among forecasts made by different management areas. There is a high degree of interdependence among the forecast of various divisions or departments. Which can not be ignored if forecasting is to be successful. For example error in sales projections can trigger a series of reactions effecting budget forecasts, operating expenses, cash flows, inventory levels pricing etc. Similarly, budgeting error in projecting the amount of money available to each division will affect product development, modernization of equipment, hiring of personnel and advertising expenditures. This, in turn, will influence, if not determine, the level of sales, operating costs and cash flows. Clearly there is strong interdependence among the different forecasting areas in an organizations.

The science of financial forecasting is assuming an increasingly important role as a tool for appraising the real worth of going concern. It helps in darning out the implications of what is contained in the statements themselves. Art analysis of the several tools of finical forecasting provides in important basis for valuing securities and appraising managerial programmes.

The forecasting in an attempt to find the most probable course of events or at best a range of probabilities. (Lulkuri; 1992:149)

2.3.1 Short term forecasting

The short term forecasting is a prediction extending a maximum of two years into the future. While it is difficult to drive examples that fit every situation some generalization can be made to indicate the application of short-term forecasting. A business firm can adjust more smoothly to an indicated higher or lower volume of sales if plans can be setout reasonably will in advance. The short term forecast of general; business condition often important in driving a short term sales forecast is useful in making internal estimates of company operations. Internal estimates, made by the accounting department in the large enterprises, can be integrated with up to date predictions of short-term course of general business. Projections covering inventory positions, manufacturing expenses, selling and administrative expenses, gross margin, Net earning and cash position of the enterprises then reflect the most comprehensive internal and external data. Sales forecasting adds in more effective scheduling of goods in process and inventory requirements. Here, short run forecasting provides management more rationally ordered information and a sounder base for decision making. (Bratt, 1958:173)

2.3.2 Intermediate Forecasting

The intermediate range forecasting covers from three to five years. This is one of the least developed areas of predictions, because the forecaster does not have the advantage of surveys of consumer and business intentions, nor is he a particularly good position to rank the importance of qualitative factors. The surveys business and consumer spending intentions are of vital assisted in the development of short run prediction. Similarly, the extrapolation of long-term historical trends, if subjected to adequate qualitative analysis, can serve as basis for estimating economic factors ten to twenty years into future. While the quantitative materials that can be employed in intermediate range forecasting are limited, an appraisal of the there to five year outlook may be especially valuable in formulating a capital expenditure programme and the related financial plan for research and product development. The forecaster is forced to rely very heavily upon his judgment. He must isolate from the man of material facing him those elements in the 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 forecasts must consider the problem of critical fluctuation if they are to be meaningful.

2.3.3 Long Term Forecasting

Forecasts are frequently made in the form of long range projections that compare an economic situation with a minimum of five years in to future with present circumstances or with those of the relevant past. The purpose of long range projection is to given a rough picture of future prospects, a picture that has some empirical foundation. Sought is reasonable statement of the most probable, out come of an explicit combination of assumptions. Sometimes these assumption are vaned to yield a range of possible results. Typically, long range aggregate projection have been set in a gross National Product Framework. Once an appraisal has been made of the growth potential of the aggregate economy, consideration may be given, first to the magnitude o f future industry s ales, and second to the size of the company sales by product or service line as well as total. These estimates can suggest the need for product development are diversification, indicate the most desirable channels of distribution, and point up personnel needs and the specialties most required. Finally, a long range- forecast may indicate the volume of investment necessary in plant and equipment.

2.4 Planning VS Forecasting

Forecast is a predication of future event condition and situation where as a plan includes a program intended future actions and desired result. Many companies prepare and use forecasts but do not have discipline in planning procedures. Other companies have planning procedure with using forecast. The best arrangement is to use both techniques. The distention between forecasting and planning is not an easy one webster gives- to plan a head as the leading definition forecasts, forecasting is out best thinking about what will happen to use in the future. In forecasting we define situation and recognize problems and opportunities. In planning we develop our objectives in practical detail and we correspondingly develop schemes of action to achieve these activities. (AAA; 1980:502)

A forecasting is not a plan rather is a statement of and or qualified assessment of future condition about a particular subject (e.g. sales. revenue) based on one or more explicit assumption. A forecast should always state the assumption upon which it is based. A should be viewed as only one input in to the development of sales plan. The management of a company may accept, modify, or reject the forecast, other inputs and management judgment about such related items as sales volume, price, sales efforts, production and financing. It is important to make a distinction between the sales forecast and the sales plan primarily because the internal technical staff should not be expected or permitted make the fundamental management decision and judgments implicit in every sales plan. Moreover, the influencer of management actions on sales potential is difficult to quantity for sales forecasting. Therefore, the elements of management experience and judgment must hold the sales plan. Another reason for identifying sales forecasting as only one step in sales planning is that sales forecasts are conditional. (Welsch, 1986:30)

2.5 Fundamental of Profit Planning and Control

Basically comprehensive profit planning and control offers a systematic practical and proved approach to the management process properly viewed. PPC is comprehensive system to co-ordinate all aspect of the management process. Carefully knitting together the loose ends of management and operation. This all inclusive concept of the PPC process is frequently minimized or completely overlooked in much of the literature and discussion on the objectives.

(A) Time Dimensions in PPC

Whether an individual or an entity is idle or busy, time passes at the same rate. We seldom, if ever, have time to do all the things that we would like to do, nor do we have time to do many things as well as we would like. This is the light of all managers. As a result, the planning function often suffers. Two important timing issues require careful attention if the planning function is to be carried out effectively. One relates to the concept of planning horizon, and the other relates to the timing of planning activities.

Planning horizon refers to the period of time into the future for which management should plan. PPC have involved as a systematic approach to resolve many aspects of the time dimension in planning and controlling operations. Effectively implementation of the profit planning and control concept requires that the management of the enterprise establish a definite time dimension for certain types of decisions.

Time dimension perspectives in managerial planning require a clear-cut distinction between historical considerations and future considerations. Historical decisions and the results of operations in the past often constitute, in effect, the launching platform for future determination.

Another time dimension relates to project planning. A continuing necessity exits for management to plan specific and identifiable projects, each of which has a unique time dimension, because such project entail commitments over variable time spans. The focus in project planning is on each separate project, which may represent either operational or a non operational commitment.

Periodic planning is the environmental necessity for management to plan, evaluate, and control operations within relatively short and consistent interim periods of time, such as one year. Periodic plans reflect calendar constraints that have been imposed by custom. Specifically, managers, owners and other interested parties demand timetables; the result is periodic profit plans and performance reports and evaluations of the progress of an enterprise. The plan and progress reports are usually prepared by month, quarter, and year. Periodic planning represents a focus by time on profit plans and performance.

The concept of comprehensive profit planning and control encompasses a systematic and integrated approach to project planning to tactical planning, and to strategic planning. (Welsch;1995:36-39)

(B) Flexibility in Applying PPC

A profit planning and control program (or any other managerial tool) must not dominate business. When implementing plans, there must be a for the right management "'Override" policy so that "Straitjackets" are not imposed and all favorable opportunities are sized even though "they are not covered by the budget".

It is not uncommon for budgets to impose inflexibility an a business and act as a constraint on the decision making freedom of managers and supervisors. However, a profit planning and control program administered in an enlightened way permits greater freedom at all management levels. This effect is possible because all levels of management are brought into the decision-making process when plans are developed.

In the area o f control flexibility i s especially important expenses and cost budgets most not be used and interpreted rigidly. The budget must not constrain rational decisions that should be made with respect to an expenditure was not anticipated. Also, variable expense budgets are frequently used to meet one of the problems of cost control arising from a change in circumstances. (Welsch; 1999:51)

(C) Organization Adoption:

A profit planning and control program must rest upon a sound organizational structure for the enterprise and clear-cut lines of authority and responsibility. The purpose of organizational structure and the assignment of authority is to establish a framework within which enterprise objectives may be attained in a coordinated and effective way on continuing basis. The scope and inter-relationship of the responsibilities of each individual manager are specified.

To increase managerial and potential efficiency, practically all enterprises, except perhaps the very smallest ones, should be structurally disaggregated into organizational sub-units. The manager of each subunit should be assigned specific authority and responsibility for the operational activities of that subunit. These subunits are often referred to as decision centers or responsibility centers. Although the latter term is widely used, the former is more descriptive, of the primary focus that is most fundamental. A responsibility center can be defined as an organizational limits headed by a. manager with specified authority and .responsibility. Thus, the company as a whole is a responsibility center, as is each division, department, and sales district. Responsibility centers are further classified in respect to the extent of responsibility as follows:

1. Cost center - A responsibility center for which a manager is responsible for the controllable cost incurred in the submit, but is not responsible, in a financial sense, for profit or investment in the center.

2. Revenue Center - A responsibility center for which the manager is responsible for revenue. Sales districts are often designated as revenue centers.

3. Profit center - A responsibility center for which the manager is responsible for the revenues, costs, and profits of the center. Planning and control focus on the center's profit.

4. Investment center - A responsibility center that goes one step further than a profit center. In an investment center manager is responsible for revenue, costs, profit, and the amount of resources invested in the assets, used by the center. Planning and control focuses on the return on investment earned by the center.

(D) Realistic Expectations in PPC

In profit planning and control (PPC), management must be realistic and avoid being either unduly conservative or irrationally optimistic. The care with which budget goals are set for such items it as sales, production levels, costs capital expenditure, cash flow and productivity determines the usefulness of a PPC program. For PPC purpose, enterprise objectives and specific budget goals should represent realistic expectations. To be realistic expectation must be related (01) to their specific time dimension, and (02) to as assumed external and internal environment that will prevail during that time span. Within there two constraints, realistic expectations should assume a high level of overall efficiency; however, the objectives and goals should be attainable. Goals that are set so high that they are practically impossible at attain discourage serious efforts to reach them. Alternatively, goals set so that they require no special effort will provide no motivation. Thus, enterprise objectives and specific budget goals, in order to constitute realistic expectations, must represent a real challenge to managers and to operational units. The top management of the enterprise has the direct responsibility for defining the levels of challenge that should be represented by realistic exceptions.

(E) Managerial Involvement

Managerial involvement entail management support confidence participation and performance orientations. In order to engage competently in comprehensive profit planning and control all levels of management especially top management must:

- Understand the nature and characteristics of profit planning and control.
- Be convinced that this particular approach to managing is preferable for their situation.
- Be willing to devote the effort required to market and its operative.
- View the result of planning process as performance commitment.

A comprehensive profit planning program will be successful, it must have the full support of each member of management starting with the president the inputs and directions must come from the very top.

(F) Zero-Base Budgeting

Associated with the concept of activity costing in zero-base budgeting. Every budget is constructed on the premise that every activity in the budget most be justified. Zero-base budgeting has been used by many organization- both private organizations and governmental units. It starts with the basic premise that the budget: for next year is zero and that every expenditure, old and new, must be justified on the basis of its cost and benefits. The decline of zero-base budgeting takes a different approach in fact, a reverse approach to this problem of justifying everything, what it says to this begin with where you are and establish a business-as-usual budget for next year the same way, and he same things you would do if you where not concerned about constraints total justification. (Wlesch; et. al., 2006:43)

(G) Responsibility Accounting

Planning uses historical data, including past financial information as one of its launching platforms. Control includes the measurement of performance by using actual results, mach of which must be provided by the accounting system. Actual results are compared with objectives, goals and standards to determine variances that shed light on performance. Therefore, the accounting system must be designed to provide financial information separately for each organizational unit that is by assigned authority and responsibility, accounting system, that is, one tailored to organizational responsibilities with in this primary accounting structure.

(H) Follow-up

This fundamental holds that both goods and substandard performance should be carefully investigated, the purpose being three fold;

1) In the case of substandard performance to lead in construction manner to immediate corrective action.
2) In case of out standing performance to recognize it and perhaps provide for a transfer of knowledge to similar operations.
3) To provide a basis for better planning control in the future.

2.6 Budgeting: As a Tool of Profit Planning

Budgeting is an expression of a firms plan in financial from for a period of time in future; it is an estimate of future needs calculated for a definition period. In anticipates income for a given period and costs as well as expenses of obtaining this income are set or limited with in the ideas of earning a desired profit or an aid in controlling losses. A business budget is a plan covering all phases of operation for a definite period in future. It is a formal expression of policies, plans. Objectives and goals laid down in advance by top management for the. Undertaking as a whole and every sub division there of. Budgeting, as a tool of planning and control is closely related to the broader system of planning and control in an organization. Planning involves the specification of the basic objectives that will guide it. In operational terms, it involves the step of setting objectives specifying goals, formulating strategic and expressing budgets. A budget is a comprehensive and coordinated plan expressed in financial terms for, the operations and resources of an enterprise for some specified period in future. (Khans Jain; 1990:296)

A budget is a quantitative expression of a plan of action and an aid to coordination and implementation. Budget may be formulated for the organization as a whole or for any subunit. Budgeting includes sales, production, distribution and financial aspect of an organization. Budget program are designed to carryout a variety of functions, planning, evaluating performance, coordinating activities, implementing plans, communicating, motivating and authorizing actions. (Horn Green Charles T. 1976:123)

In summary, the budget involves the statement of plans. The coordination of these plans into well-balanced programmers and the constant watching of actual operation 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 forewords thinking is make on essential part of the business management care must be taken however not to fall in to the error of regarding the budget as an end in itself. It is a means to ends. It is not a method of business management but an aid to clear thinking and its fundamental object is to enable considered intention to be substitute for opportunism in management.

2.7 Process of Profit Planning and Control

The planning process should involve periodic, consistent, and in depth replanting so that all aspects of operations are carefully re-examined and reevaluated. This prevents a budget planning approach that involves only justification of increases over the prior period. The concept of re-evaluation and necessity to justify all aspects of the plans periodically finds its strongest support in what has been called zero-base budgeting. There are following steps in profit planning process which are:

2.7.1 Identification and Evaluation of External Variable

The variable identification phase of the profit planning and control process focuses a identifying and evaluating the effects of the external 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 how to manipulate the controllable variables. Moreover, there must be managerial variables. Moreover, there must be managerial planning of how to work with the non-controllable variables. That is for both kinds of variables, how can management take advantage of potential favorable impacts and minimize potential unfavorable impacts or the enterprise? By relevant variables we mean those that will have a direct and significance impact on the enterprise. For a large business with a national market. The relevant variables would be broad in scope, whereas a small business would be concerned primarily with regional and local variables operating within the narrow environment of the enterprise. Analysis and evaluation of environmental variables must be a continuing concern of management. This activity should involve all executive managers, who in turn should expect various staff groups to provide data and recommendations.

A particularly significant phase of this analysis includes an evaluation of the present strength and weakness of the enterprises planning must necessarily start with an objective and realistic understanding of the present status of products, services, markets, profits and returns on investments, cash flow, availability of capital, productive capabilities and the competence of both management and non-management personnel. This aspect of the planning process is usually difficult for most management's because deficiencies and inefficiencies are frequently difficult to identify and evaluate objectively by those directly involved. The comprehensive PPC approach is based on the expectation that these significant aspects of operations will be critically analyzed and evaluated periodically and in an orderly manner. In many companies, outside, independent assistance is almost essential to such an assessment. In this assessment and evaluation, present strength and weaknesses should be classified between short-term and long-term potentials. For example, production capacity problems and the efficiency of certain groups of employees may be subject only to long- term resolutions, whereas defective products may respond to short-term efforts. The better managed companies have found that periodic assessment of strength and weakness is a much more effective policy than one that states: "we will assess our strengths and weakness on a day-to-day basis as events are occurring.

2.7.2 Development of the Broad Objectives of the Enterprise

Development of the broad objectives of the enterprise is a responsibility of executive management. Based on a realistic evaluation of the relevant variables and an assessment of the strengths and weaknesses of the organization, executive management can specify or restate this phase of the PPC process.

The statement of broad objectives should express the mission, vision, and ethical character of the enterprise. Its purpose is to provide enterprise identity, continuity of purpose, and definition. One research study listed the purposes of the statement essentially as follows:

1. To Define the purpose of the company (to state exactly why the company is in business)
2. To clarify the philosophy-character of the company (to state the moral and ethical principles that guide actions).
3. To create a particular "climate" within the business.
4. To set down a guide managers so that the decisions they make will reflect that best interests of the business with fairness and justice to those concerned.

The statement of broad objectives normally should not specify quantitative goals. Rather, it should be a narrative expression of the purpose, objectives, and philosophical character of the business. It should represent the basic foundation or building block upon which to develop and positively reinforce pride in the company by management. Other employees, owners, customers, and other enterprises that have commercial contacts with it. It should be designed for wide dissemination and should be believable which mean that in the long run the company's actions must be in harmony with statement.

2.7.3 Development of Specific Goals for the Enterprise

The purpose of the 'goals phase' of the PPC process is to bring the statement of broad objectives into sharper focus and to move from the realm of general information to more specific planning information. It provides both narrative and quantitative goals that are definite and measurable. These are specific goals that relate to the enterprise as a whole and to the major responsibility centers. These goals should be developed by executive management as the second component of the substantive plan for the upcoming budget year. Executive management should exercise leadership in this planning phase so that there will be a realistic and clearly articulated framework within which operations will be conduct toward common goals. Moreover, specific goals provide a basis for performance measurement.

These broad, but specific, goals must be developed for both the strategic long-range plans and the tactical short-range plans. This statement of specific enterprise goals should define such operational goals as expansion or contraction of product and service lines, geographic areas, share of the market by major product service lines, growth trends, production goals, profit margins, return on investment, and cash-flow.` These specific goals in large measure are qualified and specified for each major subdivision of the enterprise. They are measurable for the areas of operation that are critical to long-run success of the enterprise. They must represent realistic goals as opposed to more hopes or guesses.

2.7.4. Development and Evaluation of Enterprise Strategic

Company strategies are the basic thrusts ways r and tactics that will be used to attain planned objectives and goals. A particular strategy may be short-term or long-term. Here are same actual examples of basic strategies:

1. Increase long-term market penetration by using technology to develop new products and improve current products.
2. Emphasize product quality and price for the top of the market.
3. Expand marketing to all states in the USA the company will not entire foreign markets in the foreseeable future.
4. Market with low price to expand volume.

5. Use both institutional and local advertising programs to build market share.
6. Improve employee morale and productivity by initiating a behavior management program.

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 'how'; therefore, they outline a plan of action for the enterprise. Executive management must be creative and directly involved in the development of new strategies and the adaptation of currently on going strategies in harmony with the relevant variables with which management must cane. In the development of basic strategies for the enterprise, executive management must focus an influence the long-range success of the enterprise.

Although strategy formulation is of continual concern to executive management, better-managed companies have found that periodic reassessment of the strategies is essential in light of a careful analysis of all relevant variables and their probable future impact on the enterprise.

2.7.5. Executive Management Planning Instruction

This phase involves communication of the substantive plan to middle and lower-management levels. It explains the broad objectives enterprise goals, enterprise strategies, and any other executive management instruction needed to develop the strategic and tactical profit plans. It also is called the statement of planning premises.

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

2.7.6. Preparation and Evaluation of Project Plans

Periodic plans and project plans are different in nature and function. Project plan encompass variable time horizons, because each project has a unique time dimension. Project plans encompass such items as plans for improvement of present products new and-expanded physical facilities, entrance into new industries, exit from products and industries, new technology, and other major activities that can be separately identified for planning purposes. The nature of projects is such that they must be planned as separate units. In planning for a project, the time span considered must normally be the anticipated life span of the project. Projects approved must then be timed into the strategic and tactical profit plans. In addition to any on going projects, management should encourage on a continuing basis project proposals from any sources within the, enterprise. Consistent with this approach, during the formal planning cycle, management must evaluate and decide upon the plan status of each project in process and select any new projects to be initiated during time dimension covered by the upcoming strategic and tactical profit plans. Although this phase w as shown sequentially. W e do not suggest in this instance nor with respect to the other phases for that matter-that it is only a once-a-year management concern.

2.7.7. Development and Approval of Strategic and Tactical Profit Plans

When the managers of the various responsibility centers in the enterprise receive the executive management planning instructions and the project plans, they can begin intensive activities to develop their respective strategic and tactical profit plans. It is possible that executive management or the chief financial executive will develop the strategic and tactical profit plans. This approach is seldom advisable because it denies full participation in the planning process by middle managers. Lack of participation can cause unfavorable behavioral effects.

Assuming participatory planning and receipt of the executive management instructions, the manager of each responsibility center will immediately initiate activities within his or her responsibility center to develop a strategic long-range profit plan (say five years) and in harmony with the five year plan a tactical short range profit plan (one year). Certain format and procedural instructions should be provided by a centralized source, normally the financial function, to establish the general format, amount of detail, and other relevant procedural and format requirements essential for aggregation of the plans of the responsibility centers into the overall profit plans. All of this activity must be coordinate among the centers in conformity with the organization structure. The development of a typical short-term profit plan for a non manufacturing company.

As the two profit plans a normal expectation would be that the head of each major responsibility center be scheduled to present to the executive management his or her plans and underlying justifications.

When the strategic long range and tactical short range plans for the overall enterprise are completed executive management should subject the entire planning package to a careful analysis and evaluation to determine whether the overall plans are the most realistic set that can be developed under the circumstances, when this point is reached, the two profit plans should be formally approved by the top executive and distributed to the appropriate managers.

2.7.8. Implementation of Profit Plans:

Implementation of management plans that have been developed and approved in the planning process involves the management function of leading subordinates in attaining enterprise objectives and goals. Thus, effective management at all levels requires that enterprise objectives, goals, strategies and policies be communicated and understood by subordinates. There are many facets involved in management leadership. However, a comprehensive profit planning and control program may aid substantially in performing this function. Plans, strategies, and policies developed through significant participation establish the foundation for effective communication. Preceding discussion emphasized that objectives and goals should be realistic and attainable; yet they should present a real challenge to the overall enterprise and to each responsibility center. The plan should have been developed with the managerial conviction that they are going to be met or exceeded in all major respects.

Distribution of the profit plans within the enterprise was mentioned in a previous paragraph. It is desirable that the distribution of the profit plan include a statement of planning premises from the top executive that emphasizes performance, challenge, and -positive motivation. After distribution of the profit plans, a series of profit plan conferences should be scheduled. Under this plan, the chief executive officer should initially meet with the other top executives to discuss implementation and action in conformance with the objectives and goals specified in the profit plans. Similar conferences should be conducted until all major responsibility centers are reached. These conference are intended to build profit consciousness, performance orientation, and aggressive, yet flexible, application of the plans to attain the objectives. There conferences also should cover the broader spectrum of the management process including positive reinforcement and other behavioral issues. The conferences also should emphasize aggressive action and flexibility in implementing the plans and the control process. Special emphasis should be devoted to the manner in which unanticipated events and problems will be handled at various management levels. Profit plans can not manage the business, and they must not constrain management in taking advantage of opportunities, even those not anticipated in the profit plans. (Welsch & Glena, 2006:84-85)

2.7.9. Use of Periodic Performance Reports

As a profit plans are being implemented during the period of time specified reports are needed. These performance reports are prepared by the accounting department on a monthly basis. Also, some special performance reports are prepared more often on an as needed basis. These performance reports are;

a) Compare actual performance with planned performance, and

b) Show each difference as a favorable or unfavorable performance variation.

A clear distinction must be made between internal and external financial reports. Internal reports can be further classified as:

a) Statistical reports that give the basic quantitative internal statistic about the operations of the enterprise;
b) Special managerial reports about nonrecurring and special problems; and
c) Periodic performance reports. The latter reports focus on dynamic and continuous control tailored to the assigned managerial responsibility. (Welsch; et. al. 1990:84-85)

2.7.10. Use of Flexible Expense Budgets

The flexible expense budget is also referred to as the variable budget sliding scale budget, expense control budget, and formula budget. The flexible budget concept applies only to expenses. It is completely separate from the profit plan, but it is used to complement it. Many company do not use flexible budget procedures. Other company integrate profit planning and flexible budget procedures.

Flexible, budgets give realistic information about expenses that make it possible to compute budget amounts for various output volumes or rates of activity in each responsibility center. To do this, the flexible budget provider a formula for each expense in each responsibility center. The formula gives the relationship of each expense to output in the center. Each formula includes a constant expense factors and a variable expense rate. Each expense must be classified in to one of three

1. Fixed expenses- Those that remain essentially constant in the short run, regardless of change in output or volume of activity.
2. Variable expenses- Those that very directly with changes in output.
3. Semi-variable expenses- Those that are neither fixed nor variable but have both a fixed and a variable component.

Flexible expenses budget formulas can be used in two phases of the P PC process. The formulas are used in performance control reports. They can also be used to develop expense. Its included in developing the tactical profit plan. It the flexible expense formulas are developed can currently with the strategic and-tactical profit plans; they are used to compute the budgeted expanse amounts in the tactical profit plan. This is done by multiplying the planned output or activity of each responsibility center by the related variable expenses rate for each center and then adding any fixed costs for the center. (Welsch & Glena, 1995:86-88)

2.7.11 Implementation of follow-up

Follow-up is an important part of effective control. Because performance reports are based on assigned responsibilities, they are the basis for effective follow-up actions. It is important to distinguish-between cause and effect. The performance variations are effects; the management must determine the underlying causes. The identification of causes is primarily a responsibility of line management. Analysis to determine the underlying causes of both favorable and unfavorable performance variances, after identifying the basic causes, a opposed to the results, an alternative for corrective action must be selected. Then the corrective action, must be implemented.

In the case of favorable performance variances, the underlying causes should also be identified. This case seldom requires corrective action. Rather, the underlying causes of favorable variances often provide valuable to the information for improving efficiency and for developing positive reinforcements to the less-successful operations and employees. This is called "transference of success".

Finally, there should be a special follow-up of the p for-follow-up actions. The step should be designed to (a) determine the effectiveness of prior corrective actions and (b) provide a basis for improving future planning and control procedures. (Welsch et.al, 1990:87-88)

2.8 Line and Staff Responsibilities Related to PPC

The chief executive has ultimate responsibility for PP However, there must be a concomitant assignment of responsibilities to line and staff executives. Each line executive must be assigned center, responsibility for (a) operational decision inputs into the plan, (b) implementation, and (c) control. The PPC program must be e6Lii fished upon a firm foundation of line responsibility and commitment to develop, implant and attain the role of each center in the enterprise objectives and goals. We cannot overemphasize that a profit planning and control program should be viewed as an approach to assist managers in line positions in carrying out their basic responsibilities. They should be view the plans as their own, and they must >ssvme full responsibility for attaining them.

In contrast, the for a PPC program include (a) designing and improving the system (b) supervising and coordinating the operation of the system, (c) providing export technical as assistance analysis, advice to the line managers, and (d) developing and distributing performance reports.

The chief financial officer should be assigned overall staff responsibility for the PPC program. Normally the financial function includes a budget director, or director of planning and control, who should be assigned the staff supervisory responsibility. In view of the importance of an effective PPC program, the position on the staff of the individual responsible for the program should be such that if will command attention and respect throughout the firm. It is advisable that the individual responsible for the PPC function report directly to the chief financial officer or, in the absence of such a position, directly to the top executive. The staff executives should not be assigned the responsibility for enforcing the budget. The typical staff duties of the budget director for a PPC program are as follows:

- Advise the chief executive, appropriate top-management committees, and other an all aspects of the PPC program.
- Recommend the PPC procedures and technical requirement for each component of the program
- Assume responsibility for organization of the program and the necessary time schedules to make it operative.
- Provide over all technical supervision of the PPC program.
- Design and recommend essential forms, schedules, and reports relevant to the PPC program.
- Supervise the preparation and revision of the PPC manual and other related materials for approval by the chief executive.
- Furnish analysis of past and future costs, revenues and so on as requested by appropriate managers.
- Translate certain preliminary policy decision into their probable or alternative financial effect on future operations.
- Prepare performance reports by responsibility center and by other relevant classifications.
- Help analyze and interpret variances between actual and planned goals.
- Perform specific clerical work associated with the PPC program.
- Supervise revision of both the profit plans and PPC program.
- Perform various statistical analyses that are related to the PPC Program.
- Receive tentative plans and transmit them to appropriate executive for review and revision.
- Organize, coordinate, and conduct appropriate training sessions and conferences related to the PPC program.

- Reproduce and distribute, in conformity with instructions of the chief executive, various components of the profit plans.

2.9 PPC Policies Manual

A profit planning and control manual is normally desirable to enhance communication, specify procedures, and provide reasonable stability in the operation of the system. A profit planning and control manual should include the following:

- A statement of objectives of the PPC program.
- Procedures to be followed in developing profit plans:
  a) Instruction and forms to be used.
  b) Procedures for making planning decisions:
     - Operating executives.
     - Staff executives.
     - Top-management budget committee.
- A PPC calendar that specifies completion dates for each part of t he profit plan and for the submission of reports.
- Distribution instructions for profit plan schedules.
- Instructions and procedures with respect to performance reports.
  c) Responsibility and procedures for preparation of reports:
     - Actual results.
     - Budgeted data and variations.
     - Analysis of variances.

b) Form, content of and procedures for performance reports.

- Procedures for taking corrective actions on variances:

a) Unfavorable variances.

b) Favorable variances.

- Follow-up and re-planning procedures,

2.9.1 Advantages of Profit Planning

Profit planning is the fundamental techniques of success of each and every organization. Following are the importance or profit planning.

- It forces early consideration of basic policies.
- It requires adequate and sound organization structure; that is, there must be a definite assignment of responsibility for each function of the enterprise.
- It compels all members of management from the top down, to participate in the establishment of goals and plans.
- It compels departmental managers to make plans in harmony with the plans of other departments and of the entire enterprise.
- It requires the management put down in figures what is necessary for satisfactory performance.
- It requires adequate and appropriate historical accounting data.
- It compels management to plan for the most economical use of labor, material and capital.
- It instills at all levels of management the habit of timely, careful, and adequate consideration of the relevant factors before reaching important decisions.
- It reduces cost by increasing the span of control because fewer supervisors are needed
- It forces executives from many day to day internal problems through predetermined policies and clear-cut authority relationships. It these by provides more executive time for planning and creative thinking.
- It tends to remove the cloud of uncertainty the exists in many organization, especially among lower levels of management,
- It pinpoints efficiency and inefficiency.
- It promotes understanding among members of management of their co-workers problems.
- It forces management to give adequate attention to the effect of general business conditions.

- It forces a periodic self-analysis of the company.
- It aids in obtaining bank credit; banks commonly require a projection of future operations and cash flows to support large loans.
- It checks progress or lack of progress towards the objectives of the enterprise.
- It force recognition and corrective action.
- It rewards high performance and seeks to correct unfavorable performance.
- It forces management to consider ' expected future trends and condition

2.9.2 Limitation of Profit Planning

The following main limitations are usually given against profit planning and control:

- It is difficult of not impossible to estimate revenues and expenses in our company realistically.
- Our management has no interest in all the estimates and schedules. Our strictly informal system is better and works well.
- It is not realistic to write out and distribute our goals, policies, and guidelines to all the supervisors.
- Budgeting places to great a demand on management- time, specially to revise budgets constantly. Too much paper work is required.
- It takes away management flexibility.
- It creates all kinds of behavioral problems.
- It places the management in a straitjacket.
- It adds a level of complexity that is not needed.
- It is too costly, a side from management time.
- The managers, supervisors, and other employees hate budgets.

2.10 Development of Profit Planning

Generally, two types of plans are generated for long range objectives strategic profit plans are developed and tactical short range objective profit plans are developed. The types of profit plans depended upon the nature of business entity. Generally for a manufacturing enterprise following plans are prepared.

a) Sales plan or budget.

b) Production plan or budget.

c) Material and purchase plan or budget

d) Direct labour cost plan or budget.

e) Planning of expenses.

f) Planning of capital expenditure.

g) Planning of cash flows.

h) Flexible expense budget

i) Purchase plan or budget

2.10.1 Sales Plan or Budget

Sales budget is the starting point on which other budget are also based. All other budget such as production budget, purchase budget, operating budget and soon, are effected by sales budget. So it is known as nerve center or backbone of the enterprises.

The sales budget is usually presented both in units and dollars of sales revenue sales volume. The preparation of sales plan is base upon the sales forecasting. A variety of methods are used to forecast the sales for the planning period.

The sales plan should b e worked out on a sound and reasonably detailed basis. It should reflect seasonal influences and any anticipated irregularities in sales. It should be broken down not only in to time periods but also in to geographical or responsibility areas by the use of sales quotas. A well developed sales plan is generally built upon a quota basis in the first place. So that the double check by individual quota on total plan is inherent in the building. In a multi-plant situation, where there is a choice of manufacturing product items in more than one plant, the geographical distribution of sales is of special importance for production planning. Adequate sales planning is basic fundamental to profit planning program. The sales planning process is a necessary part of PPC because (I) it provides for the basic management decisions about marketing, and (ii) based on those decisions; it is an organized approach for developing a comprehensive sales plan. If the sales plan is not realistic, most if not all of other parts of the overall profit plan also are not realistic. Therefore, if the management believes that a realistic sales plan can not be developed, there is little justification for PPC. Despite the view of particular management, such a conclusion may be an implicit admission of incompetence. Simply, if it is really impossible to assess the, future revenue potential of a business, there- would be little incentive for investment in the business initially or for continuation of it except for purely speculative ventures that most managers and investors prefer to avoid.

A comprehensive sales plan includes two separate, but related, plans the strategic and tactical sales plans. A comprehensive sales plan incorporates such management decision as objectives, goals, strategies, and premises. The translate into planning decisions about planned volume of goods and services, price, promotion and selling efforts. The primary purpose of sales plans are:

i. To reduce uncertainty about future revenue.
ii. To incorporate management judgments and decisions in to the planning process (e.g. in the marketing plans).
iii. To provide necessary information for developing other elements of a comprehensive profit plan, and
iv. To facilitate management's control of sales activities.

2.10.2 Sales Planning and Forecasting

Sales planning and forecasting often are confused. Although related, they have distinctly different purpose. A forecast is not a plan; rather it is a statement and or a quantified assessment of future conditions about a particular subject based on one or more explicit assumptions. A forecast should always state the assumptions upon which it is based. A forecast should be viewed as only one input into the development of a sales plan. The management of a company may accept, modify, or reject the forecast. In contrast, a sales plan incorporates management decisions that are based on the forecast, other inputs, and management judgments about such related items as sales volume, prices, sales efforts, production and financing.

A sales forecast is converted to a sales plan when management has brought to bear management judgment, planned strategies, commitments of resources and the managerial commitment to aggressive actions to attain the sales goals, In contrast, sales forecasting is a technical staff function.

It is important to make a distinction between the sales forecasts and the sales plan primary because, the internal technical staff should not be expected or permitted to make the fundamental management decisions and judgments implicit in every sales plan. Moreover, the influence of management actions on sales potentials is difficult to quantify for sales, forecasting. Therefore, the elements of management) experience and judgment must hold the sales plan. Another reason for dentifying s ales forecasting as only one step in sales planning is t hat s ales forecasts are conditional. They normally must be prepared prior to management decision or plans such areas as plant expansion, price changes, promotional programs production scheduling, expansion or contraction of marketing activities, and other resource commitments.

The confusion between forecasting and planning was emphasized by one author as follows;

When the leader of an organization says that he would like a forecast, what he often means is that he wants a plan. He wants to make something happen, and he uses this plan as target for people in his organization. (Welsch; et.al. 1990:171-172)

2.10.3 Strategic and Tactical Sales Plan:

In harmony with a comprehensive profit plan, both strategic long-term and tactical short-term sales plans must be developed. A strategic sales plan may cover the time span of five or ten years in the usual case and the tactical sales plan will cover the time span of one year.

Sometimes it may be helpful to view the development of the long- range and short-range sales plans as separate activities. However, they must be integrated because the short-range sales plan should dovetail with the strategic long range plan in all major respects.

2.10.3.1 Strategic Sales Plan

As a practical approach a company may schedule completion of the strategic long-term sales plan as one of the first steps in the overall planning process. Long-term sales plans are usually developed as annual amounts. The long-term sales plan uses broad groupings of products with separates consideration of major and new product and services. Long-term sales plans usually involve in depth analysis of future market potentials, which may be built up from a basic foundation such as population changes, state of the economy, industry projections, and finally company objectives. Long-term managerial strategies would affect such areas as long-term pricing policy, development of new products and innovations of present products, new directions in marketing efforts, expansion or changes in distribution channels, and cost patterns.

The influence of managerial strategy decisions is explicitly brought to bear on the long-term sales plan primarily on a judgmental basis.

2.10.3.2 Tactical Sales Plan

A common approach used for short time horizons in a company is to plan sales for twelve months into the future, detailing the plan initially by quarters and by months for the first quarter. At the end of each months or quarter throughout the year, the sales plan is restudied and revised by adding a period in the future and by dropping the period just ended. Thus, tactical sales plans are usually subject to review and revision on a quarterly basis. The short-term s ales plan includes a detailed plan for each major product and for groupings of minor product. Short-term sales plans are usually developed in terms of physical units and in sales or service dollars. Short-term sales plans must also be structured by marketing responsibility (e.g. by sales districts) for planning and control purposes. Short-term sales plans may involve the application of technical analysis; however managerial, judgment plays a large past in their determination.

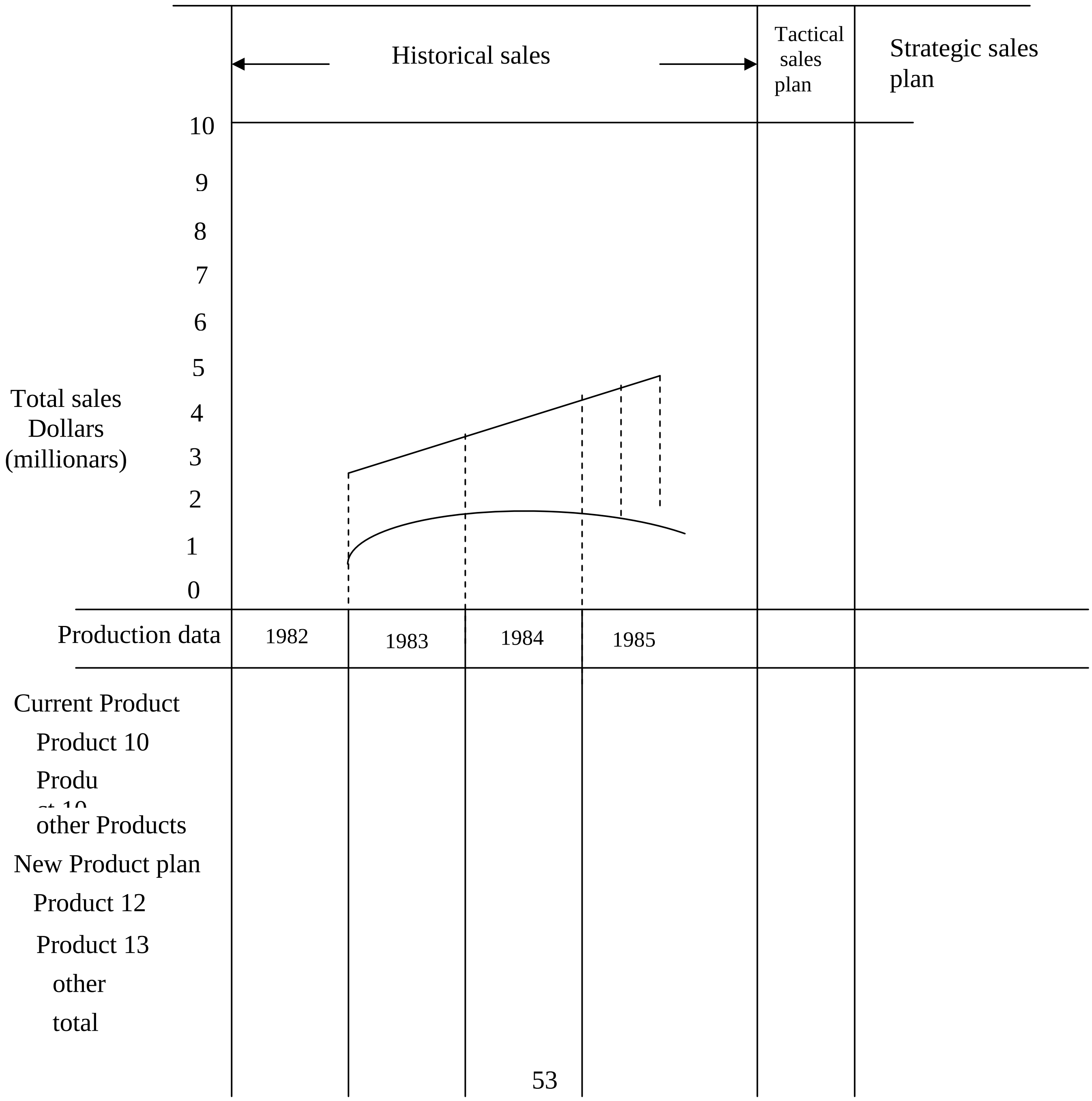
The amount of detail in a tactical sales plan is a function of the company's environment and characteristics. A short range sales plan whereas a long-range plan should be in broad terms.

2.10.4 Components of Comprehensive Sales Plan

S.N.	Component	Strategic plan	Tactical Plan
1	Management politics and assumption	Broad and general	Detailed and specific for the year
2	Marketing plan sales and services revenue.	Annual amounts; major groups.	Detailed by product and responsibility
3	Advertising and promotion plan.	general by year	Detailed and specific for the year.
4	Distribution (selling) expense plan	Total fixed and total variable expenses by year.	Fixed and variable expenses; by month and by responsibility.

Figure No.

Strategic and Sales Plan



2.10.5 Developing a Comprehensive Sales Plan

Step 1 - Develop management guide lines for sales planning.

Step 2 - Prepare sales forecast.

Step 3 - Assemble other relevant data:

- Manufacturing capacity.
- Sources of raw materials and supplies.
- Availability of key people and labour force.
- Capital availability
- Availability of alternative distribution channels.

Step 4 - Develop the strategic and tactical sales plans

Step 5 - Consideration of alternatives.

Step 6 - Developing pricing policies.

Step 7 - Developing product line consideration.

Step 8 - Price cost volume consideration.

2.10.6 Performance Report

Attainment of the planned profit is vital since management has to devote considerable time and effort to develop this. Evaluation of effectiveness and efficiency of plans operations and performance are the essential fields of managerial activities: control is the process of obtaining conformity of actual performance with planned cause of action. Planning is incomplete if co system for control is developed. Evaluating of performance and reporting it to concerned authorities are necessary aspects of comprehensive planning and control program.

Performance reporting for internal management use is an important part of a comprehensive profit planning and control system. Performance reports are usually prepared on monthly basis and follow a standardized format from period to period. Such reports are designed to facilitate internal control by the management. Performance reports report actual results compared with goals and budget plans. Such reports ar edesigned to pin point both efficient and inefficient performance. The efficiency of management at attaining the desired results depends by large on the information it receives. Performance reports act as an important tool to provide necessary information as it reports the performance of every responsibility center. The main objectives of such reports are the communication of performance measurements, actual results and the related variances. The performance to budget report is the management report that erects the operating manager's effort to live within and beat his budgets allowances. Performance reports should be prepared by considering the following criteria.

- I ailored to the organizational structure and locus of controllability (that is by responsibility centers).
- Designed to implement the management by exception principle.
- Repetitive and related to short time periods.
- Adapted to the requirements of the primary users.
- Simple understandable and report only essential information.
- Accurate and designed to pinpoint significant distinctions.
- Prepared and presented promptly.
- Constructive in time.

Performance report must be helpful to distinguish clearly between controllable and non-controllable item. The actual results are compared with plans, objectives and standards and the management analyzes the differences. Careful attention should be given on format while designing the performance report. Title and headings should be descriptive. Column headings and side captins should clearly identify the data and technical jargon should be avoided. it should cot be too long and complex. Tabulations and con-essential data should be avoided. Report should be relevant.

Another important aspect of performance report is to minimize the time gap between the decision and report. The company has to suffer a great loss if an unfavorable situation arises before correction. Management follow up procedures are also equally important. As the report indicates the favorable and unfavorable variance between planned and actual performance, immediate correction should be made. Follow up procedures should analyze both satisfactory and unsatisfactory condi9tions and correcting decisions should be made.

The main purpose of performance reports is to show variances. Such variances should be expressed in amounts as well as a percentage of the planned or budgeted amount. Statistical control units should also be developed to determine the significance of variances. Monthly performance report should show the performance for the period being reported and cumulative variances to date such reports are usually prepared for each responsibility center.

2.11 Analysis of Budget Variances

Variance is the deviation between budgeted or planned goals and actual results. As performance report shows variances; the next step is to analyze such variances and to determine the underlying causes for managerial planni9ng and control purposes. Variance analysis is the determination of the reasons for a reported variance whether favorable or unfavorable. The difference between standard cost and actual cost is variance.

It is the basic feature of performance report to indicate the variances between actual results and planned or budget goals. If a variance is significant, a careful management study should be made to determine the underlying causes. There are numerous ways to study or investigate variances to determine the underlying causes. Some of the primary approaches are the following:

Specimen of performance report

Controllable items	Activity Base	Budgeted Figure	Actual figure	Variance		Remark (f)
				Figure	%	

- Conferences with responsibility center managers and supervisors and other employees in the particular responsibility center involved.
- Analysis of the work situation including the flow of work, coordination of activities, effectiveness of supervision and other prevailing circumstances.
- Direct observation.
- On the spot investigations by line managers.

- Internal Audits.
- Special studies.
- Investigations by staff groups.
- Variance Analysis.

Variance analysis involves a mathematical analysis of two sets of data in order to gain insight into the underlying causes of a variance. One amount is treated as the base.

- Raw material variance
- labor Variance
- Overhead Variance
- Sales Variance
- Profit Variance
- For analysis the variance, following steps are followed:
- Setting standards
- Measurement of performance
- analyzing variances
- Taking corrective action.

Variances are to be broadly categorized as favorable and unfavorable and further as controllable and non controllable. If unfavorable variances occurs due to controllable causes, then the concerned managers authority or budget center should be made accountable for it.

2.12 Revenue Planning

As one of the UK's top training and consulting organizations in the field of sales management, Sales academy needed a sales forecasting system that satisfied two very different vet complement needs.

Firstly, as a rapidly growing company in its own right, it needed a sales forecasting system that provide real-time access from anywhere in the world, with simple data entry yet with a variety of management reports. The system had to be able to forecast, cash and recognized revenue, while ensuring total compliance with GAAP requirements.

Secondly, it needed a system that exactly supported the world-class sales techniques that the company promotes on its training courses, so that the training messages' could be reinforced and demonstrated easily and effectively («ww.magmas.com).

The revenue planning process is a necessary part of PPC because (a) it provides for the basic management decisions about marketing, an (b) based on these decisions; it is an organized approach for developing a comprehensive sales plan. It the revenue plan is not realistic, most if not all of the other parts of the overall profit plan also are not realistic.

"Revenue results from the sale of good and rendering of services and is measured by the charge made to customers, client or tenants for goods and services furnished to them. It also includes gains from the sale or exchange of assets other than stock in trade, interest, and dividends earned on investments and other increases in the owner's equity except those arising from capital contributions and capital adjustments. Revenue from ordinary sales or from other transaction in the ordinary course of business is some times described as operating revenue " (Bhattacharya & Dearden, 1980:137).

The revenue plan should be designed to coordinate the efforts of the sales department, production department and all other departments. Many factors must be considered when sales budget is established, including sales trends, limitations on the supply of merchandise or the competing products, the expected amount of advertising, and general level of the economy, Since most of these unknown companies frequently maintain a specially trained staff to increase them (Seiler, 1964:659-660).

"The logical starting point in developing the revenue planning is the estimates of sales. It does not follow, however, that the revenue estimation can be considered in isolation or that once the revenue estimates has been computed, the other elements of revenue and expenses will fall into place. There is circular relationship between sales and some expenses, - In fact the level or amount of certain expenses my have a considerable influence on the revenue. For example: the relationship between advertising and sales" (Finney & Miller; 1963:389).

"The Factors influencing the level of revenues may be classified as internal and external" (Varma & Agrawal; 1996:329-330).

1. Internal factors

These include promotional aids, such as advertising, incentives to sales man, ability of the organization to satisfy demand, quantity of the finished product, changes in price etc.

2. External factors

These include the fluctuations in the size of population, the general level of prosperity, the extent and severity of completion in the market, government policy and regulation, Changes in fashion and tastes, degree of competition expected from new product. etc. Elasticity of demand for the is of oblivious importance if prices are expected to undergo a change.

There are several transactions for planning costs and revenue for appropriation request variants. We can use:

1. A separate planning transaction that corresponds to the planning transaction for orders.

2. A function within the master data change transaction for appropriation requests, on the screen for appropriation request variants. On the costs side, we can plan combined costs and investment costs. Investment costs are a portion of combined costs The system determines cash flow as the difference between revenue and combined costs. It displays the cash flow in the planning function of the master data change transaction. In addition to overall values, we can enter annual values for combined costs, investment costs and revenue. The overall value is the value that is expected for the appropriation request as a whole, the overall value includes all of the annual values. The total of the annual values can, at the most, be the same as the overall value; but the total of the annual values can also be less than the overall value (www.pocession.com).

2.12.1 Preparation of Revenue planning

A planner should be completed the following steps for planning the revenue. They are as follows" (Welseh, Hilton & Gordon; 1999:176-182).

Step-1 Develop Management Guidelines for Revenue planning

All management Particular in the sales planning process should be provided the specific management guidelines to be followed in revenue planning. Fundamentally, these guidelines should specify revenue-planning responsibilities. The purpose of these guidelines is to attain coordination and uniformity in the revenues planning process. The guidelines should emphasize enterprise objective, goats. and sales strategies. The guideline also should direct attention to such areas as product emphasis, general pricing policies, major marketing strategies, and competitive position.

Step-2 prepare sale forecast

One or more sales forecasts should be prepared. Each separate forecast should use different assumptions, which should be clearly explained in the forecast. The management guidelines should provide the broad assumptions. Forecasting methods are broadly classified as (a) quantitative, (b) technological, and c) judgmental. These forecasting methods include time-series smoothing, decomposition for time series, advanced time series, simple & multiple regression, and modeling. The forecasts should include strategic and tactical forecasts that are consistent with the time dimensions.

Step-3 Assemble other Relevant Data

In addition to step-1 and step-2, all other information relevant to developing a realistic revenue plan should be collected and evaluated. This information should, relate to both constraints and opportunities. the primary constraints that should be evaluated are; (a)manufacturing capacity,(b) sources of raw materials and supplies, or goods for resale, (c) availability of key people and a labour force, (d) capital availability, and (e) availability of alternative distribution channels. These five: factors require evaluation and coordination among the heads of the various functional areas in developing a realistic revenue plan.

Step-4 Develop the strategic and Tactical sales

Using the information provided in step 1,2,&3, the management develops a comprehensive revenue plan to do this, the planning process must be structured to maximize(a)motivation of the sales force, and (b)realism in the revenue plan. These process should recognize the importance of management goals-both strategic and tactical. The process of developing a realistic revenue plan should be unique to each company because of the company's characteristic's its products, its distribution channels, and the competence of its marketing group. Four different participative approaches widely used are characterized as follows; (1) sale force composite, (2)sales division manager's composite, (3)executive decision, and Statistical approaches.

Step-5 Securing managerial commitment to attain the goals in the comprehensive revenue plans

Top management must be fully committed to attaining the sales goals that are specified in the approve revenue plan. This commitment requires full communication to the sales manager of the goals: approve marketing plan, and strategies by sales responsibilities. The commitment must be strong and ever present in day-to-day operations.

2.13 Analysis of Cost Volume Profit Variables

2.13.1 Sales Plan

Sales planning process is a necessary part of PPC because a) it provides for the basic management decisions about marketing and base on those decisions, it is an organize approach for developing a comprehensive sales plan. If the sales plan is not realistic most if not all, of the other parts of the overall profit plan also are not realistic. Therefore, if the management believes that a realistic, sales plan can not be developed, there is little justification for PPC, and, despite the views of a particular management, such a conclusion may be an implicit, admission of incompetence. Simply, if it is really impossible to assess the future revenue potential of a business, there would be little incentive for investment in the business initially or for continuation of it except for purely speculative ventures that most managers and investors prefer to avoid.

A comprehensive sales plan includes separating, but related, plans — the strategic and the tactical sales plans. A comprehensive sales plan incorporates such management decisions as objectives goals, strategies and premises. These translate into planning decisions about planned volume (units or jobs) of goods and services, prices, promotion, and selling efforts.

The primary purposes of a sales plan are (a) to reduce uncertainty about future revenues, (b) to incorporate management judgments and decisions into the planning process (e.g. in the marketing plans) (c) to provide necessary information for developing other elements of a comprehensive profit plan, and (d) to facilitate management's control of sales activities. (Welsch, Hilton & Gordon; 1999:171-172)

2.13.2 Cost Plan

Generally cost plan refers to the plan for variable costs, fixed costs mixed costs and jumped cost.

Variable Cost is that cost which is directly affected by change in the activities its level. If the activity level or production level increases, then the variable cost also increases and vice versa if decreases. Change in variable cost effects to PV ratio. BEP and net income. When variable cost increase: Net income P/V ratio and margin of Safety will be decrease but it helps to increase BEP.

Fixed cost remains constant in total amount despite the changes in the level of activities. That is the fixed cost remains unchanged in .total as the activity le% el various. When other factors remain unchanged, the changes in fixed costs effect to BEP and net income. When increases the fixed cost: increase the volume of BEP and decrease the Net Income or vice-versa. Fixed costs are also called capacity cost.

Expenditures that cannot be categorized as purely fixed or variables is termed as mixed cost or semi-variable cost. Mixed cost contains both variable and fixed cost elements.

Repair and maintenance, supervision, telephone cost; electricity charge are some example of mixed costs. It should be operated from the variable and fixed cost elements as the function of profit planning, cost control and decision making.

Some costs remain fixed over a wide range of activity-, but jump to a different amount or activity levels outside that range. Such costs are called jumping costs or step fixed jumping cost or fixed cost or ladder fixed costs.

2.13.3 Cost-Volume-Profit Analysis: A Tool of Profit Planning and Control

Cost-volume-profit (CVP) analysis examines the behaviour of total revenues, total cost and operating income as changes occur in the output level- the selling price, the able cost per unit and/or fixed costs of a product (Hormgreen, Datar and Foster; 2003:232).

Cost-volume-profit analysis is a systematic method of examining the relationship between changes in activity (i.e. output) and changes in total sales revenue, expenses and net profit. As a model of their relationships CVP analysis simplifies the real world conditions that a firm will face. Like most models; which are abstractions from reality, CVP analysis is subject to a number of underlying assumptions and limitations. Nevertheless, it is a powerful tool for decision making in certain situations (Drury; 2000:198)

Most of the business fails after a few years, sometimes months of starting because they tend to do anything for volume without thinking how it's going to affect bottom line.

Cost-volume-profit analysis is a management accounting tool to show the relation between the elements of profit planning. Profit planning is the function of the selling price product, demand, variable costs, fixed costs, taxes etc. The whole picture of profit planning with cost-volume-profit interrelationships. (Bajracharya, Ojha, Goet and Sharma: 2004:225).

CVP analysis is an important media through which is the management can have an insight into effects on profit on account of variation .n cost and sales and take appropriate decisions. Profit planning can be done only when the management has the information about the cost of the product & the selling price of the product.

The key motive of business enterprise is to make and maximize profit. Profit does not happen by chance. It is to be managed. CVP is a supplementary tool of panning of profit. It is immensely helpful for developing alternative strategies, sales planning and cost estimation. CVP is an accounting technique showing the relationship between the above mentioned variables. This technique is equally important in profit making and non-profit making organization.

Cost volume profit analysis is a management accounting tool to show the relationship between the ingredients of profit planning. Profit planning is the function of selling price of the product, the variable costs and the volume to be sold. The entire scope of profit planning associated with CVP interrelationships. A wisely used technique to study CNTP relationship is break even analysis. Breakeven analysis is concerned with the study of revenues and costs in relation to sales at which the firm's revenue and total costs will be exactly equal (or net income is zero). Thus the break-even-point (BEP) may be defined a point at which the firm's total revenues are exactly equal to total costs, yielding zero income. The 'no profit' 'no loss' s a break even point or a point at which losses cease and profit begins (Khan & Jain, 2000:156).

Cost volume profit analysis can be regarded as a sophisticated method or analytical tool used in management. It is extremely useful in profit planning and control, management decision, cost control, budgeting etc.

2.13.4 Purpose of CVP analysis

Cost volume profit analysis helps management in a number of ways. The following purposes are served by it (Dangol; 2004:432)

i. Calculation of profit resulting from a budgeted sales volume.

ii. Calculation of sales volume to break-even.

iii. Calculation of sales volume to produce desired profit.

iv. Effect or changes on price, costs and profits.

v. Determination of new break-even point for changes in cost and selling price.

vi. Measurement of effect of changes in profit factors.

vii. Choosing the most profitable alternatives.

viii. Determining the optimum sales mix.

ix. Determination of capacity and equipment selection.

x. Long term decision on continuance of products.

xi. Make or buy decisions on sub-assemble or part.

xii. To contemplate the increase or decrease in profits due to the change in method's production, etc.

2.13.5 Application of CVP analysis in profit planning and control

Cost-volume-profit analysis is an important tool for profit planning. It has been defined as a managerial tool showing the relationship among cost selling price, profit and volume of activity. CVP analysis can be applied in the following respects (Dangol; 2004:433).

a) It helps in fixation of selling price.

b) It is helpful in cost control

c) It also assists the management in understanding the behaviors of cost and helps in budgetary control.

d) It helps in determining the level or output where all the costs can be met.

e) It assists the management in profit planning.

f) It also assists the management in performance evaluation for the purpose of management control.

g) It helps very much making managerial decisions such as make or buy a plan drop or continue a department or product-line accept or reject a special order selection of a profitable product mix etc.

2.13.6 Approaches to cost-volume-profit analysis

The CVP relationships can be analyzed through different approaches which are:

i. Contribution margin approach.

ii. Formula (equation) approach.

iii. The graphic (break even chart) approach.

2.13.6.1 Application of Break-even Analysis)

Break-even concept can be used of formulate different policies in a business enterprise. Some of these applications are (Maheshwari; 2000:182).

Determination of profit at different levels of sales and margin of safety

- To find the level of output to get the desired profit.
- Effect of price reduction on sales volume and changes in sales mix.
- Effect of fixed cost or variable cost changes on sales volume.
- Selection of most profitable alternative, make or buy decisions and drop and/or add decisions.

2.13.6.2 Assumptions of Break-even Analysis

Contribution analysis and break-even analysis are based on a specific set of assumptions that should be clearly understood. These underlying assumptions are (Maheshwari; 2000:182-183),

- All cost can be classified into two parts, fixed cost and variable cost. There is no
- Cost other than fixed and variable.
- There i-s a -relevant range of validity (activity) for using the results of the analysis and sales price does not change as units of sales change.
- There is only one product or in case of multiple products, the sales mix among the products remain constant.
- Basic management policy about operation will not change materially in. short run.
- The general price level (inflation/deflation) will remain essentially stable in the short run:"'
- Sales and production levels are synchronized, that is inventory remains essentially constant or zero.
- Efficiency and productivity per person will remains essentially unchanged in the sort run.

2.13.6.3 Limitations of Break-Even Analysis

Break-even analysis in many business situations can be used for effective decision making, but there are many short comings or limitations in its analysis and interpretation. Some of these can be listed as Maheshwar; 2000:184. The assumptions of producer's market phenomenon not hold good for all types commodities.

The fixed costs may not remain constant as well s she variable costs may not in fixed proportions at different levels of output. With variation in the prices of the items or sees which also depend on factors affecting its demand and supply will cero my affect the demand of commodity. This phenomenon is not covered in break-even analysis.

Identification of fixed and variable costs involved in production process is complicated shift product mix may change e break-even point. Customers may be given certain discount on purchase to promote sales. Revenue may not be perfectly variable with level of sales output.

2.14 Economic Characteristics of Cost-Volume-Profit Analysis

Where cost-volume-profit analysis are reasonably accurate, they can management decision making. Essentially, CVP analysis offers greater insight into the economic characteristics of a company and may be used to determine the approximate effect of various alternatives. CVP analysis is based on estimates, however, the arithmetic.

2.15 Assumptions Underlying CVP Analysis

Break-even Analysis is the most useful technique of profit planning and control. It is a device to explain the relationship between cost, volume and profit. The discussion of the CVP analysis (or break-even analysis)) so far is based on the following assumptions (Pancict; 1994:11)

Cost Segregation:- The total costs can be separated into fixed and variable components. Constant fixed cost is the total fixed cost that remains unchanged with changes in sales volume. Constant unit variable cost is the variable cost per unit is constant and total variable cost changes in direct proportion to the sales volume.

Constant Selling Price: - The selling price per unit remains the it does not change with volume or because of other factors.

Constant Sales Mix: - The firm manufactures only one product or if there multiple products, the sales mix does not change.

Synchronized Production and Sales: - Production and sales are synchronized that is, inventories remain the same.

2.16 Limitations of CVP analysis

Assumptions limit the utility and general applicability of the CVP analysis. Therefore, the analysis should recognize these limitations and adjust data. Wherever possible, to get meaningful results. The CVP analysis suffers from the following limitations (Panday, 1999:214)

- It is difficult to separate costs into fixed and variable components.

- It is not correct to assume that total fixed cost would remain unchanged of er the entire range of volume.
- It is difficult to use the break-even analysis for a multi product firm.
- The break-even analysis is a short run concept and has a limited use in long range planning.
- The break-even analysis is a static tool.

2. B Review of Previous Research Works

Mr. Pavajuli (1991) has tried to point out some feature and problems of profit planning in the context of Nepalese manufacturing it's in his research work. "A profit planning in manufacturing public enterprises in Nepal: with a special reference to Bansbari leather and shoe factory and Dairy development corporation" He has pointed out that the Bansbari leather and shoe factory and dairy development corporation were adopted profit planning on an unrealistic premise, which only promote irrational optimism and undue conversation. He concluded that sampled enterprises were making profit to some limited extent. He states that resources were found inefficiently utilized management was occupied by false perception that they are highly.

Mr. Dipendra Dhungana (2004) has tried to study about budgeting profit planning and control of Bnrikati pulp and paper Nepal Ltd. And he point out the following facts.

There is no fair and appropriate system of motivation to employees on the basis of their task performance.

- The company is suffering form excessive fixed cost and administrative expenses, let the enterprise is not going recently in correction process.
- Plans are formulated on ad-hoc basic.
- BPPM ltd correlation between actual and target sales is highly significant and positive, which indicates if targets are high achievement will also be high.
- BPPM Ltd has not a practice of systematic forecasting, sales forecasts are made in ad-hoc basic.
- Regression line about sales of BPPM Ltd is in positive trend.

- The relationship of material cost incurred and production unit is in aversely considering five years as study period.
- Company is shuddering from behaviouval problem.
- BPPM Ltd has great problem to competition with foreign product.
- CVP relationship are not considered while developing sales plan and pricing strategy.

Mr. Depandra Acharya (2002) has tried to highlight a research about profit planning in Nepal. For this research work, he has tried to point out some features and problems of manufacturing public enterprises they, where herbs production and processing company limited submitted to the faculty of management central department of management of TV in the course of partial fulfillment of the MBA. He has explored the data of 5 yrs from 2052/053 to 056/57. The data and after necessary information were collected by nsy secondary source of data.

The objective of Mr. Achary are as follows:

- To examine the present profit planning premises adopted by HPPCL.
- To asses the BEP analysis of HPPCL.
- To analysis the different between budgets and actual achieving of HPPCL
- To point out suitable suggestions and recommendation on the basis of his objectives, the following points have find founded:

Findings

- Lack of good skinned, trained and technical manpower.
- Lack of swot analysis.
- No practicing of variance and performance.
- Objectives of PEs are controversial not clear.
- Flanre in effectively implement the cost reduction programs.
- The company has not the practice of preparing overhead budget in classified and systematic way.
- There is no proper coordination between sales, inventories and production.

- HPPCL does not have systematic and scientific practice of formulating cash budget.
- As so on.

Recommendations

- Company should be develops carrier performance analysis by rewarding and punishment.
- The company should define its clear goal and targets should be fixed as goal set by the company. There must be balance between goal and targets.
- HPPCL should have in depth analysis of the company's Swot. It should try to overcome its weakness by using the strength.
- The company should prepare the detailed cash budget by showing all sources and uses of cash, which is necessary for the future cash planning.
- In the company should make separately overhead budget as manufacturing and non manufacturing.
- To eliminate red-tapism, unnecessary formulation should be corrected and avoided, which create delay in decision making and functioning.

The company should adcp comprehensive profit panning approach, Basic fundament's of profit planning should be considered while formulating and implementing the profit plans.

- Capital expenditure should be planed in detail for evaluation be applied.
- Role of budgets should be understood by every manager of the company.

Mr. Arjun Koirala (2058) has tried to study about budgeting profit planning and control of BPPM Ltd. And he point out the following facts on the basis of given below objects.

Objectives:

- To identify the sales/production efforts of the company.
- To analyze the different fictional budgets.

- To examine the various accounting ratios to measure the profitably and efficiency of the concern.
- To examine the practice and effectiveness of PP.
- To point out suitable suggestion and Recommendation.

Findings

- Actual sales and actual production of the study period is decreasing rend.
- The company is suffering from excessive fixed cost and administrative expenses but the enterprise is not going recently in correcting process.
- G.M Pvt. Ltd has not a practice of systematic forecasting sales forecasts are made on ad-hoc basis.
- Regression line about sales of G.M Pvt Ltd is in negative trend.
- G.N Pvt. Ltd has not effective programme to achieve desired and formulated goals and objectives and overcome the existing problem and challenges.
- CVP relation are not considered while developing the sales plan.
- The reporting and management informative system have not accepted and used for the purpose of controlling performance and this aspect has been further complicated due to the absence of any scientific criteria of standard to compare performance with.
- Nepalese manufacturing enterprise prepares plan on ab-hoc basis.

Recommendation

- Profit planning manuals should be communicated from top to lower levels. All personnel should be made to participate on decision making.
- Proper motivational programme and reward punishment system must be conducted.
- The company should have in depth analysis of the company's strength and weakness it job should try to overcome its weakness by using the strength.
- There must be opened separate profit planning unit and have to appoint profit planning director.

- To achieve company's goals.
- The company should formulated and follow a long term PPC and marketing strategies to increase sales volumes increase capacity. It will help the company to take maximum advantage of its fixed exercises like deprecation, interest, rent etc. Thus total cost PPR unit will go down because the fixed costs will be spread over more unite.

"Mr. Khagendra Prasad Ojha (1999) has tried to highlight a research about profit planning in Nepal. For this research work he has tried to point out some features and problem of two manufacturing public enterprises they where "Royal Drug Limited, and Herbs Production and Processing Company Limited submitted to the faculty of management central department of T.U. in the course of partial fulfillment of M.B.A. He has explored the data of 6 years from 2046/047 to 2051/052. The data and after necessary information, were collected by using secondary as well as primary sources of data. Mr. Ojha has pointed out his research with some finding, conclusion and recommendations.

Findings

1. The objectives of Nepalese public enterprise are not clear.
2. Nepalese public enterprise lack of budgeting experts and skilled lanners.
3. Failure due to inadequate forecasting system.
4. Lack of domestic, subsidiary industries in the area of harbal products drugs and pharmaceutical.
5. Lengthy bureaucratic process leading delays in decision making and planning.
6. Failure in achievement due to inadequate evaluation of internal and external variables.
7. No effect of market research for indigenous products.

Recommendations

1. Sales forecasting should a realistic basis.
2. System of periodical performance reports should be strictly followed to be conscious toward poor performance and to taken corrective action timely.

3. To eliminate red-tapism, unnecessary formalities should be corrected and avoided which creates delays in decision making fencing.
4. It seems necessary to develop implement and improve the process o f profit tanning from the very beginning to the end.
5. Price cost volume relationship should be taken into consideration while developing sales plan and pricing strategies.
6. Policy to finance the cash deficits and to utilize excess funds should be formulated.
7. A system approach to comprehensive profit planning should be adopted.

Mr. Prem Acharya, (2056) has submitted his research report on the topic of Herbs production and Processing Company Ltd. He has tried to examiner whether the HPPCL is applying PP system of the company. The study covered only five years period of time from F.Y. 2051/052 to 2054/055. He has submitted to the faculty of management central. Department of T.U. in the course of partial fulfillment of M.B.A.

Mr. Prem has pointed out his research some finding and recommendations.

Findings

1. Excessive fixed and variable cost.
2. Financial position of HPPCL is not good.
3. There is no systematic and effective cost control mechanism to reduce cost.
4. Pessimistic sales forecast.
5. Inadequate planning of profit due to Iack of skill planners.
6. More bureaucratic formalities of HMG of export business leading delay in exports.
7. Lack of clear-cut and result oriented objectives.

Recommendations

1. The company should be appointed right man in right job and MBO technique should be followed.

2. HPPCL should be try to reduce the investment in current assets to avoid idle working capital.
3. Role of budgets should be understood by every manager and responsibility centers of the company.
4. Company should be practice of analyzing the variance and performance report.
5. Classification of an expenses item as controllable and non-controllable must be made with an specific framework of responsibility and time. Make a clear-cut boundary to separate cost into fixed and variable. Fixed cost are specified as the production capacity. But variable cost are changed when the change in production volume exists.

Mr. Deepak Khadka, (2056) has pointed out the research about profit planning in manufacturing PEs. For his research work, he is highlight Herbs Production and Processing Company Ltd. that is submitted to the faculty of Management Central Department of T.U. in the course of partial fulfillment of MBA. He has explored the date of five year from F.Y. 2050/051 to 2054/055.

Mr. Khadka has pointed out his research some findings and recommendations.

Findings

1. There is role conflict, of coordination between departments and personnel.
2. The company has over staffing problems a huge amount per year spent on the staffs.
3. No proper management to supply the herbs and herbs products in domestic and international market.
4. The top executive are only one involved in planning and decision making and lower level participation is not encouraged.
5. Unrealistic sales forecasts.
6. The company is suffering from high fixed cost.
7. More bureaucratic formalities of H.M.G. on exports business leading delay in exports.

Recommendations

1. Profit planning manuals should be communicate from top or lower levels.
2. HPPCL should maintain proper coordination and all personnel should be participated on decision making and planning process.
3. Company should have in depth analysis of the company's strength and weakness by using the strategy.
4. There is high staffing problem on HPPCL. Therefore, unnecessary and more staffs should be eliminate.
5. HMG intervention should not be made for aspect of company. Management should be given full autonomy responsibility for routine and major operation.

GAP of This Research between among others

Most of previous research has limited on hypothetical and secondary data without questionnaire of company. In the lack of questionnaire or direct interview we can not give 100% accurate and right profit plan. but this research has been able to visit of the company every department chief, Gun, Employee and labour as so on. It is also based on are primary data of the company which has submitted in Appendix chapter of this research case. Study of previous Research has not been able that how can company will be reduce their indirect fixed and variable cost by the way company reach to their target profit. This research also focus on working capital and payment of loan and interest.

Chapter - Three

Research Methodology

3.1 Introduction

This study intense to keep the relation with the application of revenue and cost planning in a manufacturing enterprise, regarding the objectives to analyze and interpret the application of revenue and cost in HPPCL. It is therefore requires an appropriate research methodology. This includes the research design data gather in procedures, research variable and analytical tools used.

The main objective so the present research is to highlight the current practice of profit planning and its effectiveness in Nepalese public enterprises and according to the sub-objectives are formulated. This research methodology is followed to achieve the basic objectives and goals of this research work. Following are the major contents of research methodology followed in course of this dissertation.

3.2 Research Design

This study is an examination and evaluation of budget process in profit planning program of HPPCL. In this part various related information, functional budgets and statement of the HPPCL are tools to analyze and evaluate the revenue planning of HPPCL. It helps to solve the major problems faced by the management in developing and practicing the revenue and cost. It has tried to answer; the overall managerial problems and suggestion can be recommended for their proper solution. For that purpose of the research this study is designed under descriptive as well as analytical and quantitative method have used. The present research design is deals with secondary data of HPPCL.

3.3 Research variables:

Research variables play vital role in developing the profit plan. The research variables of this study are mainly related with the accounting statement of HPPCL i.e. sales, overhand, Income statement capacity utilization, manpower, and time period are the main research variable of present study.

3.4 Nature and Source of Data

Work information's are the life blood. So the necessary data have been collected from the annual financial statement published by concern enterprise. To fulfill the objectives of this study especially secondary data have been used. The main source of sales report, overhead expenses, income statement, profit and lost is a year review, HPPCL fiscal year 2066/067.

3.5 Research tools used for analysis of data

There are mainly two tools have used: financial and statistical tool. Under financial tool, Flexible budget, cash flow, income statement, balance sheet used where as mean, standard deviation, graph, variance analysis, correlation, regression, and Hypothesis also has used under statistical tool.

- Financial tools
- Statistical tools

Under financial tools I have used following instrument of financial performance to evaluation tools: CVP, MOS, BEP, Income statement etc.

3.6 Research Question

This study mainly designed to solve the mentioned questions given below to fulfill the basic objectives of this research:

- Whether profit planning process follow properly or not?
- What are the major problems facet by the company in developing and implementing revenue planning.

Therefore, I have tried to analyze some problems currently faced by the HPPCL. For this purpose, few opinions are collected from top level management as will as employees engaged in this enterprise. Structured questionnaire are set and distributed in randomly selected few staff. Among them some employees are not take and interest about questionnaire only few questionnaire were answered among them 6 are officer and other 3 are non officer employees among than even working in budgeting section shows their unknowingness about some questions related with revenue and cost planning.

CHAPTER - IV

The main purpose of this study is to examine the revenue planning in manufacturing enterprise in the context of profit planning and control in public utility concern and HPPCL has been selected for this purpose. To accomplish those objectives this chapter of study paper will analyze the various aspects of revenues planning and also deals with the effectiveness of units and revenue separately

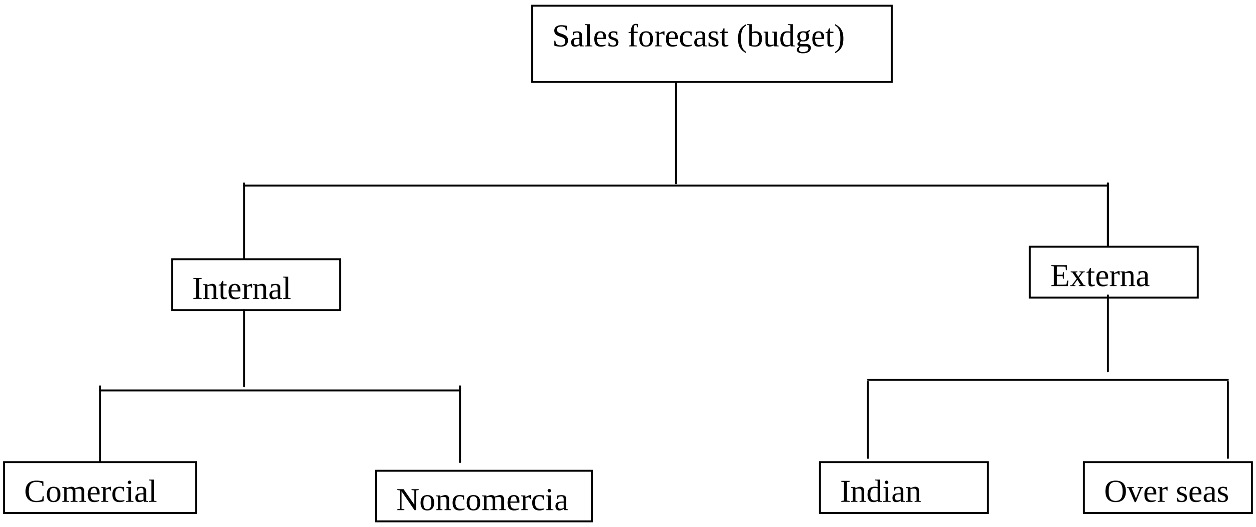
4.1. Revenue Planning

Revenue results from the sales of products and the rendering of service and is measured by the charge made to customers, clients or tenants for goods and services furnished to them. It also includes gains from the sales or exchange of assists other than stock in trade, interest and dividend endued on investment and other increase in the owner's eqity except those arising from capital contribution and capital adjustment. Revenue from ordinary course of business is some times described as operating revenue (Bhattcharya and Dearden; 1988:137)

Revenue plan formulation is the primary step in developing the overall plan procedure. Revenue is the primary sources of cash and all other fictional plans and prepare on the basis of revenue budget for this revenue preparation should be done on the realistic all other budget will not be sure of accuracy and practicability

4.2 Revenue planning in HPPCL

Revenue plan is prepared on the basis of sales forecast HPPCL has practice of preparing sales budget for the coming fiscal year and it also forecast the demand for the long term, which is known as long-term forecast. Sales budget is prepared by HPPCL according to the nature of consumer are categorized like (i) domestic (internal) (ii) commercial (iii) non-commercial (2) Branch (3) Indian (4) oversea (5) seed (7) flowers (8) pest (9) Rosin (10) tarpin oil (11) herbal product.



4.3 Budget & Actual Sales Analysis

The beginning point for the evaluation of existing revenue effectiveness is to analyze past trends of planed sales revenue and actual sales revenue. The following table -1 (a) and (1) b present the sales budget and actual sales in revenue from the fiscal year 062/063 to 066/067.

Budgeted sales and Actual sales (Rupees)

Table: 4.1

Actual Sales Budget

FY	Budgeted	Actual	Achievement
062/063	63200	55325	87.54
063/064	67400	53705.798	79.68
064/065	73917	52681.708	71.27
065/066	77815	59587.373	76.27
066/067	82315	72579	87.24

Source: Performance report of HPPCL

The above table no shows that sales targets achievement in different years are satisfaction. Deviation between two figures of sales targets and actual sales are smaller. All year actual sales are below than the target sales. But the achievement is not less than 70% in the year 066/067 actual sales is near to target sales i.e. 88.24% so the achievement is highly satisfactory.

The arithmetic mean and standard deviation with coefficient of variation of HPPCL sales targets and sales achievement for five year from F/Y 062/063 to 066/067

Table 4.2

Statistical Result

Particular	Sales Target	Actual sale
Mean (ooo)	73421.4	58762.5184
Standard deviation (000)	7705.65	10892.3017
Coefficient variation	10.495	10.536

Source: Appendix - I

The above result shows that actual sales is more variable than target sales. Hence, SD of actual is higher than budgeted sales. But budgeted sales are more consistent and homogeneous than actual sales. Here HPPCL's actual sales are the nature less variability than budget sales.

4.4 Product wise Sales Analysis

Revenue plan is the key factor in profit planning and control. Unless there is a realistic and practical revenue plan one cannot be sure of accuracy and practicability of other element of profit plan.

The starting point for the evaluation of exiting revenue planning practices is to analyze past trends of planned sales revenue and its achievement. Table shows HPPCL's sales revenue trends for the period of 062/063 to 066/067.

Table: 4.3

Contribution of Product wise in TR

Year / Branch	062/063	063/064	064/065	065/066	066/067
Rosin	136653177.7	97,09012	53,29562	6193270	67,85300
Tarpin oil	1549100	1118658.16	1661196.99	1966431	1567319.60
Herbal Produced	44170	22295	24600	27592	43345
Sugandhit oils other	38469586.45	97860833	5665632	5104003.64	64261571.82
Total revenue	53,710,034.15	53705798.33	52680991.08	59587372.69	72627616.42

It is clear from the above to the 4.3, that Rosin and sugandhit oils sales are showing fluctuating trend while other products are increased after 063/364

Table: 4.4

Contribution of each category of product in total sales Revenue

Year / Branch	062/063	063/064	064/065	065/066	066/067
Rosin	25.42	8.76	10.12	10.39	9.34
Tarpin oil	2.884	2.083	3.153	3.3	2.15
Herbal Produced	0.0822	0.0415	0.0467	0.046	0.0596
Sugandhit oils other	71.61	89.1167	86.68	86.26	88.48
Total revenue	100	100	100	100	100

Source: Table 4.3

The above table clearly says that major produced of the company is snghandhit oil and other products during five fiscal year of period. Oil soles contributed more than 80% of the total sales revenue and other are only 20.

Table: 4.5

Contribution of each branches central office in total sales Revenue of the company (in Rs)

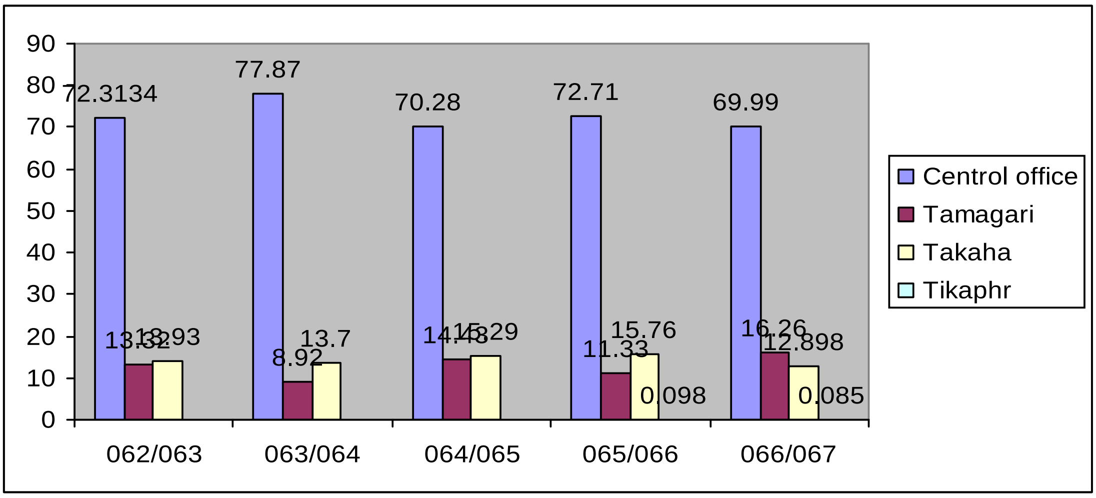
Year / Branch	062/063	063/064	064/065	065/066	066/067
Control office	38839864.99	41757341.3	37023601.28 (70.28)%	43382621.29 (72.71)%	50830182.52 (69.99)%
Tamagadhi Branch	7100456	4515917	7603454.2 (14.43)	6752707.4 (11.33)	11808234 (16.26)
Tahara Branch	7979,922	7349335.6	8053885.6 (15.29)	9393514.6 (15.96)	9367754 (12.85)
Tikapur				58502.4 (0.098)	621145 (0.085)
Total	53710034.11	53624,427	52680941.08	59587327.69	72627616.42

Table: 4.6

Contribution of each branch and central office in Total sales Revenue

Year / Branch	**062/063**	**063/064**	**064/065**	**065/066**	**066/067**
Control office	72.3134	77.87	70.28	72.71	69.99
Tamagari	13.32	8.92	14.43	11.33	16.26
Tahara	13.93	13.70	15.29	15.76	12.898
Tikapur				0.098	0.085
Total	100	100	100	100	100

Figure: 4.1



It is clear from above diagram that central office contribution is higher than other branches but their is flu acting in every branches as well as central office contribution of pach month in total revenue in Fy 066/067

Table: 4.7

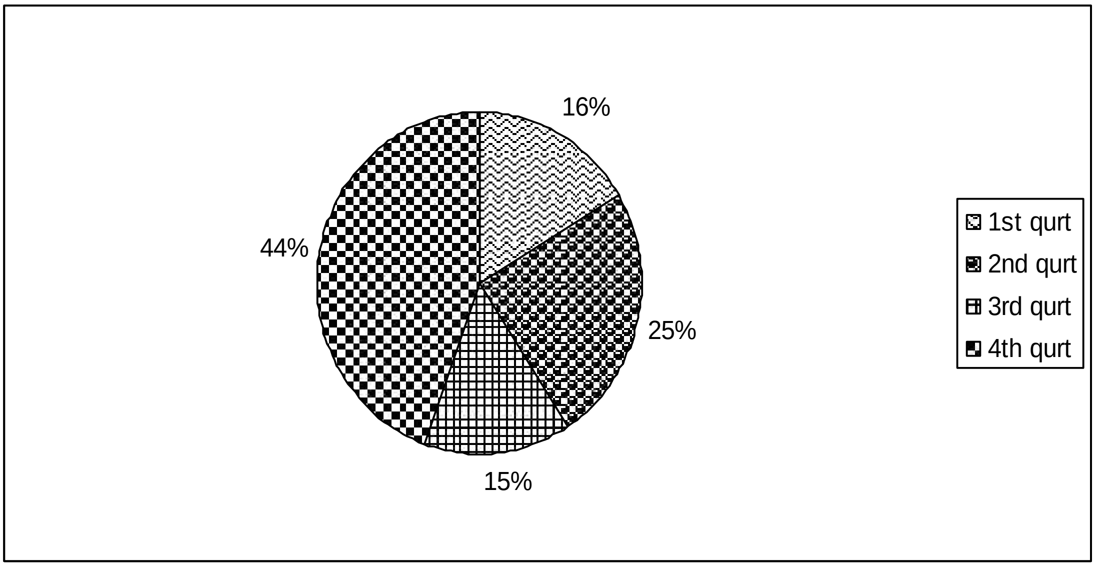
Contribution of Every Month in TR

Months and Quarter	Actual sales (Rs)	Amount
Sharawan Bhadra Aswin	35,68,033.28 42,87.586.09 41,86,026	
1st quarter		12041645.37
Kartik Mangsir Poush	48,36,971.24 80,32,396.18 41,90,971.95	
2nd quarter		17060289.37
Magh Falgun chaitra	37,10,493.36 41,77,398.31 29,73843.7	
3rd quarter		10861735.37
Baisakh Jistha Ashadh		
4th quarter		32674766.07
Total		72638480.88

Source: Sales Department of HPPCL

In the above table shows that actual sales of HPPCL in FY 066/067 by month is very fluctuation. Some product can not be produced in all months because of seasonal goods. Sometimes the demand of the goods is not there, so sales are fluctuating by month to month.

Figure: 4.2



Form the above table It is shows that in 2nd quarter sales is high because Indian and overseas market is not demanded supply by the HPPCL and other non quarterly months sales is fluctuating by HPPCL cause of seasonal raw material, local labour etc

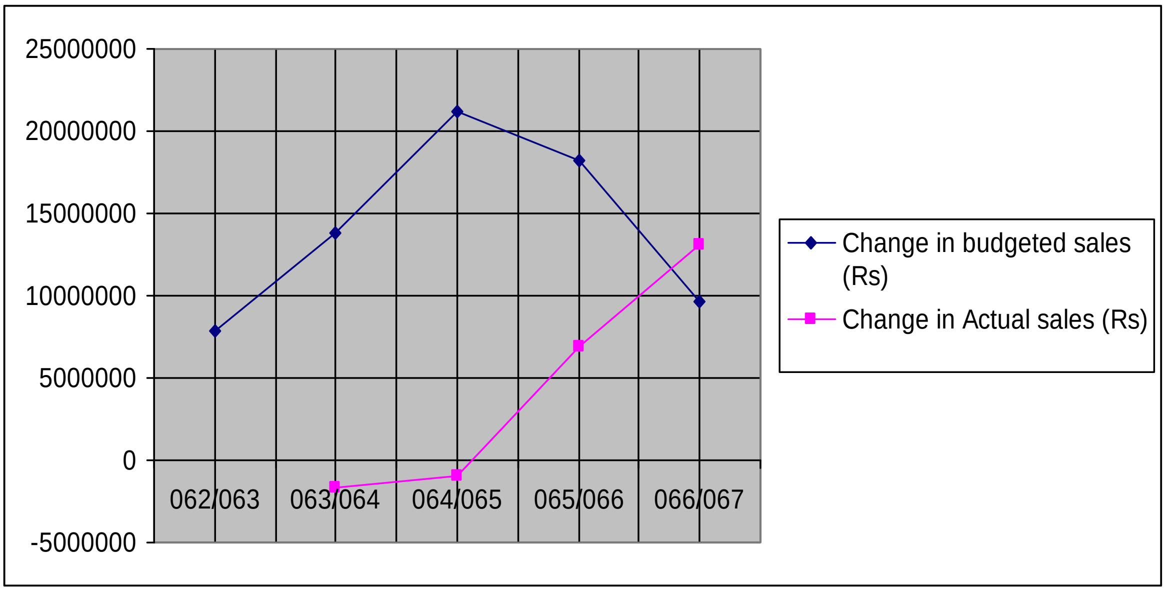
Table: 4.8

Comparative study of the budgeted and actual sales of products

	062/063	063/064	064/065	065/066	066/067
Budgeted sales (Rs)	63200000	67400000	73917000	77815000	82319000
Actual sales (Rs)	55325000	53618000	52681000	59587373	72638510.88
Change in budgeted sales (Rs)	7875000	13782000	21236000	18227627	9680489.12
Change in Actual sales (Rs)		-1707000	-937000	6909373	13051137.80
% change in Actual sales (Rs)		-3.085	-1.7475	13.11	21.903

Figure - 4.3

Comparative study of the budgeted and actual sales of products



Justification in fiscal year 062/063 the budget sales is 63200000 where as actual sales is 555325000 i.e 7875000 less than the target. Likewise -1707000, 5937000 actual sales than budgeted sales in fiscal year 063/064 and 064/065 respectively. Similarly there is 3.085 less sales in 062/063 than 062/063 1.7465 les than 063/064 13.11 more than 21.903 more in fiscal year 065/066, 066/067 respectively.

Table: 4.9

Analysis of variance of actual and budgeted sales

Year	Budget	Actual	Variance		Remark
			Figure	%	
062/063	63200000	55325000	7875000	12.4	U/F
063/064	67400000	53705.798	13782000	20.45	U/F
064/065	73917000	526681.708	21236000	23.73	U/F
065/066	77815000	59587373	18227627	23.42	U/F
066/067	82319000	72638511	9688489.12	11.76	U/F

Source: Performances Report of HPPCL

From the above table 4.9 we have found that budget sales are more vary than actual sales. Every year actual sales is unfavorable but in statutory.

Table 4.10

Analysis of sales and cost relation of actual sales

Year	Total Sales	Total Cost
062/063	57040467.95	53672046.68
06333/067	52411103.74	53705798.33
064/065	52643708.15	68766716.25
065/066	59665058.36	81947935.74
066/067	72627616.42	92268672

Source: Of HPPL sales report

Table 4.11

Comparative Analysis Sales and Cost

	062/063	063/064	064/065	065/066	066/067
Total sales	53672046.68	5370579833	52643708.15	59665058.36	72627616.42
Total cost	57040467.45	5241110374	68788716.25	81947935.74	92268672
Different in cost		4629363.71	16355612.51	13181219.49	10320736.26
% in cost		8.12	31.2	19.17	12.59
Different in sales		33751.65	1062090.18	70,21,350.21	12962558.06
% in sales		0.63	-1.98	13.34	21.73

Source: Of HPPL sales report

From the above table 4.9, it is shows that sales Revenue is in positive direction where as cost is in fluctuating because of sales and cost are 0.63,-1.98,13.34 and 21.73 and -8.12,31.2,19.17 and 24.79 in fly 062/063, 063/064, 064/065, 065/066,066/067 respectively.

Figure: 4.3

Different in Actual and Budgeted Sales

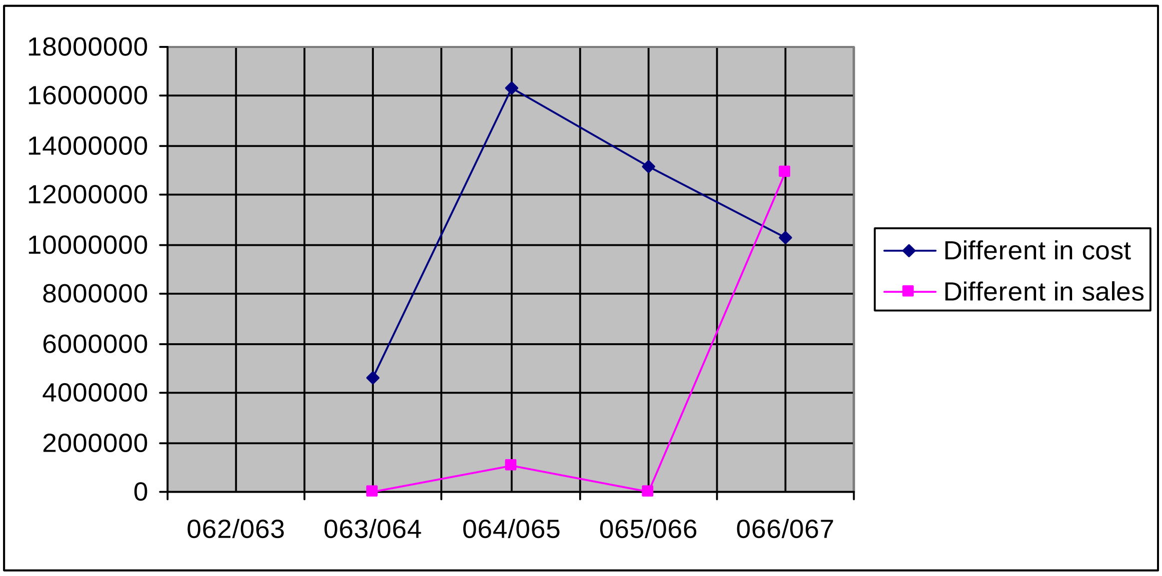


Table 4.12

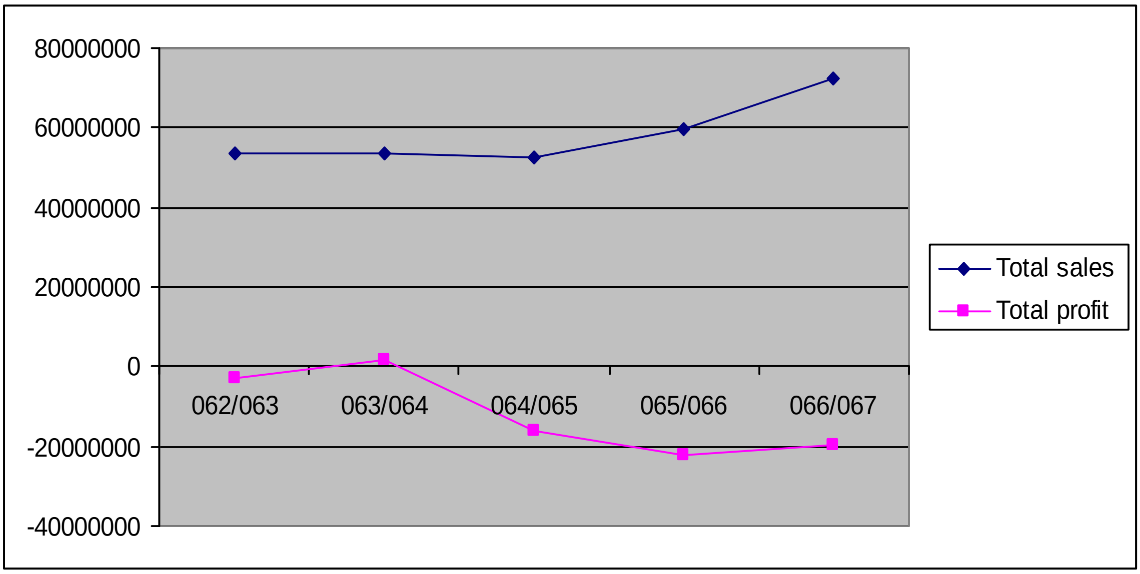
Comparative Analysis of Sales and Profit

	062/063	063/064	064/065	065/066	066/067
Total Sales	53672.010	53705798.33	52643708.15	59665058.36	72627616.42
Total Profit	3075690.85	1507681.26	15932597.89	22164722.07	19641055.58
△ in profit		4583372.1	-17440229.15	6202174.58	2493666.89
% △ in Profit		8.54	(32.47)	(11.78)	4.179

The above table shows that sales and profit both are flaunted. It's also says that after F/Y 064/065 company is running in positive sales and profits because the post year loan interest, dues loaded, unstable political environment, decrease oversea demand with child propaganda as on. Where as peace in nation, local availability of labour, foreign remittance are contribution to grow in aggregate profit.

Figure 4.4

Relation of total sales and profit



Conclusion: From the above discussion we found that there is high different between target sales and actual sales. To conclude he sales performance of HPPCL following points can be pointed out:

- Sales target is high but achievement is very below
- Both budgeted and actual sales are fluctuation trend from year to year
- The straight line trend show the positive figure of future.

4.5 Cost variability of the HPPCL

Identification of the variability of cost is necessary in planning and control of the cost. Thus the knowledge of cost behavior is vary important. Generally cost behaves 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 answer what happens in each expenditure when the output increase or decrease.

Costs can be classified in two groups according to their behavior. Fixed cost and variable cost. Fixed cost remain constant in total for a certain range of output for a certain time. Within an activity level it does not change either there is increase or decrease in output. another cost which is called variable is of fluctuating nature. Variable cost increase or decrease as the output increase or decrease. There is the direct relationship of variable cost with output. And those expenses which are neither variable nor fixed nature are called semi-variable cost.

HPPCL being a manufacturing concern, the cost analysis is of vital significance. Classification of cost into fixed and variable is very important to plan and control of the cost. It helps to determine the volume of operation desired to maintain the company profitable. but HPPCL has not maintained any clear cut boundaries about cost classification as fixed and variable components. There is rough practice of classifying the expenses into fixed and variable. For cost control purpose. Separate heading of expenses for each responsibility centers should be created. The following table shows cost variability in HPPCL.

Table 4.12

Cost classification of HPPCL Based on FY 062/063

S.N.	Items	Cost Behavior	Amount
1	Cost of Row material consumed	V/C	18795967.17
2	Purchase of containers	V/C	198045.24
3	Local tax	V/C	37140
4	Labor wags	V/C	3296656.19
5	Technician salary expends	F/C	6213022.8
6	Foreign expends	V/C	38450.92
7	Packing expends	V/C	9850489.63
8	Fuel expense	V/C	901856.63
9	Fertilizer expense	V/C	128653.27
10	fact electric	V/C	229141
11	seeds	V/C	7973
12	Technical development	F/C	81504
13	Administrative salary expends	F/C	4628343.96
14	Dhotin to Asnchay kosh	F/C	871549.42

15	Allowance expense	F/C	834148.59
16	Travels Expense	V/C	182829.24
17	Telephone Expense	V/C	226988.97
18	Room rent	F/C	61800
19	Stationary expense	V/C	139303.64
20	Petrol mobile expense	V/C	339303.64
21	Committee allowance	V/C	154000.00
22	Guest expense	V/C	76870.15
23	Maintance pepar expense	F/C	600933
24	Audit fee	V/C	30000
25	advertisement expense	F/C	465
26	stationary expense	V/C	18660
27	Management expenses	V/C	166158.85
28	Annual expense	V/C	182582.40
29	Life insurance	FC	633071.14
30	water expense	VC	6895
31	Bank commission	VC	16880.1
32	coercion oil and electrocy	VC	73810.95
33	Medicine and Gduaty	V/C	906762
34	Discount	VC	474578.82
35	Apron	FC	1978824.5
36	Gratings	FC	12636793.64

Summary of total cost

1	Cost of Raw material consumed	VC	18566524.77
2	Oyrcgase if cibtauber	VC	198045.24
3	Production expense	VC	1398890.15
4	repair	FC	600933
5	custom duty	VC	37140
6	labour ags	VC	3296651.19
7	electricy chary	VC	229141
8	VC other factory		218130.27
9	selling and distribution expense		474578.82
	Total variable cost		25020039.44
	Technical expense	FC	6213022.8
	Administers expense	FC	1610657969.64
	Interest on loan	FC	2960940
	Gratnity	FC	.19788145
	Distribution expense	FC	.154246499
	Royalty	FC	
	Total fixed cost	FC	62335319.5
	Total cost	FC	873553584

Summaries of total cost

	Cost behivor	Variable cost	fixed cost
Direct material consumered	VC	1713022.8	
Direct labour	VC	10514685.5	
Other direct cost	VC	7987222.38	
non-manufacturing cost			
exp	F/C		
exp	F/C		
exp	F/C		
Administrative expense	F/C		
interest on loan	V/C		2960940
Repairs and maintained			880909.9
Deprication	F/C		1532740.43
Gdnaty	F/C		8701336.13
selling and distribution expenses	F/C	715113	
other non mty variable	F/C		1.23
Other non mty fixed cost			159113.23
Total variable and fixed cost			

Cost classification of the HPPCL of F/Y 063/064

	Cost Behivour		
		Variable	fixed (605)
Raw material consumed	V/C	16099602.42	
Purchase contain	V/C	144016.90	
custom duty and local tax	V/C	37245	
Laour wags	V/C	3608523.68	
Technician salary expense	F/C		7340809.53
freight expense	V/C	171681.48	
packing expense	V/C	629508453	
fuel expense	V/C	820739.20	
fertilizer expense	V/C	93093.48	
electricity expense	V/C	275958.27	
Technical development	F/C		43056.85
Administrative salary expense	F/C		5089306.43
sanchay Kosh Gdurty expense	F/C		969888.85
Allowances and other expense	F/C		892475.61
traveling expense	V/C	241572.36	
Telephone and tiket expense	V/C	183887.01	
Room rent expense	F/C		61380
Garment printing	V/C		158090.83
petrol Mobil	V/C		515943.45
committee meet allows	V/C		54300
Guest expense	V/C		91917.2
Repair and maintain	F/C		92104969
audit fee	V/C		306000.00

Advertisement expense	F/C		1000
Magazine expense	V/C	19545.25	
Management expense	V/C		120803.58
Annul fixth	F/C		300130.98
LIP expense	F/C		1368509.7
Water bill	V/C		12270
Bank commission expense	V/C	22428.5	
Corrosion oil	V/C	74125	
Discount in sales	V/C	711113.00	
Gaudy in medicine	V/C	3375798.25	
Apron	F/C		127295
Gdurty provision	F/C		255//7.25
total variable and fixed cost			
Total cost (variable cost fixed cost)			

From the above cost classification we can separate fixed and variable expense. The above table shows that there is no clear cut specific policy and scientific method used to classify the cost. All cost are roughly classify nd this classification is made for the purpose of claeolu BEP, PV ration, mos and DOL for example all staff saldag, administrary expense interest on load, repairs, replication are as fixed nature where as custom duty, production and procceing expenses, power and fuel are as variable.

Therefore all cost are separated on the basis of its nature

Cost Classification of HPPCL of F/Y 064/065 - 066-067

	Cost Behivor	064/065	065/066	066/067
Direct cost	V/C	3755998.29	41935054	52506676
Administrative salary expenses	F/C	6249800.54	7586032.04	8508802.26
snchry kosh	F/C	1181527.87	625146	696615.26
Allowance	F/C	122385.79	243169.64	290198.54
Traveling expense	V/C	256494.36	324933	50798.32
Telephone and ticketing expense	V/C	228811.50	145058	172678.96
Room rent	V/C	56580	58380	55380
Garment printing	V/C	207792.62	155333	185386
Petrol and mobil	F/C	499005.21	590263.9	638629.08
committee allowance	F/C	51100.00	9820077	54200
Gouest expenses	V/C	65500.00	77790	135440.8
repair and mainon	F/C	1029675.71	1072434	1184729.75
advertisement audit fee	F/C	76650	76680	8100
Advertisement	F/C	1000	-	4200
Newspaper and magazine	F/C	23782.46	21367.5	27170.74
management expense	F/C	118818.08	231906	1753342
Ltd annul anniversary	F/C	270290.15	350273	339560
LIP	V/C	1366905.93	1244654	1283175
water expenses	V/C	15120	8598	7940
Bank commission	F/C	22909.75	20570.45	19163
corrosion oil	V/C	96999.7	56483	59612
Planting	F/C	290277.77	-	-
Sales discount	V/C	1500	7654.96	4873.69
Apron	F/C	3257976	110439.98	142656.10
Graduty Provision	F/C	138816.84	18097225	7233589.25
Sales distribution	F/C	11123162	799334	1020791
Interest	F/C	690096.09	2960940	322262.4
Deprecation	F/C	2960940	125074.18	1048141.41
Total (variable and fixed cost		1233762.81		
Total cost				

A separate performance reports should be prepared periodically, generally, on a monthly basis and occasionally on weakly or daily basis for each responsibility. Performance reports should clearly distinguish between controllable and non-controllable items. It compares actual results with plans, objectives and standard so that the significant differences are brought to management affection. Significant variances from standard draws manager's attention in the areas that need investigation and possible action. The main objectives of performance report is the communication of performance measurements actual and the related variance. This will help the management to know the real action in time.

Performance reporting for internal management uses in an important part of a comprehensive profit planning control system. All companies has reporting requirement to show their overall performance evaluation in an in-depth approach to performance evaluation.

HPPCL does not care of their performance. It does not apply the various techniques and criteria to evaluate performance of business enterprises. Performance evaluation indicates the real picture of the enterprise. After evaluating the programmers, as achievements of the company, corrective actions can be taken so that weakness or mistake, should not be repeated again for the coming year. But HPPCL does not use the techniques of performance evaluation, as a result the company has been suffering from the same problems in each year.

4.7 Cost Plan of HPPCL

HPPCL has classified the cost in to three categories which are:

a. Cost of sales
b. Administrative cost
c. Selling and Distribution costs

Cost of sales: the costs of which are related with production includes purchase of row material purchase of herbs, VAT, purchase of contenaiv custom duty and local tax, labour wages frieght, pacagiy, fuel expense fertilizer expense, electric seeds of plant, technology development

Administrative costs: they are costs related to management and include TA D.A, Administrative expenses, Allowance, traveling expense, meeting allowance telephone and ticketing, room rent, petrol mobile expense guest expense repair and maintenance, Audit fee magazine expense, management expense LIP, water and electricity, Bank commission, gratuity.

It is the costs incurred for selling and distribution of the product, cash document loading and unloading reimbursement of type descent in sales, sales promotion borns etc.

Each of the cost has both fixed cost and variable cost included in it. As per the nature and information by the senior staffs, they are classified into the two categories (i) fixed costs (ii) variable costs the industry does not have any partially method or techniques to classify the costs separation into variable and fixed. Therefore, the costs that are classified for our purpose are purely based on judgment approach

4.7.1 Variable cost Analysis of HPPCL

Variable costs are those costs which varies in direct proportion to change in output bused or activities level but per unit cost is constant within a certain period generally for a financial year. The industry's variable of per unit is varying in different years, according to HPPL's cost details sheet, the variable costs are presented in the table below

Table 4.15

Variable cost Analysis of HPPC

Cost of sales	062/063	063/64	064/065	065/066	066/067
Parucha of herbs	16735262.4	183321.2	19815.10	45704.16	3149185.34
VAT and fee	183321.2				
Purhase container	19816.10	144016.9		45645.4	83352.5
custom duty and local tax	45704.16	37245		41527	57910
Lobur wages	3149185.34	3608523		4974613	6400068.01
Packing expenses	6317649.09	6245024		2857022	9142796
freight	232544	171681		546204	502981
fuel expense	1083466.51	820734		933004	791272
fertilizer expense	98508.05	93033.10		133045.10	138517.13
Electricity bill	315782.55	27595827		287509	318148
Plant seeds	56919	34976.4		22242.77	22613
Total cost of sale	28238158.36	27530914	26856742.19	38668272	30123593.4
Traveling and Daily expense	228229.34	241272.36	256194.3	324933.22	540798.32
Telephone stocking	194729.64	183887.0	228811.9	145058.84	172678.92
Perol and mobil expense	435403.75	515943.45	499005.21	590263.9	638629.93
meting allowance	74700	54300	51100	98200	54200
Printing and studying	143186.82	158041.83	207792	155533.6	185386.08
Guest expense	61908	91917	65500	77790.57	135440.80
magazine	17956	19545.25	23782.42	21367.5	1753312.36
Audit fee	33000	36000	7680	76680	81000
Management expense	309293.2	300130.98	118818.08	231908.70	1753342
water	12103	12270	15120	8598	7940
Bank commission	11038.76	22428	22909.75	20570.95	19163.73
fuel corrosion oil	31972.99	74125.1	96999.7	56983.12	59612.3
Gduity (medicine)	3154269.70	3375799	2997277.77	2306615	2503610.7
Miss expense				106713.18	
Total Adm. Cost	3518677.65	4848322.89	1604789	4220713.53	7905115.5

Cash Discuss					
Transportation					
Discount unsales	447989.12	71111108	325579.76	7659.96	4873.69
VATS local tax					
Total sell and Distribution cost	447989	711113.08	32579.76	7654.96	9873.69
Others					
Total variable cost	32204825.01	33090349.97	31499113.5	422896640	38038612.95

From the above table, it is find that there is variation in variable cost of sales, administrative cost and selling and distribution cost for different years. Different factors are responsible for changing in cost of sales such as fluctuation in price of container, daily wage rate, packaging material and price of fuel, price of herbs. Administrative cost is comparatively also fluctuated but less than cost of sales but still traveling and daily expenses petrol Mobil cost, guest expenses, expensive allowances, committee allowances, Apron cost, Bank commission etc are responsive for fluctuating of variable costs.

As above table shows that cost of sales is increased in the FY 063/064, 065/066 and 062/063 but decreased in FY 064/065 and 066/067 it is increased in FYs 063/064 of 2.749% as compared to FY 062/063 in the FY 065/066 it is again increased by 36.18%. But in the 064/065 average cost is decreased by 1.809% in FY 066/067 administrative cost is increased by 87.19% and decreased cost of sales by 22.08% as in aggregate it is decreased by 11.32%

4.2.2 Fixed Costs Analysis

Fixed costs are costs which remain constant in total deposited the change in the level of activity within relevant rang. As the production units increase fixed cost per unit decrease, it is because same cost will be dispersed in more production units. But fixed cost in total may very for different f/y. The fixed cost of HPPCL are:

Table 4.12

Fixed Cost Analysis

Cost of Sales	Years				
	062/63	063/64	064/65	065/66	066/67
Cost of sales Tec. salary expenses Technology dev	 736550016 37780.05	 7340809.53 43051.85	 10673051 30125	 11765030 41430.32	 13830118 8285
Total cost of sale	7403280.21	7383866.44	10703176	11806460.64	13838404
Administrative cost Admin. salary expenses TA DA Allowance Room rent R and P Annual Aversely LIP Gratuity Apron Planting	 5420427.7 998902.34 149546.25 61800 880909.9 309293.2 1011384.51 5547066.4 97505.23 -	 5089306.43 969888 892475.61 61380 921049.69 300130.98 1368509.7 255881.25 127295 -	 6249800.54 1181527.87 122385.79 56580.79 1029675.71 270240 1366905.93 11123162 138816.84 15000	 7586032.04 625146.73 243169.64 58380 1072434.37 350273.61 1244654.49 1809722.5 142656.1 -	 8508802.26 696615.97 290198.54 55380 1184729 339560.26 1283157 7233589 110439 -
Total Adm. cost	14242243.53	9985917.51	21554090.14	13132469	1902473.96
Selling and Distribution Sales promotion and Distribution Sales boons Advertisement	 159113.23 - -	 526436.25 4000	 690096.09 - 1000	 599334 - -	 1020791 - 4200
Total sell and dist. cost	159113.23	530436.25	691096.09	599334	1024991
Other fixed cost Deprecation interest Total	 1532740.2 2960940 4493680.2	 1350074.72 2960940 4311014.74	 1405071.29 2960940 4366011.29	 1125074.18 2960940 4085987	 1048141.41 3222626.4 427076.25
total fixed cost	26298317.16	22211234.32	37314377.38	29024916	39927276.56
total fixed cost change	44.95	(15.54)	69.798	(22.22)	37.56

From the table there is fluctuation in fixed costs. This variation is caused by the variation in cost of sales, administrative cost, selling and distribution cost and other fixed costly namely deprecation and interest. The industry is paying a big amount of interest for the loan borrowed from financial sectors.

From the above table it becomes clear that cost of sales is increased in the year 063/064, 065/066 and 066/067 cost of sales in is increased by 44.95%, 10.308 and 17.21 in FY 064/065, 065/066abd 066/067 respectively. But decreased in FY 063/064 by 2.622%. As the table above, administrative is increased in FY 064/065, 065/066and 066/067. It is increased by 115.84%, 39.07% and 50%But decrease in FY063/064 by 29.885%.

Selling distribution cost increasingly every year except of y 065/066. It is increase by 233.37%, 31.088% and 71.022% in fy 063/069,064/065 and 066/067 respectively. Other fixed cost namely depreciation and interest are also fluctuating. Demarcation and interest are also function demarcation amount is decreasing as the industry is following diminishing balance method for changing depreciation. Interest expenses is constant except 065/066, 066/67.

The fixed cost is also fluctuating. It is increased in fy 069/065 and 066/067 by 69.79% and 37.56. But it is decreased in fy 063/064 and 065/066 by 15.54 and 22.22% respectively.

4.2.3 Semi variable cost analysis

The semi variable are the one which remain same for certain relevant range and then change as per the activity level. The industry has not particular method of segregate the semi-variable costs. According to the high level financial officer and other managerial personal, semi-variable cost are classified into variable and fixed costs by the relevant their nature officers. On going through the interview with company's senior officers, they hae the practice of separating semi-variable costs into fixed and variabel but no particular method has been used except the judgment basis. Therefore, the above mentioned costs as per the suggestion and details given by the senior staff of the inducing.

4.3 Profitability Analysis of HPPCL

Since the industry is suffering loss from the beginning of its operation year, therefore it is not elevent as analyze only the not profit of industry. For this reason gross profit and operating profit are also necessary to analyzed a part from net operating profit errors profit is the amount left after deducting cost of sales from total sales revenue. The operating profit of industry has been derived after gross profit with other income and then deducting selling & distribution and administration cost.

The net operating profit of the industry is calculated by subtracting interest and depreciation expenses from operating profit.

Table 4.13

Profitability analysis of HPPCL

Years	Particular		
	Gross Profit	Operating Profit	Net Profit
062/63	20760282.46	1417989.58	(3075690.85)
063/64	21497744.46	5818695.62	1507681.26
064/65	15081814.86	11739820.08	(15934522.89)
065/66	16050786.44	18048734.89	(22134722.06)
066/67	22655123.24	628541.54	(9899304.61)

From the above a table it shows that the industry has been suffering in net loss from the beginning year of its establish except f/y 063/64. The amount of loss is highly the industry performance was satisfactory. There are numerous aspects of continuous loss of the industry which are liquid political condition of the country unstable economic environment, tough competition with the imported raw material, increase VAT. etc. Apart from the above mentioned factors there are other internal and external factors causing the contains loss of the indust which are law utilization of capacity excessive strikers and bands price problem due to under utilization of the production capacity. The industry has faluis to make its operating has faluis to make its operating profit from 064/65 to 066/67. Because payment of interest to internal and external loans. Similarly high original cost of the plant and matching depreciation is also responsible for the company.

Table 4.14

Income statement for the year 066/67

	Detail	Amount
Sales Revenue less: cost of sales	72579743.4 49924620.16	
Gross profit Add: other income	 318287.71	22655123.24
total GP including other income Less: sales and distribution cost Administrative cost	 1020791.2 27581161.47	22973410.95 28601952.67
Operating profit less: other fixed cost Interest Deprecation	 3222626.66 1048141.41	(5628541.72) 4270768.07
Net operating profit		9899309.79

4.3.1 Gross Profit Margin Ratio

One of the most Common ratio in operational analysis is the calculation of gross profit as percentage of net sales. A firm should have a reasonable gross profit margin to ensure adequate coverage for operating expenses of the firm and sufficient return in the owners of the business. Gross profit ratio express the relationship between gross profit and sale and is usually expressed in percentage. The gross profit should be adequate to cover operating expenses and to provide fixed charge to pay dividend and build np reserves. And it is calculated by dividing gross profit by net sales as a follows.

$$\text{CM ratio} = \frac{\text{CM}}{\text{sales}} \times 100 \qquad \text{GM ratio} = \frac{\text{GM}}{\text{sales}} \times 100$$

GM ratio indicates the degree as which the selling prices of facts per unit may decline without resulting in losses from operation to the firm. A high gross profit ratio to sales is a sign of good profit ration to sales is a sign of good management as it implies that the cost of production of the firm is relatively law. A relatively law gross profit ratio is definiting a dange signal, requiring a careful and detailed analysis of the factors responsible it.

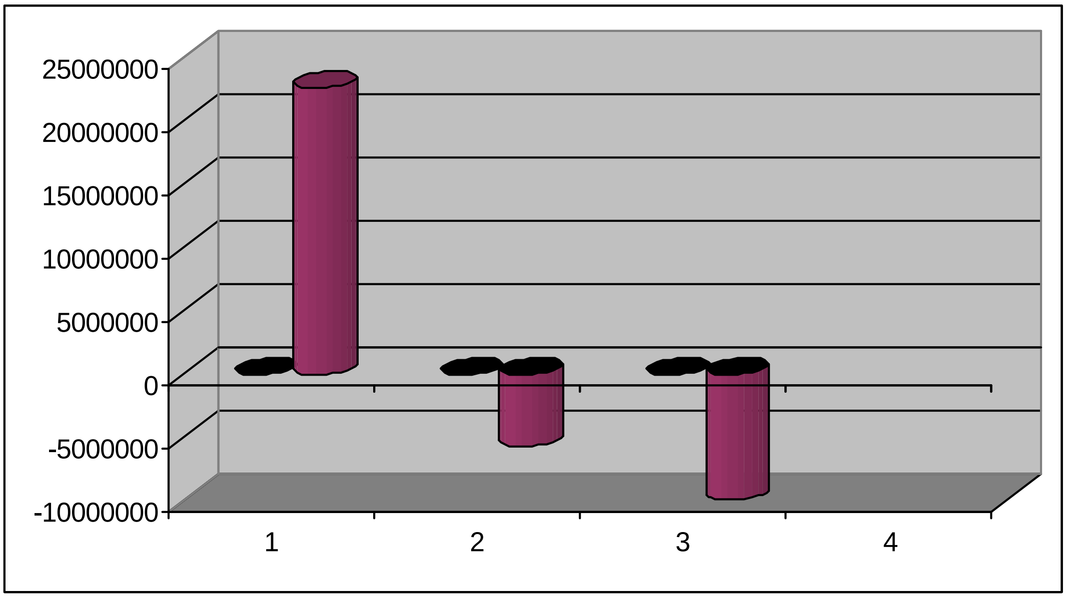
$$GM = \frac{22655123.24}{72579743.4} \times 100$$

$$= 31.21$$

This percentage of GP margin ratio represents the comparatively law gross profit margin cannot be assumed as good management.

GP, VP and NOp is whose by the follows graph.

Figure 4.13



4.3.2 Net profit margin ratio

These ratios measure the original profitability of the firm of establishing relationship between net profit and sales. The relationship between net profit and sale indicate management ability to operate the business with sufficient success not only to cover the cost of operating expenses of business and cost of borrowed fund but also to leavs on margin of reasoanel cooperation to the owners for providing their capital at risk. This ratio is calculated by dividing net profit after taxes and interest by sales and expressed as percentage of net sales as follows:

$$\text{Net profit margin ratio} = \frac{\text{Net profit}}{\text{Sales}} \times 100$$

$$= \frac{9899039.61}{72579743.4} \times 100$$

$$= 13.64$$

Net profit margin ration indicate margin of compensation left to the owners for providing return for their owners for providing return two their capital, after and expenses have been met. It helps in determining the efficiency with which the affairs of the business are being managed. A high net profit margin ratio would enable the without adverse economic condition and a low margin will have opposite implication.

This result shows that the company has suffered the huge amount of net loss and this is not the indication of efficiency of the business and utilization of resources. But still this figure. Indicates that one rupee increase in sales helps to further increase of loss by Rs 1364

4.4.1 Cost - Volume - Profit Analysis of HPPL

As we know that to CVP is a management accounting tool show the relationship between cost column and profit. It is tools for short term profit planning. With the help of CVP relationship the manager should be able to forecast short term business operation as well as able to analysis short term past performance of the business. And this analysis is possible only when the management has information about variable cost and fixed cost and selling price of the product or sales revenue.

Table 4.15

Income statement for this the year 062/063

S. N						
		Particular	Years	064/065	065/066	066/067
1	Sales Revenue Less:variable cost cost of sales Adm. cost Sell Dist. Cost Others	53672046.68 28238158.36 3518677.65 447989 -	53705798.33 27530914 4848322.89 711113.08	52643708.15 2685374 4727346.95 32579.76 -	59665058 38668272 4220713.96 7654.96	72579743.4 30128593 7905145.15 4873.69
2	Total Var. cost	3204825.01	33090349.97	31499113.59	42896640	38038612.45
3	Cont. margin	21467221.67	20615448.36	21144594.56	167868418	34541130.95
	Loss: fixed costs Cost of sales Adm. costs selling and dist cost Interest expense Depriation	 7403280.27 14242243.53 159113.23 2960940 1532740	 7383866.42 9985917.51 530436.25 2960940 1350074.74	 10703176 21554094 691096.09 2960940 1233762.81	 11806460 13132469 599334 2960940 1125046.2	 13838404 19702473 1024997 3222626.66 1048141.41
4	Total fixed cost	26298317.16	22211234.3	37143068.9	29624249.2	35936238.07
5	profit (3-4)		(1595785.97)	(15998474.34)	(12855831.22)	(1395107.1)

4.4.2 Analysis of contribution margin Ratio BEP and Mos

Contribution margin is the difference between sales amount and the variable cost. It is also an amount which is equal to fixed cost plus the profit. Contribution margin can be written in the formula from as: CM= SR-VC from the table below, contribution marine of the HPPCL is fluctuating between Rs 47.59 (FY 066/067) and 28.104 (FY 065/066)

Contribution margin ration is also known as profit volume ratio. As the contribution margin fluctuates, generally cm ratio also fluctuates and the case is same year. The cm ratio is minimum.

Table 4.16

Analysis of Contribution Margin Ratio BEP and MOS

Particulars	**Years**				
	062/063	**063/064**	**064/065**	**065/066**	**066/067**
Sales Revenue	53672.46	53705.798	52643.708	59665.058	72579.743
Contribution Margin	2146.722	20615.448	21144.544	16568.418	34541.130
cm ratio (PV Ratio	39.91	38.386	40.165	28.104	47.59
BEP (Fixed cost / PV Ratio	65894.054	57862.85	92476.21	105409.36	75512.16
MOS (As BF sales)	(12222.080)	(4157.052)	(39832.302)	45765.652	(2132.71)
MOS sales %	(22.772)	(7.74)	75.655	(76.704)	4.04
BEP % Sales	122.77	107.74	175.645	176.65	104.04

From the above calculated table of MOS. It is clear that the margin of safety (MOS) is the excess of budgeted (or actual) except FY 063/064 and 066/067. Sales over the break even sales volume, it sates the amount up to which sales can drop before an organization begins of incurring loss.

In Mathematical equation

Margin of safety = Budgeted sales - BE sales

Justification

Higher the margin of safety safer that is the business.

The above table states that the margin of safety for every year of study is negative because it has not reached the break even point yet. But those figures show the closeness to break even. In this regard closer the value of margin of safer the business. For this case a sale of 066/067 is comparatively safer among all five years.

The point at which the industry makes neither profit nor loss is termed as BEP At this point the total sales revenue is just sufficient to core variable and fixed costs.

Following computation shows the BEP in Rs for FY 066/067

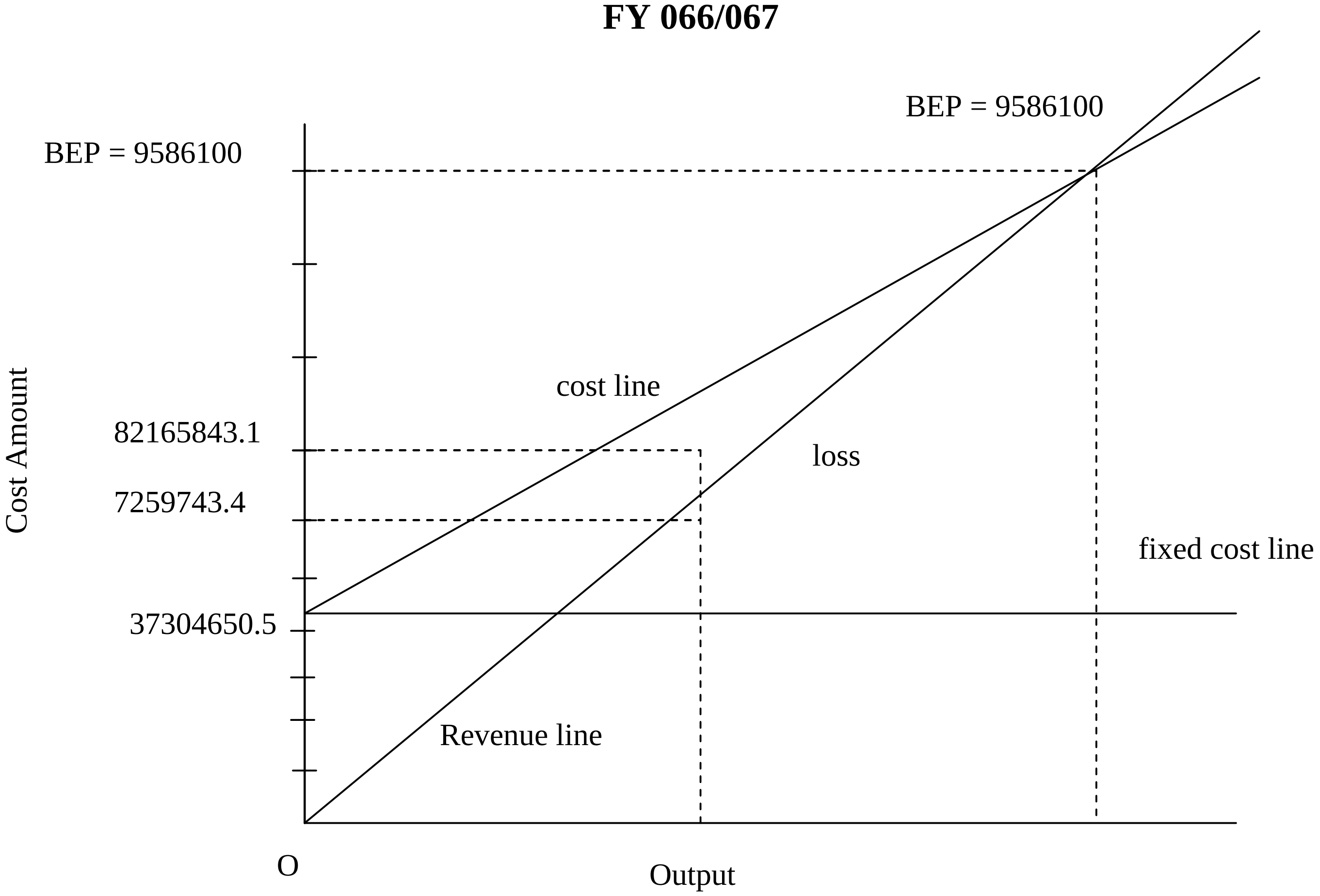
BEP in Rs : $\dfrac{FixedCost}{PVRatioorc\ mRatio}$

$= \dfrac{37304650.5}{0.179}$

= 9586100

This computation can be represented in the graphical from which is as follows

FY 066/067



A simple break even chart of HPPCL for the fiscal year 066/067 is shown above sales revenue is shown in X-axis and cost amount is shown in Y-axis. The required information and BEP chart of or others are given in Appendix

From the above chart the total fixed cost of the industry is Rs 37304650.5 It is parallel to x- axis. Since the variable cost directly varies with unit of production, therefore it is data sloping upward to right side. If no production is made variable cost is zero but still the company should bear the fixed cost of Rs 37304650.5. Total sales revenue curves originates from the origin because sale revenue is zero when sales volume is zero. And as the sales volume increase, sales revenues also increases. The equilibrium point in the graph where total sales revenue and total cost cros each others is known as BEP. Below this point the company canot cover its cost as a result it suffers to the loss. And above this point sales revenue execeds the total cost which provides the profit to the company. In the figure above HPPCL has not even reached the break even point condition i.e. total cost (Rs 73974850.52) exceeds the total sales revenue (Rs 72579743.4) resulting the loss of Rs (1395107.12) for the year 066/067.

As from the above table the industry is always suffering from loss because of the high fixed costs namely interest and deprecation. The industry is operating in loss and for away from BF sales. It is observed from the table that at least sales volume should be made doubled just to be in break even condition i.e. neither profit nor loss.

4.5 Measuring Risk: Degree of operating leverage (DOL)

Degree of operating leverage: operating leverage can be defined more precisely in terms of the way or given change in volume affects need operating income. For this purpose we use the following definition. The degree of operating leverage is the percentage change in operating income that results from a percentage change in units sol. Algebritly:

Operating leverage tells that how profit change with the change in sales volume. Degree of operating leverage can be measured in terms of "Degree of operating leverage" (DOL). A Doll shows the times of percentage change in operating income to the given percentage change in sales. It may be defined as the percentage change in not operating income (NOI) or EBIT associated with a given percentage change in sales (Pandiy; 2004:262)

As we know,

$$\text{DOL} = \frac{\text{Percentage change in net operating incomer or EBIT}}{\text{Percentage change in Sales}}$$

$$= \frac{\%\zeta\, inNOIorEBIT}{\%\zeta\, insales}$$

Alternatively,

$$\text{DOL} = \frac{ContributionM\arg in}{NetoperatingIncome} = \frac{CM}{CM\ \mathrm{Z} TFC\ \Gamma\ Interest}$$

DOL for the year 066/067 = 73974850.5 + 3222626.66

$$= \frac{34541130.95}{34541130.95\,\mathrm{Z}\,35936238.07\,\Gamma\,3222626.66}$$

= 18.901

As we know a high DOL firm goes into low or sales decline and earns more as sales increase. A smaller DOL firm goes into loss only after a large decline in sales and earns less than a high DOL firm as sales increase. As know DOL firm never goes to operating loss and earn loss than a high DOL firm in case of increasing sales.

The decision to select a DOL depends upon the future likelihood. If the future is likely to be positive, it is better to choose high fixed alternative (DOL). If it is pessimistic, it is safe to operate with a small or no amount of fixed cost (less DOL).

The DOL of HPPCL is 18.901 time which mean every percentage change in sales cashes 18.901 times greater percentage change in net operating income. In such a case more than 5.291 decline in sales revenue cause more than 100% (18.901 x 5.207) decline in the existing level of net operating income. Therefore, levered firm is always riskier than an unleveled firm in bad times. But in favorable (goods times a levered firms's net operating incomes increase in higher proportion than the increases in sales. Therefore, it is riskier for HPPCL when the time is not satisfactory. The DOL for HPPL for five years from 062/063 to 066/067 are giving in Appendix

4.6 Major findings

From the analysis of variable data collectable by primary and secondary sources, the major point (factors) findings of the study which are as follows:

1. a. Sales plan of HPPCL is not properly maintained. The industry uses the various methods for sales planning like market judgment, survey, distribution network etc but up to date record are not maintained. So, they have poor budgeting system.

b In the company, there is no effective inventory policy. The inventory management raw-material handily and controlling. System are not efficient and effective

c. Top level managers claim that they have participative management system to set goals but these goals and objectives are not clearly communicated to the lower level of management

d. There is no any specialize system of taking corrective action for the re-planning.

e. The industry is facing the problem of poor communication among production, administration, technical, engineering and procurement and marketing department.

f. HPPCL is failure due to in adequate forecasting system.

g. Lack of modern technology inappropriate technique of market demand forecasting,

h. Un appropriate time management approaches.

i. Lack of SWOT analysis of the company.

j. Sales achievement are too below than targets sales of the company. It has not a practice of systematic and scientific sales planning. This is due to lack of skilled planning experts.

k. Out of the sancho, chamomile oil, sancho are more profitable than chamomile oil in domestic where are chamomile is more profitable except domestic consuming as shown by the product contribution margin.

l. Government policy is not favorable as it should be to boost up the domestic industry which substitutes the import of raw material.

m VAT and local taxes are also burden for the company

2.a. HPPCL does not practice the scientific and appropriate cost classification technique. Costs are classified into fixed and variable as per the decision of the management.

b. Out of the total cost of HPPCL, variable cost is almost 50-55 in every which cash is the low contribution margin HPPCL is in high interest bracket, out of the fixed almost 60% is to paid for interest. And the profitability of the company is greatly influenced by high fixed cost.

c. The induct does have any detailed and systematic practice of planning of cost which is one of the essential elements of profit planning and control

d. HPPCL has adoptable cost-plus pricing method.

e. The financial position of the industry is not satisfactory. Because of cm ratio and net profit margin ratio both are not satisfactory.

3. a The profitability of the industry is very poor. Every year the industry is suffering from loss and which is accumulated to Rs 15 crore up to the FY 066/067.

b. As the degree of operating leverage is very high, the industry is at risk. If the sales revenue slightly decreases it suffers huge amount of loss and vice-versa.

c. Low productivity of manpower and plant

d. Unable to define clearly the duties and responsibility to employees.

e. Lack of supervision

Chapter - V

Summary, Conclusions and Recommendations

Summary

In the age of challenge era, industrialization has become essential element for the development of the nation. Industry promotes economic development by providing employment opportunity to unemployed and by mobilization the unutilized resources. Therefore the strong need of public sector and private sector is felt for the growth and economic development of the country through industrialization. By the realization of this fact, many public private enterprises were established.

But unfortunately the performance of Nepalese enterprise are remained unsatisfactory due to various factors such as lack of clear-cut goals and objectives, poor planning, lack of supervision, wide space of corruption in publics enterprise, political motivation of top level management etc. In Nepalese organization, effective and efficient planning system is rarely found in practice comprehensive profit planning and control system which is considered as the life blood of any organization and keeps the organization alive, assures the future and creates the soundness on it, is not fully utilized and most of managers are lacked of it. HPPCL is only one herbs industry of the country and its main objective is to produce herbs, oil and protect of national herbal plants as so on.

The main objective of this study was to highlight the revenues cost planning and cost volume- profit analysis as the tool to measure the effectiveness of profit planning and control of herbal product and processing company limited so, the study was fully devoted to examine the revenue and cost and plan and CVP analysis of the company.

The collected data from almost primary and few secondary sources were analyzed with descriptive and analytical approach. Sales trend analysis cost analysis, profitability analysis, BEP analysis DOL analysis were done with the help of both statically and financial tools. Primary data were collected by direct visit to concern company. Where as secondary data were drawn from the various documents like, Annual reports of HPPCL, New letters etc published by co and concerned authority. Form the various analysis of revenue and cost analysis and CVP variables, the company shows different results. The industry has low contribution margin, high

DOL, high fixed cost, inappropriate segration technique of cost, low margin of safety. Which indicates, the cowpony is pessimistic. The financial position is not sound as grass profit margin and net profit margin ratios are not satisfactory. away there is high deviation of budgeted trend line of sales and actual trend of sales. The industry is continuously suffering to loss every year because of its high fixed for interest to long term low. According to high level managers of the company financial division has the responsibility of the budgeting profit planning and control but due to the lack of sufficient financial resources and detail information HPPCL has not practiced revenue and cost and ere analysis technique as the tool of measure the effectiveness of profit planning and control.

Conclusions

The analysis shows there is a vast gap between theory and practice in the context of Nepalese industries. Different types of profit planning tools are taught in collages but their application is hardly found in HPPCL. It is taught in the colleges and university that budgeting is a tool of profit planning and control but HPPCL has not preparer proper sales plan. Due to the lack of budgeting system, the actual data could not be compared with the planned for the variable analysis has not been done. The co has neither practiced the scientific cost allocation technique nor the cost plan for the period. The industry has not practiced CVP and DoL analysis as tool for PPC.

As per objective an analysis of the study following conclusion have been drawn:

As per objective 1,2,3,&4.

1.a HPPCL has not make appropriate scientific sales plan. So failure to achieve target sales a

b HPPCL except sales the other source of revenue not be maintain clearly and not plan about it.

c HPPCL does not have search appropriate marketing tools for promotion of goods and increase in high volume of revenue

d HPPCL does not use statically tools to forecast demand and supply.

2.a Cost of sales and Administrative cost have been increasing in increasing rate. HPPCL does not use any policy, profit planning tools and technique to reduce its.

b HPPCL has limited only separation of cost of sales and Administrative cost. There for it is difficult that which relevant factors mor impact on sales revenue, contribution margin, totalized fixed cost, variable cost and net profit.

c The profit and loss trend of HPPCL shown that it has a negative values in all the years. It indicates that the future will not be fright if it is not improved its present condition. The company will not enable to eliminate loss and to make profit and unless it does not enable to effectively implement the cost reduction programs.

3.a There is no any idea policy to use idle capacity of man, material, machine and views of higher level employees.

b. There is no systematic approach of labour planning in HPPCL. The company has not any effective programmes to increase the productivity of manpower. low productivity due to lack of motivation and incentive is the major cause of low performance of the enterprise due to political interference. Most of the staff are frustrated.

4.a. There is no well developed system of performance evaluate on for employees and there is no fair and appropriate system of reward and punishment to employees on the basis of their work performance. No programes have been attention about fair working environment.

b Objectives of PEs are controversial, not clear. There is conflict between profit and goals, with viewing the social goals, HPPCL has been fixed the sales price of the products at lower rate than the cost of production, but is seriously affects the profit of the company.

HPPC does not prepare plan for direct manpower works hours and direct manpower cost needed to produce the planed quantities of goods. It has a problem of over staffing. All staff are paid on time basis. Which gives them a fixed salary. To qualified and creative personnel are frustrated

Recommendations

After analysis of data, finding and conclusion of the present study of revenue and cost planning and CVP technique, some suggestions have been recommended to improve the application and process Revenue planning and CVP in HPPCL for their better operation from the beginning to the end.

1. a. Role of budget should be understood by every manager of the company.

b.HPPCL should be developed strategic sales in domestic market, Indian market and oversea market with the help of information gathered through market research.

c HPPCL unknown about SWOT analysis which is most effective technique of evaluating market share, opportunity, threats, strength and weakness about company. HPPCL practice SWOT analysis immediately.

d The company has not any cost control system. Therefore company's fixed cost is increasing in increasing rate. So to established a fixed flexible mechanize for cost control.

e. HPPCL planners have lack of scientific budgeting revenue knowledge. So planners should be properly trained about revenue planning.

f. To achieve target growth rate in sales revenue HPPCL should make realistic forecast.

g. The company does not have practice of modernize, scientific of budgeting. Therefore, it is recommended that the company should develop the budgeting practice, which is one of the tools of profit planning. To improve the financial condition of the industry, it should develop annual (tactical) and long term profit plan.

2.a HPPC does not have separate costing department, costing is done by traditional methods combining with judgment basis and no precise distinctions has been made regarding the nature of the cost as fixed or variable, controllable and non-controllable, direct or indirect etc. So, the industry should establish a separate costing department if possible and cost classification must be made within a specific framework of responsibility and time.

2.a In the age of technology, there are various modern technology in the international market which help to reduced fixed cost in minimization and cost of the product becomes lower price. So, if possible re-place traditional plant machine.

b. HPPCL should consider the cost-volume profit relationship while fixing the price of its products.

c. Although the company has not so, much idle capacity. It implies that the main cause is low contribution margin and burden high fixed cost and administrative expenses.

d. HPPCL has use cost- plus pricing policies. It is a traditional policy which is follow most of Nepalese PEs. It is not to obtain high profit for this company. So, the company should be use other effective pricing policy.

e. The company has bear to much high amount of expenses for interest and bank charge. To avoid this expenses company should pay its long term loan. Without restructuring the present capital restructure of this loan is quite impossible. Therefore immediate action should be taken to restructure to present capital structure. The long term loan should be paid either by issuing equity share or by issuing preference share.

3.a The company has not practice of analyzing the variance and performance report. So the system of periodical performance reports should strictly be followed to conscious about poor performance and take corrective actions immediately and timely.

b. The company should formulate competitive and effective sales strategy, implement and control according to it.

c. The company should be appointed right man in right job and management by objectives (MBO) technique should be followed.

4.a HPPCL should define its goals and objectives. And management should make sure that each and every employee is aware of the organizational objectives, which are the basic foundations of planning because conflicting goals always create confusions in their application phase.

b. Participative management should be introduced in formulation of plans and policies of the organization. Profit planning manual should also be communicated to branch of the co. and lower level of management. Effective budget education should be provided to improve profit planning.

c. HPPCL should be use local employee in the short term contract basis period and give priority local resource.

d All the department should be delegated full authority and accountability to decide and create new ideas to formulate various policies.

e. To improve profit planning system in HPPCL trained and qualified professional should be hired.

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Appendix - 1

1st qurt = $\frac{12041645.37}{72638908.88} \times 360^0$ 59.679

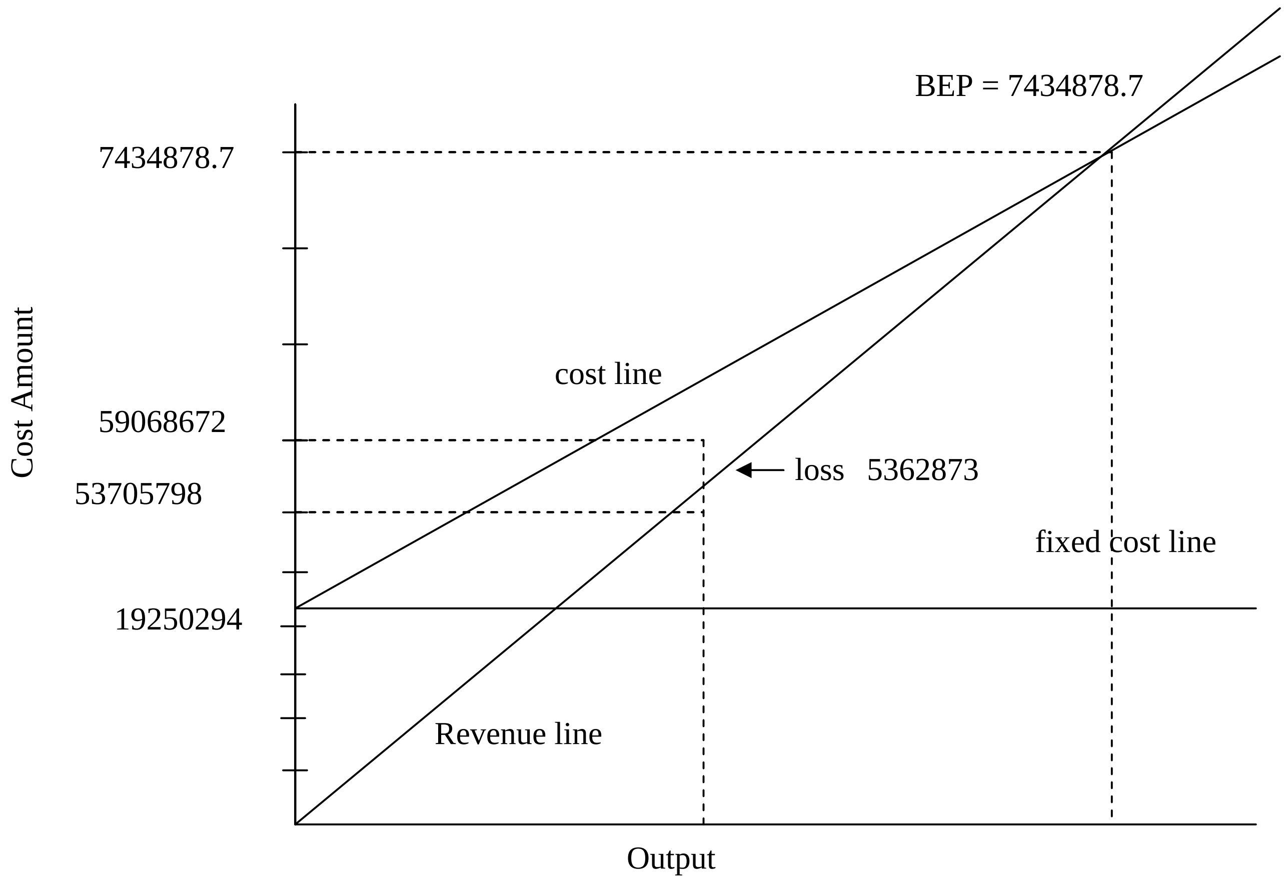
2nd quter = $\frac{17060289.37}{72638908.88} \times 360^0$ 89.55

3rd qrt = $\frac{10861735.37}{72638908.88} \times 360^0$ 53.831

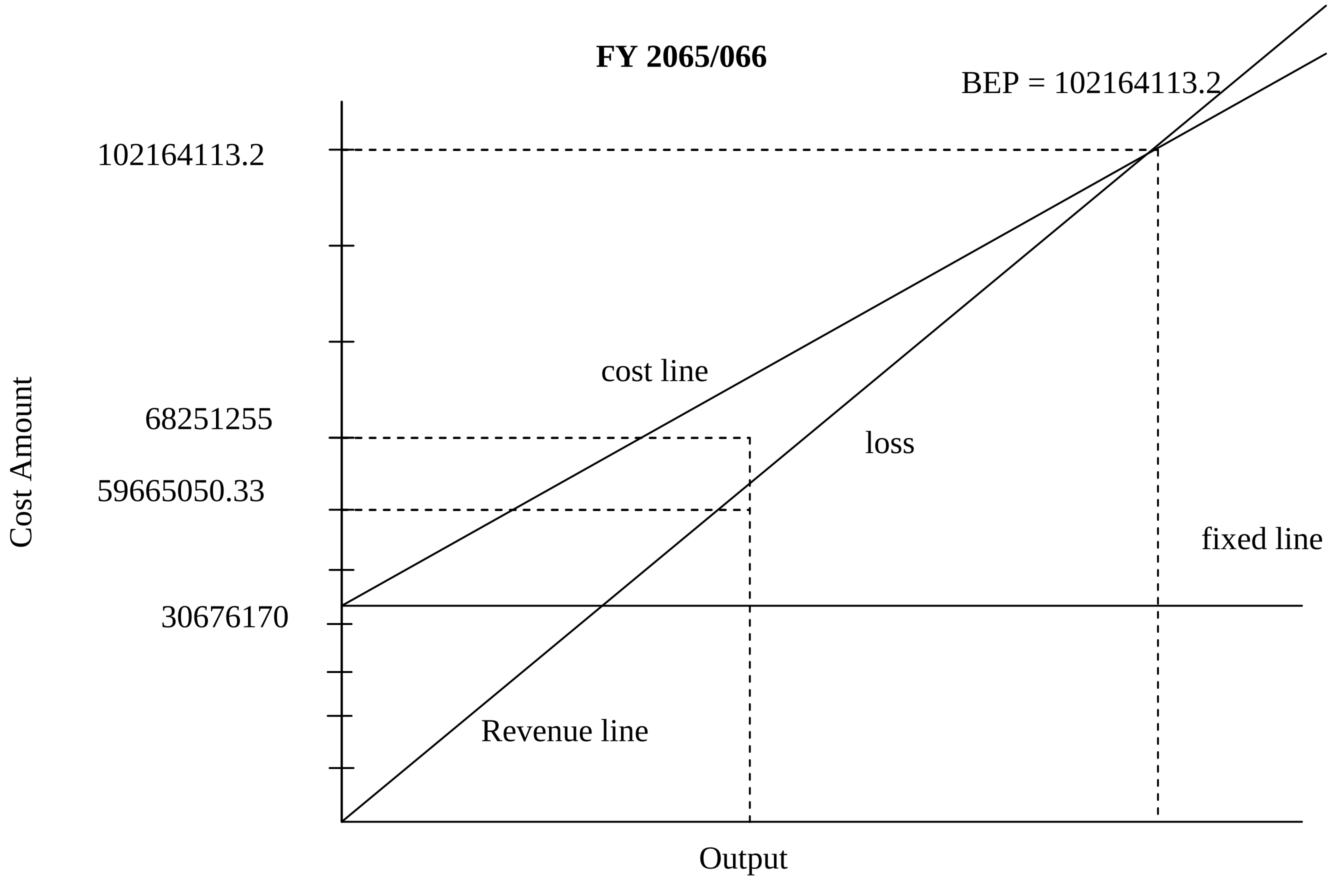
4th art = $\frac{32674766.07}{72638908.88} \times 360^0$ 161.94

Appendix - 2

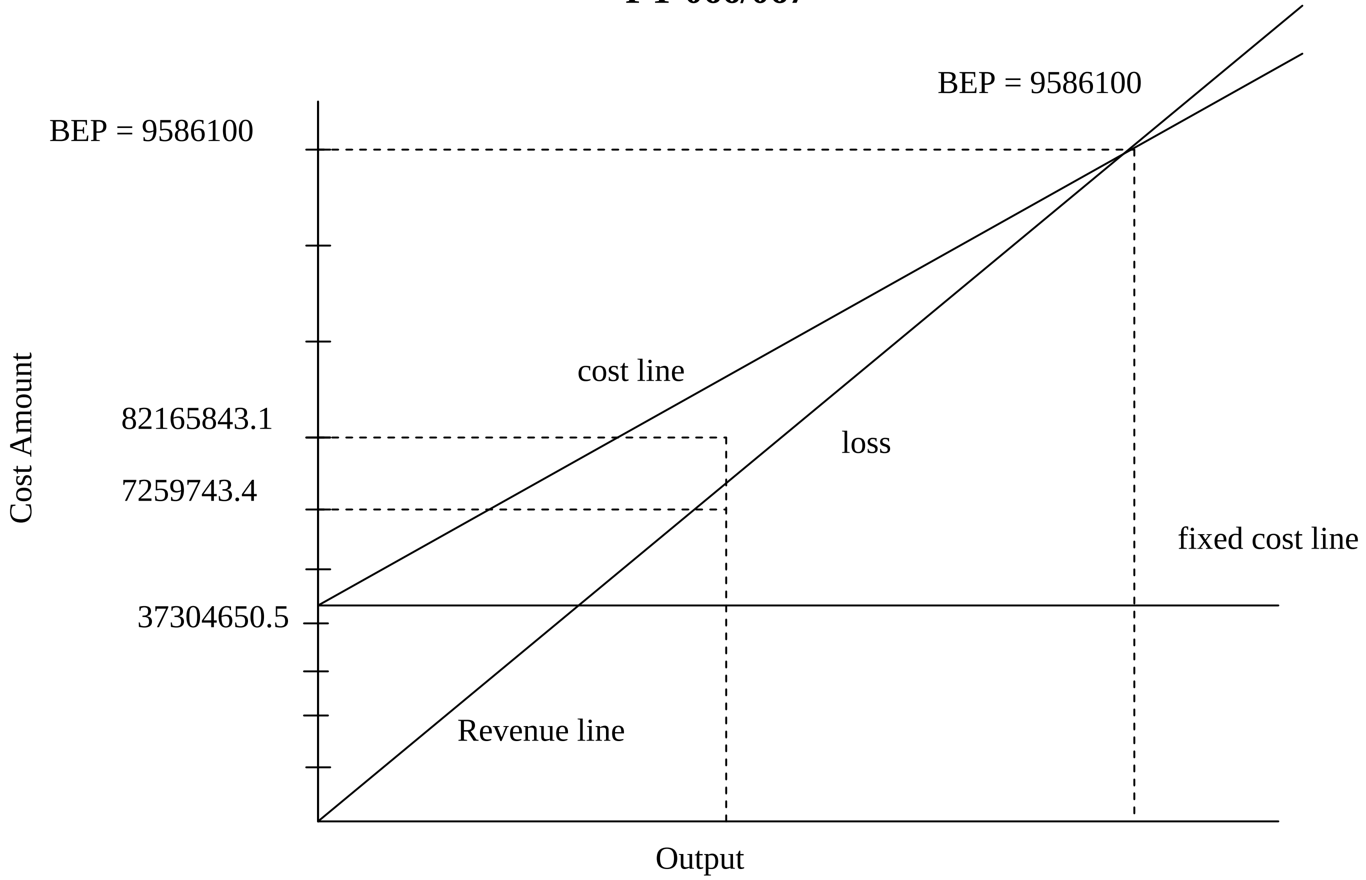
FY 063/064



FY 2065/066



FY 066/067



Appendix - 3

Income statement for this the year 062/063

S. N	Particular	Year				
		062/063	063/064	064/065	065/066	066/067
1	Sales Revenue Less: variable cost cost of sales Admin.cost Sell. Dist Cost Others	53672046.68 28238158.36 3518677.65 447989 -	53705798.33 27530914 4848322.89 711113.08	52643708.15 2685374 4727346.95 32579.76 -	59665058 38668272 4220713.96 7654.96	72579743.4 30128593 7905145.15 4873.69
2	Total Variable cost	3204825.01	33090349.97	31499113.59	42896640	38038612.45
3	contribution margin	21467221.67	20615448.36	21144594.56	167868418	34541130.95
	Loss: fixed costs Cost of sales Adm. costs sell and dist cost Interest expense Deprecation	7403280.27 14242243.53 159113.23 2960940 1532740	7383866.42 9985917.51 530436.25 2960940 1350074.74	10703176 21554094 691096.09 2960940 1233762.81	11806460 13132469 599334 2960940 1125046.2	13838404 19702473 1024997 3222626.66 1048141.41
4	Total fixed cost	26298317.16	22211234.3	37143068.9	29624249.2	35936238.07
5	Profit (3-4)		(1595785.97)	(15998474.34)	(12855831.22)	(1395107.1)
6	Net operating profit	(1870155.49)	1365154.03	(15702380.34)	(989489.27)	1827519.45
7	Degree of operating leverage	(11.48)	15.101	(1.346)	(1.695)	18.9

Appendix - 4

Herbal Production and Processing Company Ltd

S. N	Particular	Year				
		062/063	063/064	064/065	065/066	066/067
1	Sales Revenue Less: cost of sales	53672046.68 32911764.22	53705798.33 32208053.87	52643708.15 37561893.29	59665058 4361427192	72579743.4 49924620.14
2	Gross profit	20760282.46	21497744.46	15081814.86	16050786.44	22655123.24
3	other income	292729.92	212987.4	188485.21	148155.31	318287.71
	Selling & distr. Admin.expenses	159113.23 19475909.57	526426.25 15365599.62	690096.09 26320024.06	599334 33648342.64	1020791.02 27581161.46
4	Operating profit	1417989.58	58186953.99	(11739820.08)	18098734	(5628541.54)
5	Less:interest expe. dep. expenses	2960940 1532740.43	2960940 1350074.74	2960940 1233762.81	2960940 1125047.18	3222626.66 1048141.41
6	Net operating profit	(375690.85)	1507681.26	(15934522.89)	(22134722.06)	9899309.61
7	Loss upto last year	(86292394.65)	(89368085.5)	(87860404.25)	103794927.14	(125929649)
8	Available for apportion	(89292394.65)	(87860404.25)	(103794927.14)	(125929649.21)	(135828958.22)
	Apportionment a) eneral reserve fund b) ropos dividend equity share preference share c) ther reserve fund d) emaining los to transfer to balance sheet	(89368085.5)	(87860404.24)	()103794927.14)	125929649.21	135828958.82
	Gross profit margin ratio	38.67	40.029	28.649	26.9	31.21
	Operating profit margin ratio	2.642	10.831	22.301	30251	7.755
	Net operating profit margin ratio	(5.731)	2.807	(30.269)	(37.089)	(13.639)

$$\text{Gross profit margin ratio} = \frac{\text{Gross profit}}{\text{Sales revenue}} \times 100\%$$

$$\text{Operating profit margin ratio} = \frac{\text{Operating profit}}{\text{Sales revenue}} \times 100\%$$

$$\text{Net profit margin ratio} = \frac{\text{Net operating profit}}{\text{Sales revenue}} \times 100\%$$

Appendix - 5

Calculation Mean, Standard and Coefficient

FY	Budgeted sales X	actual sales = Y	u=X- $\bar{x}$	v = Y- $\bar{Y}$	u^2	v^2
062/063	63200	55325	10221.4	3437.5	104477018	11816406.3
063/064	67400	53618	6021.4	5144.584	36257258	26466054
064/065	73917	526432.708	495.6	6118.81	245619.36	37439835
065/066	77300	59587.373	3878.6	824.4516	15043538	68038412
066/067	85290	72638.511	11868.6	13875.996	190863666	192543265
n=5	x X367107	y X293812.592	0	0	296887099	595211184.9

x = 367107

$\bar{x} = \frac{36107}{5}$ =73421.4

y X293812.592

y= $\frac{293812.592}{5}$ = 58762.5184

… $SD_x = \sqrt{\frac{u^2}{n} \text{ Z } \frac{u}{n}^2}$

$=SD_y \sqrt{\frac{v^2}{n} \text{ Z } \frac{v}{n}^2}$

$= \sqrt{\frac{296887099}{5} \text{ Z } \frac{0}{5}^2}$

$= \sqrt{\frac{593211184.9}{5} \text{ Z } \frac{0}{5}^2}$

=7705.67

=10892.3017

C.V = $\frac{7705.67}{73421.4} x100$

$=C.V_y \frac{10892.3017}{58762.5181}$

=10.495

=18.536

Supplementary Questionnaire

Name of the respondent

Position Department

Tenre of service

Please tick as on the one or more boxes and fill in the blank as per required.

1. What are main sources of revenue?

a) Sales of product b) Cash discount of Raw-material purchase

c) Nepal government Gradutiy d) Both a and b

2. What are the main causes of decreasing? Sales of products

a) Increase of competitor b) Lower quality of produce

c) Low demand d) Adhoc sales plan

3) What is your cost classification method?

a) Judgment b) Stastical analysis c) market survey

4. What pricing method has been adopted?

a) Cost-plus pricing b) ABC pricing c) board price d) others

5) In what level planning premises are communicate?

a) Top level only b) Top to middle c) Top to Lower

6. Is loss in the company due to over administrative expenses and unscientific planning ?

a) Yes b) No c) None

7) From which market is this company facity competition?

a) Domestic b) Indian c) oversea d) both b and c

8) What promotional tools are used?

a) TV b) Ratio c) Newspaper d) internet

9) Would you like to mention the strength and weakness?

a. a.

b. b.

c. c.

10) What is the present policy regarding the sales? Please mention any two

a)

b)

11) In last, which department has the overall responsibility of profit planning/budget?

a) Administrative b) Planning c) Sales

12) What is the industry's performance evaluation system?

a) Ratio Analysis b) CVP analysis

c) Flexible budgeting d) standard costing /variance