

CHAPTER - I

INTRODUCTION

1.1 Background of the study

Nepal is an agricultural underdeveloped country located between two huge countries India and china. Due to having poor industrial status, political instability and dependability to foreign countries, its economic strength is not so satisfactory. Per capita income of Nepalese people is low due to poor economic condition. Nepal is highly dependent to other countries to resolve its necessities. It is located on the southern flank of the Himalayan range.

Nepal contains more than a dozen ethnic groups originating from three major ethnic division; Indo-Aryan, Tibeto-Burman and Aborigine. They all live in harmony with their own culture and tradition respecting each other norms and values. Thus, due to this variation in its geography and ethnic diversity, Nepal has both opportunities and constraints side by side. Ecologically Nepal is divide into Himalayan region, Hilly region and Terai region as three regions. The Himalayan region constitutes the highest Himalayan ranges in the world lying in the northern part of the country. Nepal is also rich in natural resources. The evergreen forest, the non-stoppable flowing water and various kinds of flora and fauna have truly made this country rich in natural resources. Only the need is to identify them and utilize in a proper way. Mineral potential of the country is yet to be properly assessed. Due to lack of scientific and extensive geological survey of the country, the actual statistics of the mineral resources are not available yet.

1.1.1 Industrialization in Nepal

Industrialization is an important factor for achieving the basic objective of a country's economic and social progress. Industrialization not only provides goods and services but also creates employment opportunities. It facilitates an effective mobilization of resources of capital and skill, which might otherwise remain unutilized. Industrialization plays a crucial role in achieving high rate of economic growth in developing countries. Economic development of a country is contingent to the industrialization, which is conventionally measured by increment in the share of industry and a rise in per capita income. Industrial development a phenomenon more

than what has been traditionally defined is a function of interaction among the set of parameters comprising resources, human capital and natural technology and management dynamism. In the history of industrialization, especially after the Second World War a very few developing countries in Asia witnessed especially newly industrialized economies. Nepal, a developing region in Asia, where development efforts have been thwarted by amazingly increasing population growth rate, acute disguised unemployment and object poverty, unstable politics and other many factors that have halted the aspirations of better future of this region.

Industrialization is a comparatively new phenomenon in Nepal. The Biratnagar Jute Mill set up in 1936 marked the beginning of organized industry in the country. In the years that followed, industrial growth was accelerated. Industries like the Morang Cotton Mills (1941), the Morang Sugar Mill (1946), the Raghupati Jute Mill (1946) and the Juddha Match Factory (1946) were set up in Biratnagar in collaboration with Indian businessmen. These industries set a milestone in the industrialization history of Nepal. Before 1950, the environment was not favorable to develop the industrial sector and the government had no vision about this matter. Those that were established early were liquidated later. They could not sustain for long period. Industrial development in Nepal however started getting regular attention of the government under the aegis of the development plans after the dawn of democracy in 1951. Prior to 1962, there was no conducive environment for industrial development in Nepal. In 1962, Nepal formulated its first industrial policy to provide incentives to industries so that the development could be insured. In 1974, the government came out with a new industrial policy, which had the fundamental objectives of contributing to the growth of imports substitution and exported industries. Several industries were established in the public sector mostly with the financial and technical assistance of the then USSR and China. As a result, Nepal witnessed the development of quite a large number of manufacturing industries in the public sector. The industrial development strategy of the government, however, changed after mid 1980s. The government then shifted its development strategy from state-led development to market-led open economy. As a result, many of the public sector industrial units privatized in the early 1990s. After the restoration of democracy in 2007 B.S., later 5 years was the stagnant period for political and development of the country. Only from 2013 B.S., the government came out with distinct vision. From then on 5 years

development plans were carried out. Now Nepal is in twelve plans and up to this period the country has achieved a lot but not as expected (Economic Survey, 2007).

1.1.2 Nepalese Economy and Agriculture

Being the agricultural country, agriculture dominates the economy of Nepal, which accounts about 31% of GDP; provides employment opportunities to more than 80% of the economically active population. Truly speaking, agriculture is the backbone of our country. Economy and the agriculture are synonyms of each other in the context of Nepal. More than 80% of population depends upon the agriculture but today this number has decreased. Still more than 70% of the population depends on the agriculture. Due to urbanization and industrialization in the country, slowly people are shifting from the agricultural sector to industrial sector and service sector. There is no doubt that until and unless there is full development and fully skilled people in these sectors, agriculture will dominate in the economy of Nepal in coming days. In an agriculture country like Nepal, effective mobilization of agricultural resources is very necessary. For the economic development of the country, agriculture sector must be developed. Nepal once recognized as a food grain exporting country is in the situation of being recognized as a food grain-importing country (Economic survey, 2010).

This situation may be regarded as a challenging one. From the very beginning of planned development efforts, the government of Nepal has given priority to the agriculture sector in every plan period considering the fact that the sustainable economic development was not possible without the development of agriculture. Nepal's industrial base is limited. Most of the industries are based on agriculture raw material. Large manufacturing plants are owned and operated by the government. Major manufactured products include jute, sugar, cigarettes, beer, matches, shoes, cement and bricks. Traditional cottage industries such as basket and carpet weaving are also important to Nepal's economy, which are based in agriculture material. Thus, directly or indirectly agriculture sector has played an important role in the economy of the country (Economic Survey, 2010).

Long-term agriculture development plan is under implementation aiming to reduce poverty and increase economic growth by means of increasing employment opportunities and agriculture production. Recently Nepal has adopted "one-village one-product" policy aiming to increase the production of exportable under the

modality of public-private partnership. The main objectives of this program are to help reduce the level of poverty and boost economic development at the local level by increasing the export of value added products. The twelve plans have set the objectives for the development of agriculture. Increase mobilization of agricultural and rural credit in an integrated manner to help rise in gross domestic product by increasing the agricultural productivity, and micro credit to check the rampant rural poverty by involving maximum number of deprived people in production oriented and income generating micro enterprise (Economic Survey, 2010).

1.1.3 Historical Background of Nepal Food Corporation

The effort of the government to provide the food in the country was seen only after the establishment of “Rasad godown” in Thapathali. The rasad godown was established by the Rana prime minister to collect the food grains (paddy) from the land such as “guthi” and “raikar” to provide to the army, police and to the government employees as per their demand. It is also heard that the rice from the rasad godown is also used in the religious event and in the school. The fact that the Commander in chief being the head of the rasad godown reflects the importance given by the government in the supply of food at that time. “Rasad Adda” had helped the earthquakes victims in 1990 B.S. Due to the increasing demand of food in the Kathmandu valley, the system of distributing the food by the coupon system to those who cannot afford to buy the rice was seen at that time. The place where Bishal Bazaar is now located, there was a sales department and this provides the facility of distributing the food grain and is called “Janasewa Hall”. After the change of political system in 2007 in the country the defense law was outlawed and the administrative law was implemented. Under this act “Milling and Sales Department of Paddy” and the “Rasad godown” of paddy were merged and was called “Sadar Paddy godown”. For this separate budget system was introduced. It was later termed as “Pradesik Khadhya Niyantaran” in 2008 B.S. In 2013 B.S. the Pradesik Khadhya Niyantaran was changed to “Khadhya Sanchya Bikri Bibhag”. It helps to store the food grain. To manage the growing demand of food in the valley the name was again changed into “Upathayka Khaddanna Bandobast Samiti” in 2018. The importance of the distribution of food grain to the district, which is deficit in food grain, was felt. Thus, according to the corporation act 2021, in the same year the name was again changed in to the “Khadhya Bewasta Sasthan”.

In 2028\029 B.S the country has to face the drought resulting an unexpected low production in the crops. This makes a serious problem in the country. There was a deficiency of food grains in the country. Since there was no organizational network of Khadhya Bewasta Sasthan, it became difficult in operation and in distribution of the food grain. Realizing the fact, Agriculture Supply Corporation and the Food Management Corporation was merged together to solve the problem. Later on it was felt that the single corporation couldn't operate the work effectively having two different natures of work. Thus the responsibility of supplying of food was taken out from the agriculture sales and Purchase Corporation to form the different corporation, which can operate separately with full authority. HMG of Nepal, realizing the need of a specialized organization taking care of proper food supply and distribution in the country including the Kathmandu valley established the Nepal Food Corporation (NFC) in 2031 B.S (1972 A.D) Mangsir 17 under the full ownership of the government which is running till to date. The Nepalese Ministry of industry, commerce and supply is responsible for supplying essential commodities such as petroleum products along with coal, timber, food grains through National Trading Limited, Nepal Oil Corporation, Nepal Food Corporation, Nepal Coal Limited and Timber Corporation of Nepal and others. Nepal Food Corporation is one of them and operates under the ministry of industry, commerce and supply (NFC Prospectus, 2010).

1.1.4 Objectives of Nepal Food Corporation (NFC)

Despite of being an agricultural country, Nepal faces the problem of food shortage for a long time. Due to great variation in the topography of Nepal, all the land acquired by it is not suitable for the agriculture. Nepal is divided into three topographical regions; mountainous, hilly and terai. Only the hilly and terai region are suitable for cultivation. Hilly region is also not that much suitable for the cultivation as compare to the terai region. Thus, terai region is the sole contributor in the supply of food grains in the country. In terai, of the total land only one- third of the land is used for the cultivation. Thus Nepal cannot depend fully on its production resulting in great import of food grains from the neighboring country and the third world, which provides the food grain as donation. Out of the total population, almost 40% of the Nepalese are facing with the food shortage every year. Hence management of the food economy is the major function of the ministry.

The distribution of food grains to the food deficit area and to the remote hilly area in the fair prices is the main responsibility of the Nepal Food Corporation. With a view to fulfill this responsibility, various activities such as procurement of food grains, building up and maintenance of food stocks, their storage, movement and delivery to the distributing agencies are undertaken. A close watch is needed on production, stock and price level of food grains. Efforts are made to ensure their adequate availability at reasonable prices in different parts of the country. Procurement and distribution of food are the strategies of the government for ensuring food security in the remote and food deficit areas. NFC procures food grains at the subsidized price announced by the government. Certain hill and mountain districts are considered low income, remote and inaccessible areas. Accordingly, NFC supplies the food grains in these areas at a highly subsidized price by providing transport subsidy. Sales of food grains are carried out in the hill and mountain districts by NFC's own field offices, sales depot and co-operatives and through private. It also helps in maintaining the price whenever the shortage of food grains appears by interfering into the market.

The major objectives carried out by NFC are as follows: -

- To implement the food policy of the government in effective way.
- To procure, collect food all over the country, store, transport and supply, and sales and distribution of food grains in fair and reasonable prices for the purpose of mitigating food deficit areas.
- To purchase the food grain by securing the interest of the farmers.
- To ensure to implement the program of price stabilization in order to prevent the interests of customers.
- To keep the appropriate stock of food stocks as per the policy of the government for the purpose of ensuring food security within the country.
- To make the arrangements of godowns at different appropriate places to purchase, procure, store and sales of food grains as per the policy of the government.
- Besides the food grains and daily essentials consumable foodstuffs, the corporation if required performs business trade for becoming self-dependent.
- To establish and to operate the mill factories to carry out the food processing activities.

- To perform the task according to the direction of HMG in collecting, transporting, storing and making the arrangements of distributing of food stuffs obtained by HMG in time to time from different diplomatic countries, donors and international associations and other corporations.
- To export and import food stuffs from different countries.
- To perform the transactions as directed by the government.
- To remain active to gain the goal of making corporation self-dependent.
- Maximum utilization of its fixed and non-fixed assets by purchasing, selling, leasing, renting etc to make the corporation self-dependent.
- To provide food donations in any way in different critical situation like natural calamities and chronic food shortages.
- To provide extra special services in case of great festivals like Dashain, Tihar and other national occasions.
- NFC will be open petrol pump and gas supply local areas in near future.

1.1.5 Operations of Nepal Food Corporation (NFC)

The corporation operates essentially on a system of quotas for each district, set up by the government. Once the quota has been set, NFC supplies the food according to the agreed quota unless there is an abnormal situation. The annual budget is prepared on the basis of fixed quotas along with the information of field offices and the direction of the government.

After the quotas are fixed, the basic operations that NFC carried out are procurement, storage, transport and distribution of food grains to the needed person. These operations of NFC are described briefly.

A. Procurement

Procurement is the first step of operating process of NFC. Especially the head office of NFC decides to purchase the quantities of food grains at reasonable price from the surplus areas to meet the demand of the food deficit areas. The corporation normally uses the methods of procurement either through the tender procedure or by purchasing from the local pricing committee.

B. Storage

The procured food grains from different parts of the country are stored in NFC godowns. Similarly, the food grains supplied by the donor countries and the food grains purchased from other countries and neighboring countries are stored in the godowns. The NFC officers regularly inspect these storage houses. The NFC has a number of storage houses in different part of the country having total storage capacity of 97,370 metric tonne in 166 godowns (NFC Annual Report, 2067/68).

C. Transportation

After the storage of food grains in the storage house, the next operation is to transport these food grains to the food deficit areas in the different part of the country. Due to topographical and geographical condition of the country transportation of food grains has always remain a big challenge to NFC. Lack of access of roads to hilly and mountain areas obstruct the distribution of the food grains. The means of transportation are trucks, animals and porters. In the inaccessible remote hilly and mountainous region the food grains are airlifted. This increases the price of food grains. NFC for this reason has given the privilege in the transportation.

D. Distribution

The government regulates distribution of food grains by NFC. The selling prices of the food grains are fixed by the government at lower than that of market price. Sales quotas are fixed for district at the central level in consultation with the FAMSD (Food Agriculture and Market Department). NFC distributes the food grains to the people on family basis or per head basis on monthly basis. The distribution process is done from the local depot and godown. In the food deficit areas district level food management committee are organized under the chairmanship of the president of DDC to organize and regulate the food distribution in the district. During the shortage time, CDO plays an important role in distribution of food grains by issuing coupon system or imposing maximum limit of purchase at a time.

1.1.6 Present Condition of Nepal Food Corporation (NFC)

One of the oldest public corporations which is fully devoted to the Nepalese people has come to this period with lots of up and downs. Despite its own problems and constraints, concentrating on consumer's needs and interest, Nepal Food Corporation grows from strength to strength in winning the heart of Nepalese people. NFC has

enjoyed a major share of the total rice market in the country. But it cannot retain its position in the market for a long time.

Today many other companies and the individual businessman have come to the market. Today NFC has a minor share in the market but still it is the only corporation that has faith of the consumers. It has enjoyed a strong imagery and appeal amongst consumers. The extensive distribution network of NFC is the major strength. The products are available to consumers, even in the most remote places and the smallest of villages with a few populations. The corporations name conjures up fond memories across the length and breadth of the country.

During the time of its establishment, it has extended its services to all over the country from the 166 godowns located at 55 districts. Today Nepal Food Corporation has established the necessary physical infrastructure all over the country for regular and effective supply of the food grains. It has one head office located in Kathmandu at Bhadrakali, 8 zonal offices, 1 modern rice mill, 30 branch offices, and 61 depot offices. Similarly there are 460 human resources. There are two Food Processing Mills having capacity of 2 ton in Rajapur (Bardiya district) and ½ ton in Mahendranagar (Kailali district). But these mills are not in operation now from the time of insurgency. Today NFC has a storage capacity of 97,620 metric ton of food grains. During its established period its capital was Rs. 34, 75,000 now it has increased up to Rs 99, 04, 96,000. In fixed assets NFC has total of 1,034 ropanies of land, 166 godown house of having a capacity of 97,370 metric tons for storage of food grains and 28 office buildings. The corporation is operating its transaction by taking loan from the commercial banks of Rs. 50 crore by keeping the corporation's land as mortgage (NFC, Annual Report 2067/68).

1.1.7 Organizational Structure of NFC

The organizational and management of NFC provides the structural framework of duties and responsibility of the personnel working in the organization. The structural pattern of NFC becomes the mechanism through which the management directs controls and coordinates the activities of the enterprise. NFC has Central office one, Zone office eight, Branch office thirty and Depot sixty-one. In addition, NFC has 460 employees. Structure of operational committee is as follows.

Table: 1.1
Structure of operational committee

SN	Representation of Ministry	Organization Position
1	Joint-Secretary, Ministry of Commerce Industry and supply	Chairman
2	Joint-Secretary, Ministry of Finance	Operational Member
3	Joint-Secretary, Ministry of Home	Operational Member
4	Joint-Secretary, Ministry of Agriculture and cooperatives	Operational Member
5	Joint-Secretary, Ministry of Commerce, Industry and supply	Operational Member
6	Consultant, Appointed by Government	Operational Member
7	Joint-secretary, Ministry of Commerce, Industry and Supply Guest	Operational Member
8	Director General, Nepal Food Corporation	Member Secretary

(Source: NFC Prospectus, 2010).

1.2 Statement of the Problem

NFC is a fully government owned and government-controlled organization. To cope with the problem of deficiency a food in the country in one hundred unfavorable markets for a agricultural product the government of Nepal has established a separate organization called Nepal Food Corporation (NFC) in 17th Mangsir 2031. It has the monopoly in the market. However, the organization is running in loss. The major problems facing by NFC are as follows:

1. Despite of full government support and utmost monopoly on food supply NFC could not run in profit.
2. Until now, its accumulated loss is (1,100,732,460.56) which is difficult to recover.
3. The high cost in administration and transportation and ineffective management planning has hindered in gaining the profit.
4. A poor performance is the outcome of poor planning, controlling and decision-making.
5. The organization is due to lack of efficient management of the organization or whether the employee of the organization are acquainted with the accounting tools, whether they are acquainted with the profit planning and control or not.

The present study intends to analyze and examine the impact of budgeting on profitability in the organization. Further study tries to answer following questions:

1. What are the trend and variance in sales and purchase of NFC?
2. What is the position of NFC's in terms of expenses and sales?
3. What are the condition of NFC's in the profitability and financial aspect?
4. What is BEP situation?

1.3 Objectives of the Study

The main objective of the study is to study on the current practice of profit planning and control and its effectiveness in NFC. The other specific objectives of the study are as follows;

1. To examine trend and variance in sales and purchase of NFC.
2. To analyze the position of NFC's in terms of expenses and sales.
3. To assess the profitability and financial position of NFC.
4. To find out BEP sale.

1.4 Significance of the Study

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

1. It explores the problems and potentialities of NFC.
2. It examines the application of PPC in the company.
3. It provides the necessary theoretical and contemporary situational conceptions to make appropriate decisions for NFC.
4. It will be useful to the potential managers, accountants, policymakers, loan investors and foreign donors etc.
5. It provides literature to the researcher who wants to carry further research in this field.
6. It provides information on the application of the tools under profit planning in different circumstances.

1.5 Limitations of the Study

Maximum efforts were given for not deviating from the facts and truth while presenting and analyzing the information. But certain limitations existed which were difficult to eliminate. Following are its limitations of this study;

- a. This study is based on the data of five fiscal years covering 2063/064 to 2067/068.
- b. The whole study is based on true response and the data provided by the NFC management.
- c. The study is based on secondary data but for the primary data, general discussions with the management were also done.
- d. This study is focuses on the application of PPC in NFC.
- e. Due to limited time and resource constraint, this study is neither comprehensive nor extensive.

1.6 Organization of the Study

For the systematic presentation of the report, the whole study is divided into five chapters.

The first chapter of this thesis is introduction. It deals with the subject matter. It consisted of introduction, general background of the company, identification of the problem and significance of the study, objectives, limitations and scheme of the study.

Review of Literature is the second chapter of the study. It included review of the literature obtained during the library searches. Review of literature is an essential aspect of all studies. It is a way to discover what other research in the area of our problem has uncovered. This chapter included the meaning or profit planning and other related topics of the profit planning and control under the head of conceptual framework and review of major studies related to the PPC under the head of review of earlier studies.

The third chapter of the study is Research Methodology. It explained the methods used in the study. It included research design, sources of data, data collection technique, methods of presentation and analysis of data and general meaning of research methodology.

Presentation and Analysis of Data is the fourth chapter. It included presentation and analysis of collected data by using various statistical and financial tools and major findings.

The fifth and final chapter is Summary, Conclusion and Recommendation. It concerned with the suggestive framework, it dealt with the summary, conclusions and recommendations of the study.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Conceptual Review

Review of literature is the study of previous research, article, and book in related field or topics for finding the past studies conclusion and deficiencies that may be known for further research. This chapter will help to check the chances of duplication in the preset study. Thus, the gap between the previous research and current research can be filled.

Therefore, the chapter is categorized under three main heading. Conceptual framework is concern with fundamental of supportive text that will ensure the interpretation whether it is under the principles and doctrine of the theories related to the topic. Review of related studies is about the legislations related to NFC studies of previous thesis, related books and previous researcher in similar topics. The last is research gap, which describe the difference and missing factor of the previous thesis and this thesis.

2.1.1 Concept of Profit Planning

Before explanation profit planning it is necessary to understand about profit and planning. So these two components are explained separately below.

Usually, profits do not happen, profits are managed. Profit is controversial terms it is defined by different peoples taking into consideration aspects. "Usually profit does not just happen. Profits are managed". Before we can make an intelligent approach to the managerial concept of profit. There are, after all, several different interpretations of the term "Profit". An economist will say that the profit is the reward for entrepreneur-ship for risk talking. A labor leader might say that it is a measure of how efficiently labour has produce and it is provides a base for negotiating a wage increase. An investor will view it as a gauge of the return of his or her money. An internal review agent might regard it as the base of determining incomes taxes. The accountant will define it simply as the excess of a firm's revenue over the expense of producing revenue in a given fiscal period (Lynch and Williamson, 1997).

“A view of profit state that entrepreneur is special type of labour and profit is a special form of wages. The entrepreneur earns profit for organizing and co-ordinating the other factor of production land, labour and capital” (Lynch and Williamson, 1983).

The word profit implies a comparison of the operation of business between two specific dates, which are usually separated by an interval of one year in order to optimize those cooperate source of wealth on which national prosperity depends those cooperate financial objectives of a company is to maximize, with a socially accepted limits. No company can survive without profit for a long period. The profit is the ultimate measures of its effectiveness and in a capitalists society there is no future for a private enterprises, which always incurs losses.

“Profit is the primary objectives of Business in view of the heavy investment which is necessary for the success of most enterprises, profit in the accounting sense tends to become a long term objectives which measures not only the success of a product but also of the development of the market for it” (Hilton, 2000).

Therefore, profit is the primary measure of business success in any economy. If a firm or enterprises cannot make a profit, it cannot obtain or hold capital for very long, if capital cannot obtain it cannot expand its business and it cannot competitive with other firm.

Planning is a deciding in advance what is to be done in future. It is the method of thinking out acts and purposes before hand. It is the determination of action of achieves a desired result. Planning is the basic function of management; it may be defined as the selection from among alternatives of courses for future actions. It is the functions by which the manager decides what goals are to be accomplished and how they are to be reached.

“A plan is then a projected course of action. All planning involves anticipation of future course of elements and therefore bears the elements under taking in respects of its success” (Munakarmi, 2003).

Planning is continuous process because conditions do not remain static, conditions change rapidly and therefore plans should be revised and reformulated to adapt to the changed conditions. Planning is a tool of developing and achieving the organizational

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

Planning can be defined as the establishment of objectives and the formulation evaluation and selection of the policies strategic tactics and action required to achieve these objectives. Planning comprises long-term/strategic planning and short term operational planning. The latter refers to a period one year (Joshi, 2065. 1st Edition).

Planning is essential to accomplish goals it reduces uncertainly and provide direction to the employees by determining the course of actions in advance. Formal planning indicates the responsibility of management and provides an alternative to growing without direction. Planning on the other hand involves the determination of what should be done, how the goals may be received and what individuals are to assume responsibilities and to be held accountable (Grace, 1992)

In conclusion, planning is very necessary things or jobs for every family, marketing and businesspersons can no one can achieve effective goal without planning. There are two categories of plan these are tactical or short-term plan and strategy long-term plan.

Planning is predetermined course of action for achieving organization goals this is to be done within predetermined time fame through the selection of various alternatives.

2.1.2 Profit Planning

A plan, which is planned for achieving profit in a certain future period, is called profit plan. Every organization wants profit to survive long in the market but profit is not auto formulating component.

Profit planning is defined as "An estimations and predetermination of revenues and expenses that estimates how much income will be generated and how it should be spent inn order to meet investment and profits requirement. In the case of institutional operations it presents a plan for spending income in a manner that does not result in a loss" (Munakarmi, 2003).

Explaining the use of budget and profit plans; they further mentioned that .Once developed managers know that when actual expenses exceed budget limitations, there may be problems. The profit plan tells managers how much money remains to spent in each expenses category. Profit plan are also used to develop a new budgets. Information from the current profit plan, along with actual accounting information, becomes the basic for developing the next fiscal accounting year's budgets.

"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 (Fago, 2004).

The primary aim of profit planning is to assist assuring the procurement of the profit planed and to provide a guide for assisting in establishing for financial control policies including fixed assets additions, inventories and the cash position. The adoption of correctly constructed profit plans provision provides opportunity for a regular and systematic analysis of incurred of anticipated expenses, organized future planning fixing of responsibilities and simulation of effort. In short, it provides a tool for more effective supervision of individuals operations and practical administration business as a whole.

In the broad concept of profit planning some of the author try to give definition in few words "The profit planning means the development , acceptance of objectives and goals moving an organization efficiency to achieve the objectives and goals"(Welsch, 2001).

2.1.3 Corporate Planning

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

"Corporate planning as the systematic process of setting corporate objectives and making the strategic decisions and developing the plan necessary to achieve these objectives" (Joshi, 2065).

Corporate planning thus is action oriented and not concerned with the more plans. Since, corporate planning is also concerned without a forecast whose purpose is to anticipate the future based on factors. From the forecast, one knew what one has to aim to achieve. That is he formulates the objectives and then determines the means,

which must be orchestrated in order to achieve the objectives. Corporate planning therefore seems to be the technique for action now process in sequential logical manners.

2.1.4 The Main Principles and Purposes of Profit Planning

The main principles and purposes of profit planning as follows:

- ❖ To provide of realistic estimated of income and expenses and of the financial position at the close of the period, details by areas of management reflected in the budget.
- ❖ To provide a coordinate plan of action, which is, designed to achieve the estimates reflected in budget.
- ❖ To provide a comparison of actual result, which those budgeted, and an analysis and interpretation of deviation by of area of responsibility to indicate course of corrective action and to lead to improvement in procedures in building future plan.
- ❖ To provide a guide for management decision in adjusting plan and as uncontrollable conditions change.
- ❖ To provide a ready basic for making forecasts during the budget period to guide management in making day to day decisions (Richard and Williamson, 1997).

2.1.5 An Outline of the Fundamental Concepts of PPC.

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

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

- ✓ A management control process.
- ✓ A continuous and consistent coordination of all the management functions.
- ✓ Continuous feed forward, feedback, follow-up and re-planning through defined communication channels (both downward and upward).
- ✓ A strategic (long-range) profit plan.
- ✓ A tactical (short-range) profit plan.
- ✓ A responsibility accounting system.
- ✓ A continuous use of the exception principles.
- ✓ A behavioral management program

(Welsch, Glenn, Hilton and Gordon, 2000).

2.1.7 Application of PPC to Various Types of Organization.

Budget is a pervasive phenomenon, which applies in every kind of organization. The term and function of budgeting were firstly developed for a states purposes. As applied in the conduct of government affairs, budget control implies a forecast of problems in future expensive. This result in the establishment of desirable totals for expenditure and revenue, coupled with plans to ensure that the actual operation are keep with in these bound. The constant comparison of actual receipt and expenditure against the budget throughout the period offers a current measure of the extent to which the perceived plans are being realized.

Some people say that comprehensive profit planning and control is applicable only to large and complex organizations. Usually it is commented, Comprehensives budgeting is a fine for most business, but ours is different or it is impossible to project our revenues and expenses, and so on. Sometimes specific industries are viewed as not amenable to profit planning and control. These views are common regarding non-manufacturing enterprise –service companies, financial institution, hospitals, certain retail business, construction companies, and real-estate enterprises. To the contrary, profit planning a control can be adapted to any organization (profit or non-profit service or manufacturing, regardless of size, special circumstance, or condition). The fact that a company has peculiar circumstance or critical problem, frequently a good reason for the adoption of certain profit planning and control procedures. In respect to

size, when operations are extensive enough to require more than one or two supervisory personnel, there may be a need for profit planning and control application. The smaller company certainly has different needs in this respect than a larger one. As with accounting, a single profit planning and control system that is appropriate for all enterprises cannot be designed. A profit planning and control system must be tailored to fit the particular enterprise, and it must be continually adapted as the enterprise and its environment change.

In organization, irrespective of its type and size, budgeting is inevitable; budgets are so pervasive that they apply to all kinds of organization.

2.1.8 Profit Planning and Control in Nepalese Enterprises

Planning comprise the whole field of deciding what you want human being accomplish. This involves that careful determination of need the establishment of objectives and proper arrangement of responsibility to individual or group of individual.

Most of the corporation in Nepal suffering from lack of corporation planning which rendered them directionless and aimless and board of directors of the corporation are occupied with the routine work in minor day to day problems. Most of corporation do not perform there profit planning programmed settled by the short term and long term planning. It is to be seen in many corporation that annual targets were not fired. Based on investment and achievement are run without well determined strategic and programmers in other words without any sound planning.

Corporation planning in enterprise in Nepal is sedimentary form and limited to annual program and budget, which is most careless and without knowing the projected government product and service. The premises are not considered properly and most case they are not commander at all long term strategic planning is missing. The report of auditor general of Nepal has mentioned that most of the corporations do not perform their PPC program it is to be seen in many corporations that annual targets were not fixed based on investment and achievement and by virtue of which there is not relationship between targets and achievement. In these corporation annual budget have become just formalities.

2.1.9 Budgeting as Tool for PPC

A budget is a comprehensive and co-ordinate plan expressed in financial terms, for the operations and resources of an enterprise for the some specific period in the future.

"A budget is the plan of the firm's expectations in the future. As stated previously, planning involves the control and manipulation of relevant variables controllable and reduces the impact of uncertainty. It makes management action to influence the environment in the interest of enterprise. A budget expresses the plan informal terms and helps to realize the firm's expectation. It is a comprehensive plan in the sense that all activities and operations are considered". When it is prepared as a whole, Budgets are indeed prepared for various segments of the enterprises but they are component of the total budget, the master budget (Lynch and Williamson, 1983).

Budget planning is one of the methods used for preplanning and coordinating the activities of an enterprise. The budget is a technique for comparing various alternatives in terms of results and costs. It takes a consideration of all competing claims as to the directions in which the efforts of an organization should be applied. Budgeting is the heart of the cut of business decisions. It resolves objectives and compares the means of researching them.

Budgeting aims at coordinating these conflating requirements, in such a way that the best overall result is obtained in the light of the circumstances that are anticipated for a forward period and after an analysis of the probable result of all the alternative course of action that are seen to be opened.

“Budgeting, as a tool of planning is closely related to the broader system of planning in an organization. Planning involves the specification of basic objectives that the organization will pursue and fundamental policies that will guide it” (Willsmore, 1960).

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

A budget is predetermining statement of management policy during a given period which provides a standard for comparison with the results actually achieved.

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

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

In summary, the budget involves the statements of plans, the coordination of these plans into well-balanced programs and the constant watching of actual operations to ensure that they are kept in line with the predetermined plans, in this way limits are set on expenditure, standards of performance are established and forward thinking is made as essential part of business management. Care must be taken, however not to fall into the error of regarding the budget as an end itself. It means to an end 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 substituted for opportunism in management.

Hence, profit planning and control represent an overall plan of operations, providing guideline to management and acting as signal light for the management. It enables the management to correct its policy. Profit planning and control covers a definite period and formulates the planning decision of management. It consists of four main budgets.

➤ Operation budgets

Budget related with revenue and expenses, such as sales budget, production budgets purchase budgets.

➤ Cash budgets

Budgets related with receipt and payment of cash

➤ Financial Budgets

Budgets related with financial statement, such as Balance sheet, income statement, Profit and loss account.

➤ Appropriation Budgets

Budgets related with advertising and publicity expenditure, research ect.

2.2 Review of the Earlier Studies

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

The study was conducted on "Profit Planning of Non Manufacturing enterprise in Nepal: A Case Study of Nepal Food Corporation" (Sen , 2001). The study was mainly concerned with the finding of degree of application of profit planning system in NFC to increase its profitability by increasing its effectiveness.

The main objectives of his research work were.

- (a) Comparative study of sales trend.
- (b) Comparative study of purchase trend.

(c) Analytical study of inventory policies.

(d) To examine the cost structure.

His research covered the period of nine year from the FY 2049 to FY 2057 for data gathering process, secondary source were used.

Major Findings of the study are as follows

- 1) The planning section that makes the plan is confusing and creates conflict between profit and goals. NFC profit planning is adversely affected.
- 2) NFC has no any objectives to create and maintain an optimum enterprise environment that maximize the interest and motivate all employees.
- 3) There is no well-developed system of performance evaluation for employee. No fair system of reward and punishment to employee on the basis of their work performance.
- 4) So for NFC has not achieved its specific goal that were targeted.
- 5) NFC is capable enough to formulate and implement its profit plan.
- 6) Corporation has established a planning department but there is no concern authority to decide and create various plans.
- 7) Most of the PE's in Nepal has not been able to generate work efficiency and financial capacities are still dependable on government protection.

His recommendations are as follows

- (a) NFC must formulate clear –cut goals objective policies long term plans and strategic programs etc, while preparing sales and purchase budget the concern authority should be flexible.
- (b) Corporation should come up with the program of reward and punishment for the workers who are dedicated and for the no dedicated one.
- (c) The concept of PPC should be well informed to every level of management.
- (d) Planning department should be provide with adequate authority in decision making and implement ting various plans.
- (e) A separate costing system should be developed.

- (f) The corporation should be away from nepotism and favoritism and should also be away from government pressure while selecting the staff.
- (g) The administrative expenses should be checked time to time avoid unnecessary expenditure.

“Projected Financial Statements of Nepal Food Corporation” (Dhungana, 2005). He was primarily focused on the assets, liabilities, sales, expenses, cash flow of the preceding year followed by the policies and practices adopted by the management of NFC with a view to provide workable suggestion which may be helpful for the projections.

The specific objectives of the study were

- i. To determine the total number of units of products or services NFC realistically expects to sell for the year in each sales depot at the expected prices in the basic market orientation: local, national, regional, or export.
- ii. To calculate and identify all the components of costs of sales that incur under both the low and high sales projections.
- iii. To estimates future funding requirements for the organization.
- iv. To prepare projected financial statements.
- v. To examine break-even point.

Major Findings of the study are as follows

- 1) NFC is not preparing projected financial statements at all. It only prepares annual budget for the one financial year before the start of the concerned financial year.
- 2) NFC does not analyze its financial statement by calculating its different ratios, which is very important for planning and controlling business operating.
- 3) NFC is not calculating the BEP at which the organization gets no profit no loss status.
- 4) Debtors’ collection period of NFC is very high. The reason behind the poor collection period is due to non-recovery of old due balances to be recovered from the government and government undertakings.

- 5) The corporation has no in depth analysis of the strength, weakness and threats.
- 6) A high proportion of debt in the capital structure has been observed in NFC would lead to inflexibility in the operations of the firm because the creditors may exercise pressure and interfere in the management.
- 7) From the last many years, the owner has not got any return on investment due to poor financial condition. In this context, it seems that the corporation has not realized the responsibility towards the government investments.

Recommendations offered are follows

1. NFC should predict the sales volume systematically and purchase the raw material for the concerned financial year.
2. The volume of sales should be increased and the proportion of current assets should be maintained on the basis of sales volume.
3. The corporation needs to operate in a proper way so that it can have lesser operating and non-operating expenses. If we look at operating expense, approx. 50% of the expenses have been incurred only for staff salary and facilities.
4. To overcome the problem of continuous replacing of short-term loan, long-term loan facility should be utilized. Besides, the interest rate of long-term loan is expected to be less costly than short-term loan.
5. Poor management, ad-hoc pricing policy, absence of performance auditing, traditional accounting method, overstaffing, poor personnel management, non-transparent purchasing system, costly distribution, are the main responsible factor of piled up inventory and low turnover. These needs to be investigated and scrutinized with immediate effect and corrective action should be taken.
6. The company should periodically assess its performance through analysis and internal auditing in different functional areas like personal, finance, marketing etc. In financial area, the corporation should accept ratio analysis; funds flow analysis, trend analysis and other relevant mathematical models for evaluating its financial performance and diagnose the financial strength and weaknesses on time in order to correct the loopholes.

“Profit Planning and Control Implications in Nepalese Public Enterprises: A case study of Profit Planning and Control in NFC” (Wagle, 2006). On her research she

tried to understand the practical aspects of the industry and to highlight the current practice of PPC in Nepalese Public Enterprises.

Major Findings of the study are as follows

- i. The overall economic conditions of Public enterprises are very poor. NFC is financially very weak and its financial condition is becoming more and more unmanageable.
- ii. NFC's objectives are often not clear-cut and result oriented. NFC doesn't fix the target for specific goal for the budget period. For example growth, objective, capacity utilization is not targeted to achieve some specific goals.
- iii. Management has not been made fully responsible for achieving predetermined objectives.
- iv. Lack of planning, management, poor distribution, and storage and lack of efficient response have always contributed to food shortages.
- v. NFC doesn't have any long range and medium range forecasts. Forecasting mechanisms are of past experiences and personnel judgment of the managers.
- vi. Regular financial appraisal is absent. No financial efficiency indicator has been identified.
- vii. There are not any effective programs to increase the productivity of manpower. Lack of employee's motivation, performance evaluation, incentives and training and career development etc becomes the major causes for lower profitability of NFC and lower productivity of the employees.
- viii. The corporation has not proper inventory management practice. Lack of inventory policy shows the inventory level has been fluctuating over the period.

Recommendations offered are as follows

1. National policy, concept and vision of the government should be clear in its objective and functional area.
2. To improve the profit pattern NFC should develop profit plan formulation and proper implementation of it.
3. NFC should prepare flexible budget in different level and cost volume profit analysis should be developed for managerial decision-making.

4. Transportation cost comprises much expense. NFC unidirectional flow control, supply from nearest surplus areas and procurement in hill areas will save the significant amount of transportation cost.
5. NFC must maintain the cash flow statement due to which position of cash in NFC will be clear. There is a little expectation of profit if there is a clear cash structure of NFC. Therefore, the cash flow statement of NFC must not be neglected.
6. There is a need to improve the management of inventory and receivables and reduction of cost of transportation and handling and purchases of food grains.
7. It is suggested for the substantial reduction of cost from improved cash management, tightening upon expenditure budget, better control of transport and staff rationalization.
8. Nepal Food Corporation needs to explore business opportunities and develop it as a self-sustainable public enterprise.

“Profit Planning of Non-manufacturing enterprise in Nepal: A Case Study of Nepal Food Corporation” (Gurung, 2008). The study was mainly concerned with the finding of degree of application of profit planning system in NFC to increase its profitability by increasing its effectiveness.

The main objectives of his research work were:

- a. Comparative study of sales trend.
- b. Comparative study of purchase trend.
- c. Analytical studies of inventory policy.
- d. To examine the cost structure.

His research covered the period of five years from the FY 2059 to FY 2064. For data gathering process, secondary sources were used.

Major Findings of the study are as follows

- i. The planning section that makes the plan is confusing and creates conflict between profit and goals. NFC profit planning is adversely affected.
- ii. NFC has no any objectives to create and maintain an optimum enterprise environment that maximize the interest and motivate all employees.

- iii. There is no well-developed system of performance evaluation for employee. No fair system of reward and punishment to employee on the basis of their work performance.
- iv. So far NFC has not achieved its specific goals that were targeted.
- v. NFC is not capable enough to formulate and implement its profit plans.
- vi. Corporation has established a planning department but there is no concern authority to decide and create various plans.
- vii. Most of the PE's in Nepal has not been able to generate work efficiency and financial capacities are still dependable on government protection.

Recommendations offered as follows

1. NFC must formulate clear-cut goals objectives policies, long-term plans, and strategic programs etc. while preparing sales and purchase budgets the concern authorities should be flexible.
2. Corporation should come up with the program of reward and punishment for the workers who are dedicated and for the non-dedicated one.
3. The concept of PPC should be well informed to every level of management.
4. Planning department should be provided with adequate authority in decision-making and in implementing various plans.
5. A separate costing system should be developed.
6. The corporation should be away from nepotism and favoritism and should also be away from government pressure while selecting the staff.
7. The administrative expenses should be checked time to time to avoid unnecessary expenditure.

“Profit Planning and Control of Nepal Food Corporation” (Gautam, 2011), which research mainly concerned to examine the practice of PPC in the Nepal Food corporations. He was focused his study to analyze the sales and purchase budget of Nepal Food Corporations Limited and research covered the time period of five year from the FY 2062 to FY 2066 for data gathering process, secondary source were used.

The main objectives of his research work were.

The main objective of the study is to study on the current practice of profit planning and control and its effectiveness in NFC. The other specific objectives of the study are as follows;

1. To examine the application and practices of PPC in NFC.
2. To analyze various functional budgets adopted by the NFC.
3. To assess the financial performances of NFC by using different financial ratios.
4. To analyze the budget variance.
5. To know about Break even sales and,
6. To provide suitable suggestions and recommendations based on the analysis for improving the NFC conditions.

Major Findings of the study are as follows

- (a) The planning was very poor and NFC management did not practice use of profit planning and control.
- (b) There were fluctuations not only in the actual and targeted sales but also in the targeted sales also. The target was very high and sometime the target was very low. There was no linearity in the target figure.
- (c) The management used to sales plan for different food grains item but rice and goats were major sales, i.e. rice is above 90% of total transaction.
- (d) Purchase should depend upon sales but there was no relation between the sales and purchase. Purchases were made on personal judgment
- (e) Purchases were made for short-term. Rice was the major food grains item in the contribution of transactions.
- (f) The corporation has no proper inventory policies. If purchase exceeds the sales then it is considered as inventory.
- (g) NFC did not make flexible budget, cash budget and capital expenditure budget without which it is difficult for NFC to identify the necessities of cash requirement and uses of cash.

Recommendations offered as follows

1. NFC should develop realistic strategic plan as well as tactical plan regarding sales, purchase and expenses.
2. Long-term objectives of the NFC should be clearly formulated so as to make clear distinction between profit motive and social motive.
3. The participatory approach in planning and decision making should be made. Employees of every level should be given participation in planning.
4. NFC has to change existing system of planning and has to adopt modern and comprehensive planning system that is PPC
5. The corporation should be away from nepotism and favoritism and should be away from government pressure while selecting the staff.
6. NFC has should be analysis their costing system and should be check administrative expenses trend.
7. The purchase of food grains should be made by studying the past sales but not on adhoc basis.

2.3 Research Gap

Most of the past research studies about profit planning system are related to profit planning system of manufacturing sectors or production oriented activities. Very few studies were made in the field of business and service sector. Those were also not done in depth. Those research studies lack the performance analysis of the company. They dealt with either single accounting tool such as CVP analysis or they were limited in the projections of sales and production. This research study dealt with the Profit Planning and Control of a NFC as a whole and tried to find out the drawbacks of the corporation. The previous studies lacked about the profitability position and budget variance, which is focuses in the study.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Research Design

The term 'research is believed to be derived from the fresh word researchers meaning to search again. “The research work is undertaken following a systematic way, which is called the research methodology. It is the way to solve systematically about the research problem” (Agarwal, 2002).

As the study, intends to show the effectiveness of profit planning in a concern. It requires an appropriate research methodology. The main contents of research methodology in course of this study are as follow.

Research design provides the overall framework or plan for the collection and analysis of data during the research study. It is the plan, structure, and strategy of investigation conceived to obtain answers to research questions. This study is an examination and evaluation of budgeting procedure in the process of profit plan of NFC. This study is closely related with the various functional budget and other accounting statements that the company has adopted. An intensive analysis of historical and descriptive research design was used in this study to analyze the performance of past five years from the FY 2063/064 to FY 2067/68. The research possesses both quantitative as well as qualitative aspects.

3.2 Sources of Data

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

3.3 Population and Sample

Since the study is wholly focused on the single company entitled NFC therefore, the company as a whole is a population and sample.

3.4 Data Collection and Analysis

Secondary data was collected from office records, annual reports, balance sheet, profit & loss account and unpublished thesis related with this matter. The primary data was collected from the concerned authority through informal discussion, their opinions and comments.

The analysis of data were done by using different accounting, financial and statistical tools. The statistical tools used are mean, co-relation, and regression. Similarly different ratio analysis, variance analysis etc. were used as financial tools. As for the accounting tools, different functional budgets were taken. The study analyzed only for five fiscal years period. The period for conducting research starts from the FY2063/64 to the FY 2067/068.

3.5. Research Variables

The research variables of the study were related with the accounting statement of NFC. Sales, production, purchase, inventories, expenses, labor, profit and loss were some of the important research variables that affect the research study.

3.6. Tools for Analysis and Presentation

Various percentage data were collected as per the nature of the study and this study required more financial tools cum statistical tools for analysis and presentation of used data to attain the objectives of the study.

3.6.1 Financial Tools

Several financial tools were used to measure the strength and weakness of corporation. In addition, Non-performing asset and average purchase sales and stocking trend been studied under this research work. . Financial ratio shows the long term as well as short term solvency of the concern. Financial analysis involves the three broad groups are:

- A. Performance Measures Ratios.
- B. Operating Efficiency Measures Ratios.
- C. Financial Policy Measures Ratios.
- D. C.V.P Analysis

(A) Performance Measures Ratios

1. Profitability Ratios

It measures management's effectiveness by the returns generated on sales and investment

(i) Gross Profit Margin

The most common ratio in operating analyses is the gross profit margin. The gross profit ratio expresses the relationship between the gross profit and sales.

$$\text{Gross Profit Margin} = \frac{\text{Gross profit}}{\text{Sales}} \times 100$$

(ii) Net Profit Margin Ratio

This ratio tells how much profit a company can make for every rupee of sales. This ratio measures the overall profitability of the firm by establishing relationship between net profit and sales.

Net profit margin ratio = Net income after Tax / Net Sales

(B) Operating Efficiency Measures

1. Inventory Turnover Ratio

Inventory turnover helps to maintain a certain level of inventory to meet the requirement of the business. This ratio indicates whether the investment in inventory is efficiently used or not. This ratio is used to measure the efficiency of sales of the organization,

Inventory Turnover Ratio = Cost of Goods Sold / Average Inventory

Or, Inventory Turnover Ratio = Net Sales / Closing Inventory

(C) Financial Policy Measures Ratios

Two major types of financial policy ratios are considered.

(I).Leverage Ratios

Leverage ratios measures the degree to which owners finance total assets compared with financing provided by the creditors.

(1) Debt-Equity Ratio

Debt-equity ratio measures the relative claims of creditors and owners against the assets of the firm. It is a test of long term solvency of the firm

$$\text{Debt-Equity Ratio} = \text{Total Debt} / \text{Shareholder's Equity}$$

(2) Debt Assets Ratio

Debt assets ratio shows the relationship between the total debts and total assets of a firm. It measures the percentage of the firm's assets financed by creditors.

$$\text{Debt- assets ratio} = \text{Total liabilities} / \text{Total Assets}$$

(3) Interest Coverage Ratio

The interest coverage ratio (also called the “times interest earned ratio”) is determined by dividing earnings before interest and taxes (EBIT) by the interest charges. This ratio indicates the ability of a company to pay annual interest payments out of its profits

$$\text{TIE ratio} = \text{EBIT} / \text{Interest charge}$$

(II) Liquidity Ratios

Liquidity ratio measures the short term loan paying ability of the firm. It measures the ability of the firm to meet its maturing obligations

1) Current Ratio

The current ratio is computed by dividing current assets by current liabilities. It is a test of a company's financial strength.

$$\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$$

2) Quick Ratio (Acid- Test Ratio)

Inventories are typically the least liquid of a firm's assets and the assets on which losses are most likely to occur in the event of liquidation. Therefore, this measure of the firm's ability to pay off short – term obligations without relying on the sale of inventories is important.

$$\text{Quick Ratio: Quick Assets} / \text{Current Liabilities}$$

(D). C.V.P. Analysis

CVP analysis is an analytical technique to study the relationship between volume, cost and profit. In CVP analysis we generally include BEP analysis. In BEP analysis there is no profit no loss situation. That means the sales revenues exactly equals to the total cost.

BEP is that point in which the company is running neither in loss nor in profit. Breakeven analysis rests upon the foundation of cost variability i.e. separate identification and measurement of the fixed and variable components of cost

➤ **Break-Even Point (BEP)**

It is that point of sales at which the total revenues or sales equals to total cost.

$$\text{BEP in Rs:} = \text{Fixed Cost /CM Ratio}$$

➤ **P/V Ratio**

It is an important tool in studying the profitability of a business. It establishes relationship between contribution and the sales value.

$$\text{P.V. Ratio} = \frac{\text{Contribution Margin}}{\text{Sales}}$$

➤ **Margin of Safety**

Margin of safety is the excess of budgeted (or actual) sales over the BE sales volume.

$$\text{Margin of Safety} = \text{Actual Sales} - \text{Break even sales}$$

3.6.2 Statistical Tools

1). Arithmetic Mean

An arithmetic mean of a given set of observations is the sum of the observations divided by the number of observations.

We have,

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n}$$

Where,

$\sum X$ = Sum of all values of the observations.

n = Number of observations.

X = Values of variables.

2). Standard Deviation

It is widely used measure of dispersion and is defined as the given observation from their arithmetic mean of a set of value.

We have,

$$\text{Standard deviation } (\sigma) = \sqrt{\frac{\sum(X - \bar{X})^2}{n}}$$

Where,

n = number of observation

\bar{X} = Mean value of variables

3). Coefficient of Variation (C.V)

The relative measure of dispersion based on standard deviation is called coefficient of standard deviation and 100 times coefficient of standard deviation is called coefficient of variation. It is denoted by C.V. Thus,

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

Where,

σ = Standard deviation

\bar{X} = Mean value of variables

4) Correlation Analysis

Correlation is the statistical tool, which studies the relationship between two variables. Two variables are said to be correlated when the change in the value of one variable is accompanied by the change of another variable. Correlation is calculated as follows:

$$r_{xy} = \frac{N \sum XY - \sum X \cdot \sum Y}{\sqrt{[N \sum X^2 - (\sum X)^2][N \sum Y^2 - (\sum Y)^2]}}$$

Where:

N= No. of observations of X and Y

XY= sum of the product of the observations in series X and Y

X= sum of the observations in series X

Y= sum of the observations in series Y

X^2 = sum of square of variables in series X

y^2 = sum of square of variables in series Y

Probable Error of Correlation Coefficient

Probable error of correlation coefficient usually denoted by P.E. (r) is an old measure of testing the reliability of an observed value and test of significance of correlation coefficient in so far as it depends upon the conditions of random sampling.

$$\text{S.E. (r)} = \frac{1-r^2}{\sqrt{N}}$$

Probable error of the correlation coefficient is given by:

$$\text{P.E. (r)} = 0.6745 \times \text{S.E. (r)}$$

If $r < \text{P.E. (r)}$ i.e. if the observed value of r is less than its P.E., then correlation is not at all significant.

If $r < 6\text{P.E. (r)}$ i.e. if observed value of r is greater than 6 times its P.E., then r is definitely significant.

If $\text{P.E.} < r < 6\text{PE}$, nothing can be concluded with certainty.

3) Regression /Trend Analysis

Trend analysis informs about the expected future return, future achievement of the Corporation, future credit, worthiness of the Corporation, financial capability of the corporation and many other information. The formula of least square method for the straight line is represented by the equation.

$$Y_t = a + bX_t$$

Where,

Y= Dependent Variable

X=independent Variable

a= Y intercept of X when Y=0

b= slope of the change in Y associated with change in X

t= years of observation (t=1.....,n)

In order to determine the values of the constants 'a' and 'b' the following two normal equations are to be solved:

$$Y = a + bX \dots\dots\dots(i)$$

$$\sum XY = a \sum X + b \sum X^2 \dots\dots\dots(ii)$$

The constant 'a' is simply equal to the mean of Y value (Y intercept) and the constant 'b' gives the rate of change or the slope of the trend line.

The straight line trend is represented by the equation $Y_c = a + bx$

Whereas, in multiple regression it may take more than one independent variables and its slope such as $Y_c = a + b_1x_1 + b_2x_2$

Where Y_c is used to designate the trend values to distinguish them from the actual Y values.

Coefficient of Determination (r^2)

The coefficient of determination is a measure of the degree of linear association or correlation between two variables one of which happens to be independent and the other being dependent variable. In other words, r measures that percentage total variation in dependent variables. The coefficient of determination value can range from zero to one.

Regression Constant (a)

The value of constant, which is the intercept of the model, indicates the average level of dependent variable when independent variable is zero. In other words, it is better to understand that 'a' (constant) indicates the mean or average effect on dependent variable of all the variables omitted from the model.

Regression Coefficient (b)

The regression coefficient of each independent variable indicates the marginal relationship between the variable and value of dependent variable, holding constant the effect of all other independent variables in the regression model. In other words, the coefficient describes how change in independent variable affects the values of dependent variables estimative.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

Profit Planning and Control is the tool that helps a firm to achieve its objectives. It helps in effective planning of a firm. It is the formal expression of the enterprises plan, goals and objectives stated in financial term for specific future period. To make profit, effective planning and control of cost is necessary. PPC deals with all these aspects. NFC is a single organization that works for the benefit of poor people even at loss since the time of establishment.

4.1 Analysis of Trend and Variance in Sales and Purchase

4.1.1 Sales Budget and Sales Trend

The sales plan is a necessary portion of PPC. This is the first step of budgeting process. All the organization prepares sales plan as a primary source to provide the necessary information for developing other elements of a comprehensive profit plan, to reduce uncertainty about the future revenue, and to facilitate management's control on sales activities.

NFC an organization involved in the distribution of food grains in the country has no strategic sales plan. It makes only tactical (short-term) sales plan. NFC has a policy of selling various types of food grains. Mainly, the food grains include Rice, Wheat, Pulses, Maize, Paddy, and Mustard.

NFC considers the following sales related activities in preparing sales budget:

First, NFC fixed quotas for each district at the central level to prevent food. crisis in the food deficit areas. Then they fix the selling price of the food grains that is lower than that of the market price. The food grains are then transported to the needed place and are stored in the NFC god downs. For transportation of food grains to remote area government provides grant. NFC uses its own trucks as well as public transport for the transportation. Lastly, the food products are distributed to the needy people through the sales depots of NFC that are located in different districts of the country. For promotional campaign NFC doesn't use any type of promotional campaign for marketing its product. But general announcement about the selling of basic food grains at the reasonable price at the time of Dashain is made through different media.

NFC prepares sales budget of total food grains and non food grains as a whole. NFC has a practice of preparing short-range sales budget for every coming fiscal year. NFC sales comprise mostly of rice. NFC sells different types of rice of superior grade to lower grade. Besides rice, the next item that NFC regularly sales and prepares sales budget is of goats. Other food grains are not sold regularly. Here total sales budget of rice and goats and other items considered.

4.1.1.1 Actual and Budgeted Sales

Sales are main purpose of NFC. Mainly NFC deals rice, paddy, goats, ghee, and other items. Mainly NFC sales rice in festival season NFC sales goat and other items, which help to market monopoly and price hike. Actual and budgeted sales of NFC in amounts from the fiscal year 2063/064 to year 2067/68 show on the below table. In this sales data, sales of all food grain other than rice and non-food grains item are also included.

Table: 4.1
Total Actual and Budgeted Sales

(“000”In Rs.)

F.Y.	Budgeted Sales Amount	Actual Sales Amount	Achievement (%)
2063/064	687351	615086	89.49
2064/065	724031	708940	97.92
2065/066	753216	667864	88.67
2066/067	823015	799087	97.09
2067/068	893517	875411	97.97
Total	3881130	3666388	

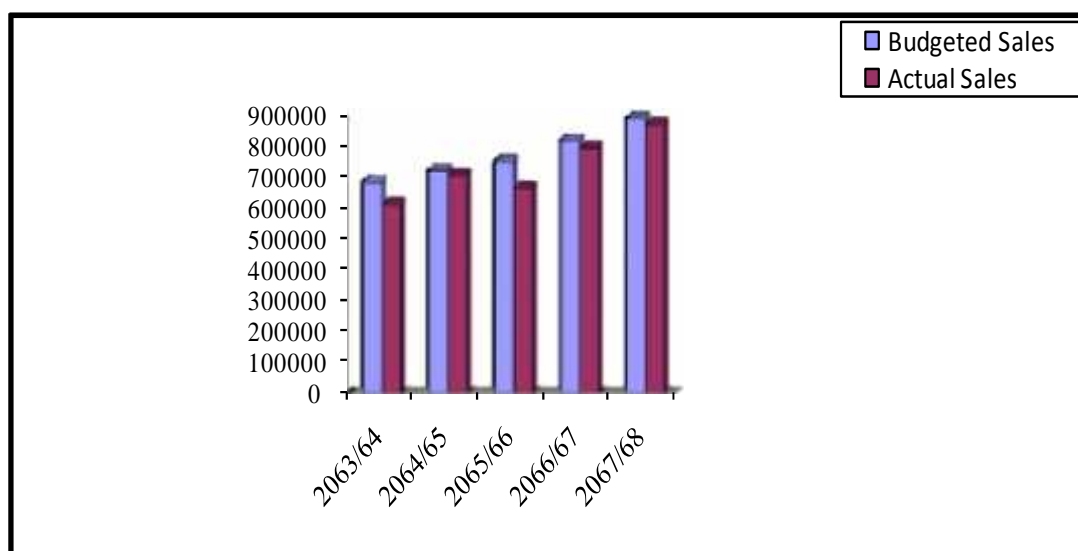
(Sources: NFC Annual Report)

The above table shows the budgeted and actual sales of NFC in amounts from the fiscal year 2063/064 to 2067/68. The nature of budgeted and actual sales is fluctuating. This shows the actual sales achievement is not consistent with the budgeted sales. However, the budgeted and actual sales in amount were in increasing trend. In the fiscal year 2063/064 and 2065/66 the actual sales is far less than the budgeted sales compared with other years which shows the poor sales planning in that fiscal year. As a whole the budgeted sales exceeded the actual sales in every year because there is lack of planning and forecasting of sales. In fiscal year 2066/2067

and 2067/68 NFC was seen in good position because, NFC success to supply all remote area in Nepal, this year the maoist party come in peaceful process. The overall figure shows relatively good and optimistic situation for NFC. This figure has kept a place to be optimistic for NFC in coming days. The main reason for fluctuation on sales is subsidies of Gov. and condition of Nepal's geography political environment .Another reason there is not capable employee making policies and implementation of sales plan.

The above table is describe from the following graph to have a clear idea,

Figure: 4.1
Budgeted and Actual Sales Trend



The above graph represents the targeted and actual sales achievement figure for the five years. The graph clearly shows that the targeted and actual sale in the fiscal year 2066/067 was nearly equal while there was a great variation in the FY 2065/066. And it also shows that the actual sale has near about equal the budgeted sales in 2064/65.

The following table shows mean, standard deviation, co-efficient of variation and correlation co-efficient to analyze the relationship between the actual sales with the budgeted sales. The summarized results of the statistical tools are presented below.

Table: 4.2
Calculation of Different Statistical Tools

Particular	Budgeted	Actual
Mean (X,Y)	776226	733277.6
Standard deviation ()	82308.77	104131.28
Co-efficient of variation(C.V)	10.60	14.20
Correlation co-efficient (r)	0.963	
Probable error of correlation (P.E. (r)	0.022	

The above table shows that the budgeted sales deviated from the actual sales figure. There is no consistent between the actual and budgeted sales. From the above table it is also noticed that the co-efficient of variation of actual sales is slightly larger than the budgeted sales. That means the budgeted sale was less variable or uniformly distributed than the actual sale, which was more variable or less uniformly distributed. This signifies the poor planning of NFC.

To analyze the degree of relationship between the budgeted and actual sales, Karl Pearson's Correlation of Co-efficient statistical tool was used. The budgeted sales are increase trend will case increase actual sales which means the positive relation between budgeted sales and actual sales.

In the above table the value of 'r' is 0.022 which is less than $6 \times P.E (r) \{6 \times 0.23=1.38\}$. It means the value of r is not significant. The actual sales will not go in the same direction as budgeted sales. There will be fluctuation in the actual sales; it means that NFC sales have variation due to different factor. The main factor of this fluctuation is lack of proper planning and forecasting.

Projected Sales for 2068/069

The regression line is a useful statistical tool; it not only finds out the degree of relationship between the budgeted and actual sales but also establishes the nature of relationship between the two or more variables. It helps to forecast the possible actual sales (dependent variable 'Y') with the help of budgeted sales (independent variable 'X'). Statistical tool called regression analysis of least square method can be used to analyze the trend of actual sales and to estimate the future possible sales for a given

time. Time is an important factor which determines the future sales. This time series relationship can be expressed in terms of straight-line trend by least square method. A line fitted by the method of least squares is the line of best fit.

Table: 4.3
Calculation of Least Square Trend

F.Y.	Actual Sales (Y) ("000" In Rs.)	X (Base year) 065/066	X ²	Y ²
2063/064	615086	-2	4	378330787396
2064/065	708942	-1	1	502598759364
2065/066	667864	0	0	446042322496
2066/067	799087	1	1	638540033569
2067/068	875411	2	4	766344418921
Total	3666390	0	10	2731856321746

From the above Table the trend line equation is,

$$Y = 733278 + 61079.50X$$

The trend line of NFC is Rs. = 733278 + 61079.50X That means the sales will increase by Rs 61079.50 every year if the sales of past trend continuous in the future. By using this trend equation it can be estimated that the sales of the fiscal year 2068/069. The value of 'X' will be 3 (base year being 2065/066=0).

$$\begin{aligned} \text{Actual Sales of 2068/069} &= 733278 + 61079.50 * 3 \\ &= \text{Rs. } 916516.50 \end{aligned}$$

It shows that the sales of rice in FY 2068/069 of NFC will be of Rs 916516500. Likewise the sales of other coming fiscal years can also be calculated. It seems that sales will increase in every year by constantly. Mainly NFC sales were focused to deprived sector to facilitate them. Beside that most of the sales were depended up on subsidy of government. Therefore, we concluded that sales plan of NFC is not properly managed and forecasting is adhoc basis.

4.1.2 Inventory Plan

Inventories are the assets available for the creation of revenue either directly through their sale such as finished goods or indirectly by their use such as raw materials. Inventories are the stock of finished goods or raw materials remained in the store for the smooth and continuous supply whenever and wherever required. Inventory investment, inventory level, inventory policies and control depend upon the nature of organization.

Organization like NFC has to be more careful in inventory management. NFC stores food grains in different parts of the country in its godowns. NFC has enough godowns to store food grains. There are 166 godowns all over Nepal which has a storage capacity of 97370 metric ton. NFC has to store adequate amount of food grains because for the natural calamities, acute shortage of food grains in different part of the country and for other reasons. Another important reason for storing the food grains by NFC is storage of food grains in “SAARC FOOD SAFETY STORE”. Nepal has to store 4000 metric tons of food grains out of total 2, 40,580 metric tons. These stocks are stored in 5 different godwons located in Terai and Kathmandu. From 2066/067, Nepal has to store 8000 metric tons for food grains and 15000 metric tons for buffer period. The following table shows the opening and closing inventory amounts of NFC from the fiscal year 2063/64 to 2067/068.

Table: 4.4
Opening and Closing Stock

(“000”in Rs.)

F.Y.	Opening Stock	Closing Stock
2063/064	412701	560853
2064/065	560853	396055
2065/066	396055	673834
2066/067	673834	731732
2067/068	731732	1044977

(Sources: NFC Annual Report)

The above table shows that the opening and closing inventory in fluctuating trend. Closing inventory lowest in the year 2064/065 and highest in year 067/68. The main reason of high stock is contribution of “SAARC FOOD SAFETY STORE” and 15000 metric tons for buffer period.

From the above table we can conclude that. There is no any type of inventory policy of NFC. NFC has no any planning for inventory most of the year if purchase is exceeds the sales then it considered as inventory. Therefore, every year inventory is fluctuated.

4.1.3 Purchase Budget

In non-manufacturing companies instead of converting raw material into finished goods the products are directly purchased and sold in the market in the same form. Therefore a trading business does not make raw material purchase budget, direct labor and factory overhead budget. They only make a purchase expense budget.

Purchase = sales + ending inventory – opening inventory

While making purchase expense budget NFC considers the following purchase related activities;

- a) Procurement of food grains: NFC procures food grains either directly from the farmers or from the registered cooperatives or merchant. They procure through tender process. NFC procures food grains from India, Bangladesh and they also procure from Japan, Thailand, and America as donation.
- b) Product line consideration: NFC mostly purchases rice. They purchase different grades of rice like Aruwa mota, Usina mota to high grade of rice like Sona Mansuli, Basmati and Indian Fine rice. There are more than 15 different types of rice that NFC deals with. Apart from rice NFC also purchase other items like Goats, Wheat, Maize, Sugar, Flour etc.
- c) Policy of Purchasing: NFC has a policy of purchasing of food grains both from the primary supplier and from open market through purchase committee. There are many depot established in the country for purchase and storage of food grains. Format of committee is as under

Table: 4.5
Members of Purchasing Committee

Position	Authorized Member
Chairman	CDO of the concerned district
Member	Representative of ADO of the concerned district.
Member	Chairperson of chamber of commerce of the concerned district.
Member	Chairman of consumer forum of the concerned district.
Member	Chief of NFC, zonal branch office.
Member	Representative of district farmer committee recommended by DAO.

(Sources: NFC Annual Report)

4.1.3.1 Actual and Budgeted Purchase

Purchase is the main sources of collection of material. NFC mainly purchased rice, paddy, and goats. Ninety percentage of purchase was rice. Mainly in Dashain and Chhat NFC supply goats and ghee also. The following table shows the actual and budgeted purchase of NFC from the fiscal year 2063/64 to 2067/068.

Table: 4.6
Budgeted and Actual Purchase

("000" In Rs.)

F.Y.	Budgeted Purchase	Actual Purchase	Achievement
	Amount	Amount	%
2063/064	650341	620976	95.48
2064/065	673502	397925	59.08
2065/066	703503	766089	108.90
2066/067	753504	669937	88.91
2067/068	808537	1003047	124.06

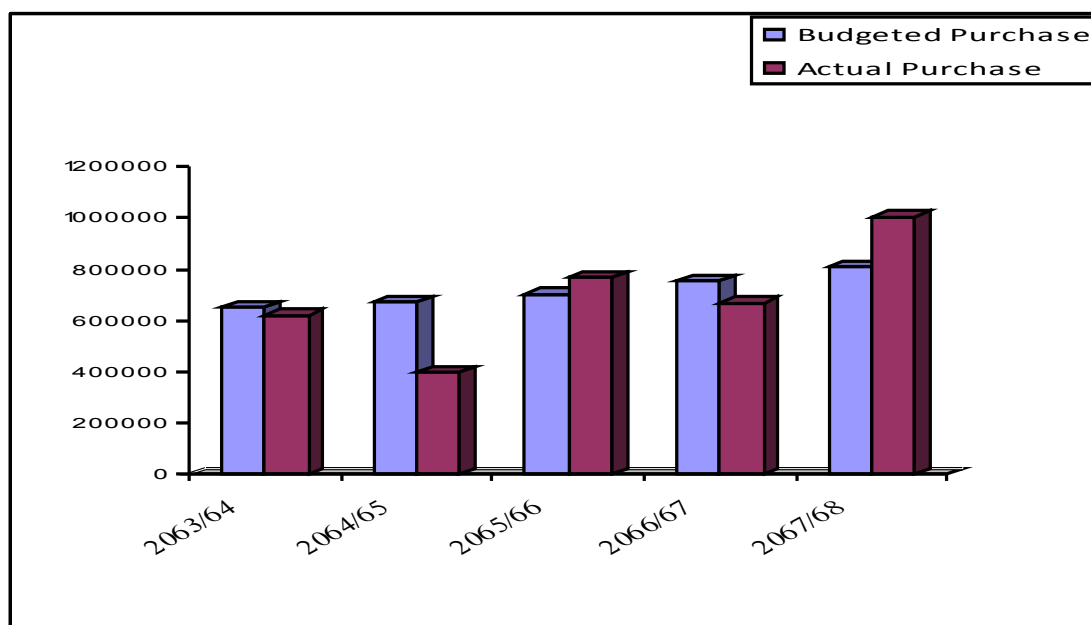
(Sources: NFC Annual Report)

The above table shows the purchase budget of NFC. The actual purchase exceeded the budgeted purchase, which was a good result. The achievements were highest 124.06% in the FY 2067/068 and lowest 59.08% in the F.Y. 2064/65.

There is a great variation between the actual and budgeted purchase, which signified the poor planning in purchase. Most of the year purchase is depended in government subsidies because if government provided more subsidies NFC purchases more. Every year NFC purchase different food from different part of country and aboard also.

In every year, government plan in annual budget for subsidies and then NFC is planning to purchase. According to above table in last year 2067/068 NFC was purchased more than its target. The above data is presented in graph diagram.

Figure: 4.2
Budgeted and Actual Purchase



The above graph clearly shows that actual purchase is greater than budgeted purchase in the year 2065/66 and year 2067/068. In Fiscal year 206/064, 2064/65 and 2066/067 budgeted purchase of NFC is increase. Which means signified the poor planning in purchase of NFC.

Table: 4.7
Calculation of different statistical tools

Particular	Budgeted	Actual
Mean (X,Y)	717877.4	691594.8
Standard deviation ()	63689.45	220368.94
Co-efficient of variation(C.V)	8.87	31.86
Correlation co-efficient (r)	0.79	
Probable error of correlation (P.E. (r)	0.11	

The above table shows the arithmetic mean, standard deviation, co-efficient of variation, correlation coefficient and probable error of correlation coefficient of budgeted and actual purchase of rice. Co-efficient of variation of the budgeted purchase of rice is 8.87, which is lower than the co-efficient of variation of actual purchase 31.86. This shows that the budgeted purchases are more homogenous or uniformly distributed than actual purchases, which are more heterogeneous. Correlation of co-efficient is determined by widely used statistical tool. The value of r is 0.79. This shows that there is high degree of positive correlation between budgeted and actual purchase. The probable error of the coefficient of correlation is used to test whether the calculated value of sample correlation co-efficient is significant or not. The calculated value of P.E (r) is 0.11.

The value of 'r' is lesser than $6 \times P.E(r)$ ($6 \times 0.11 = 0.66$). This means the value of 'r' is not significant. The actual purchase will not go in the same direction as budgeted purchase. There will be fluctuation in the actual purchase; it means that NFC purchase has variation due to different factor. The main factor of this fluctuation is lack of proper planning.

Projected Purchase for 2068/069

Another statistical tool, which is used to know the relation of variation of one series with the other series, is regression analysis. Regression analysis determines the nature and the strength of relationship between two variables. Least square method is the best method of regression analysis to analyze the actual purchase and to estimate the

future likely purchase for a given time. The below table shows that calculation of last square trend of purchase.

Table: 4.8
Calculation of Least Square Trend

F.Y.	Actual Purchase (Y) ("000" In Rs.)	X (Base year)065/66	X ²	Y ²	XY
2063/064	620976	-2	4	385611192576	-1241952
2064/065	397925	-1	1	158344305625	-397925
2065/066	766089	0	0	586892355921	0
2066/067	669937	1	1	448815583969	669937
2067/068	1003047	2	4	1006103284209	2006094
Total	3457974	0	10	2585766722300	1036154

From the above Table, trend line equation is,

$$Y = 691594.80 + 103615.40X$$

The trend line of NFC is Rs 691594.80+103615.40X. That means the purchases will increase by Rs 103615.40 every year if the purchases of past trend continuous in the future. By using this trend equation, the purchase of the fiscal year 2068/069 can be estimated. The value of 'X' will be 3 (base year being 2065/066=0) for the fiscal year 2068/2069.

It shows that the purchase of rice in FY2068/2069 of NFC will be of Rs. 1002441. It seems that purchase will be increase. The incensement of purchase is fluctuating because government police and subsidy affect purchase of NFC.

4.1.4 Analysis of Variance

A basic feature of performance reports is the reporting of variances between actual results and planned or budget goals. A variance is the difference between actual results and budgeted expectations. 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 base. Variance can be both positive and negative, depending

upon whether actual result is greater or lesser than standard result. Any deviation from the standard or base amount is interpreted as good or bad, favorable or unfavorable.

4.1.4.1 Sales Variances

The table shows the sales variances of NFC. If actual sales exceed the budgeted sales then the results is favorable otherwise the result is unfavorable.

Table: 4.9
Sales Variance Analysis Table

(“000”in Rs.)

F.Y.	Budgeted Sales	Actual Sales	Remark
2063/064	687351	615086	UN FAV
2064/065	724031	708942	UN FAV
2065/066	753216	667864	UN FAV
2066/067	823015	799087	UN FAV
2067/068	893517	875411	UN FAV

(Sources: NFC Annual Report)

The above table of sales variance shows actual sales is less than the budgeted sales in the every year but in the fiscal year 2064/065, actual sales exceed the budgeted sales. Thus, the condition is unfavorable for NFC in the fiscal year 2062/063, 2063/064 and 2065/066. Favorable in the fiscal year 2064/65 and 2066/067.

However, the fact cannot be denied that the over all result of NFC is not favorable. Unfavorable means that there is no matching between actual and budgeted sales so it seems that there is lack of proper planning, forecasting and also in performance of sales.

4.1.4.2 Purchase Variance

Actual expenses that exceeds the budgeted expenses results in unfavorable expense variances and actual expenses that are less than the budgeted expenses results in favorable expenses variance. The table below shows the purchase variance.

Table: 4.10
Purchase variance Analysis Table

("000" in Rs.)

F.Y.	Budgeted Purchase	Actual Purchase	Remark
2063/064	650341	620976	UN FAV
2064/065	673502	397925	UN FAV
2065/066	703503	766089	FAV
2066/067	753504	669937	UN FAV
2067/068	808537	1003047	FAV

(Sources: NFC Annual Report)

The above table shows that in fiscal year 2063/64, 2064/65 and 2066/67 is unfavorable or budgeted is below than actual purchase. The actual result is lower than the budgeted result except in the fiscal year 2065/66 and 2067/68.

This result shows that NFC has management makes plan in haste because there is no any proper method of planning and budgeting. The management is not reviewing its experiences to formulate new plan. Corporation is not considering the principle of "a good plan is job half done".

4.2 Analysis of Expenses and Sales

4.2.1 Administrative Expense VS Sales

Administrative expenses include those expenses other than manufacturing and distribution. In other words, administrative expenses are those expenses, which is not assigned in product but without those expenses product are not possible to produce. It includes large portion of fixed cost than variable cost.

NFC were expend their huge amount in administrative in every year. All office expenses, indirect expenses and overhead expenses are included in the administrative expenses. The

Following table shows the administrative expenses of NFC and comparing with subsequent year.

Table: 4.11
Administrative Expense Vs Sales

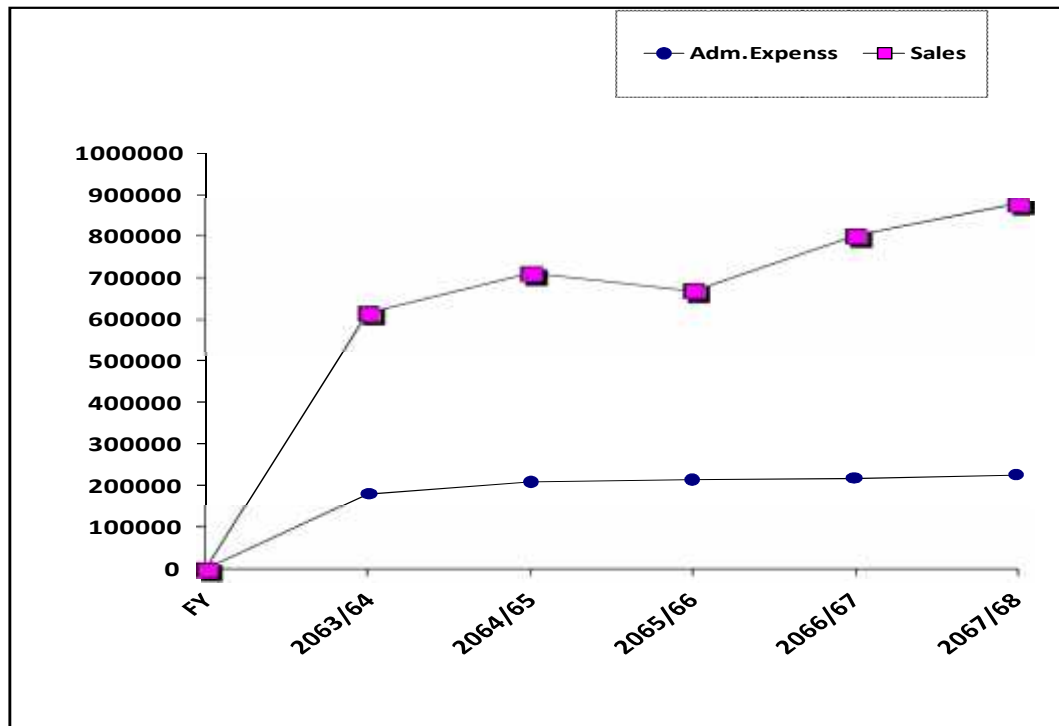
("000" in Rs.)

F.Y.	Sales	Adm. Exp.	% Exp in Sales.
2063/064	615086	179861	29.24
2064/065	708942	208463	29.40
2065/066	667864	213886	32.03
2066/067	799087	216760	27.13
2067/068	875411	225098	25.71

(Sources: NFC Annual Report)

The above table shows administrative expense and sales. In every fiscal year administrative expenses is increasing trend. High expenses called less profit. It should be control. From the fiscal year 2063/64 to fiscal year 2064/65 there is huge increase because high number of depo. And NFC lunch self-retirement program, after that every year expense is increasing linearly every year whereas there is fluctuation because its depend upon Government's subsidies. In the year 2065/066 and 2066/067 expenses was increasing slowly because sale depo has decreased and self-retirement program of employment operate by NFC. Hence sales, wages and allowances expenses increased in every year. The increase in administrative expenses reduces the profit, so the manager should be serious while managing the expenses. And other hands sales is fluted every year in fiscal year 2064/65 and 2066/67 is increasing good and rest of the year increasing fluctly.. In the fiscal year 2065/066, changing in expenses and sales is high and near it and 2066/067, sales increase highly rather than expense. It so good but rest of the year mainly in fiscal year 2067/68 sales and expense were increasing likely. It shows that there is poor planning and implementation of NFC. The above figure can be more specified through the following graph.

Figure: 4.3
Administrative Expense and Sales



The above graphs represent the administration expenses are increasing every year. In the year 2063/064 to 2064/65 and 2066/67 to 2067/68 administrative expenses increasing highly equal comparative in the other year.

Here we shows actual administrative is higher in every year, and it shows that there is not monitoring and evaluating of expenses because there is no any relation in expenses and sales and also there is no any planning to reduce such kind of expenses to be taken by NFC.

4.2.2 Selling And Distribution Expense VS Sales

Selling and distribution expenses include all those expenses related to selling, distribution and delivery of products to customers. It is a significant portion of total expenses. Distribution expenses affect the profit of the firm. The NFC does not consider expenses like promotion expense, research & development expense. Advertising expenses are considered in administrative expense budget. The table below shows the actual sales VS selling and distribution expenses and of NFC.

Table: 4.12
Actual Selling and Distribution Expenses Vs Sales

("000" in Rs.)

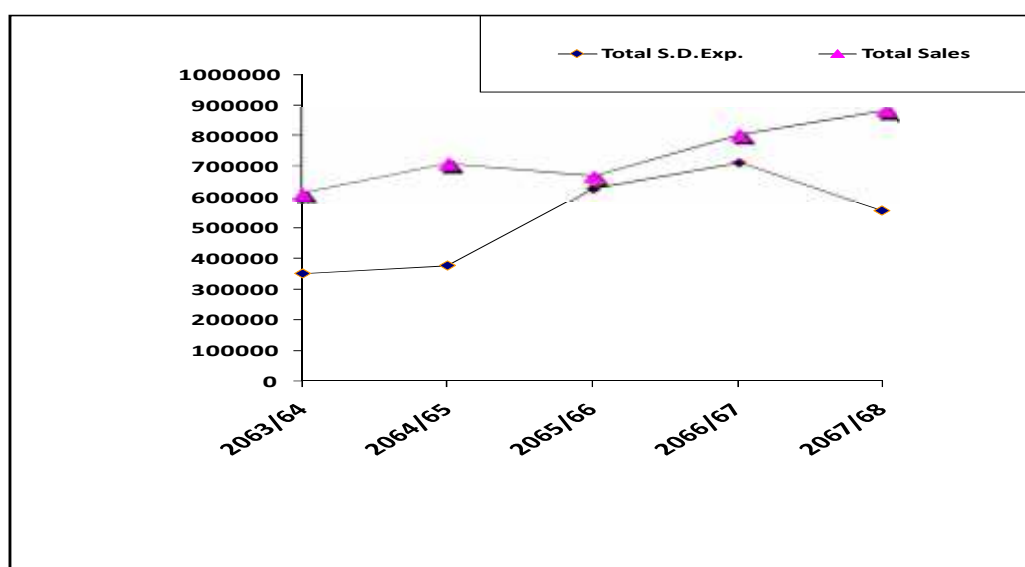
F.Y.	Sales	Total S.D. Exp.	% S.D. Exp in Sales.
2063/064	615086	343463	55.84
2064/065	708942	372989	52.61
2065/066	667864	622724	93.24
2066/067	799087	700436	87.65
2067/068	875411	542705	61.99

(Sources: NFC Annual Report)

In the above table the selling and distribution expenses is more fluctuation change in every year. Which ratio increase expense, sales is not increasing which trend? In the year 065/66 expenses increase 66.96% and sale also increased by 5.79% which is good. It is negligence of management of NFC. In year 2067/68 sales is increasing by 8.72% and selling and distribution is decreasing it is good it helps increase profit if this trends will be maintain by NFC in future it make profit. However, NFC is not profit motive organization therefore the sales decrease than increase in expenses and sales depends upon Government subsidies. The above selling and distribution figure can be more specified through the following graph.

Figure: 4.4

Actual Selling and Distribution Expense VS Sales



The above graphs represent the growing figure of actual selling and distribution expenses are increasing every year. However, in the year 2067/068 actual selling and distribution expense is decreasing due to expansion of road. It is good because it help to reduce cost and increase profit. On the other hand we shows actual expenses is increasing every year, it shows that there is not monitoring and evaluating of budget because in fiscal year 2065/66 it reached up to 93.24 % of sales revenue.

Most of the year more than half of sales revenue is selling and distribution expenses, it seems that NFC lost more amounts on selling and distribution. Due to lack of road network and costly fair on other medium like air transportation. However, NFC's management has not any plan and policy to reduce such expanses. If NFC may be able to control some of these expenses, NFC will run in profit.

4.2.3 Administrative Expense, Selling and Distribution Expense and Sales.

NFC were expend there huge amount in administrative and selling & distribution in every year. Some of the fiscal year total expenses are more than sales revenue. NFC were expend their huge amount in administrative in every year. All office expenses, indirect expenses and overhead expenses are included in the administrative expenses and Selling and distribution involves those cost which incurred in selling distribution actives. Below table shows that total expenses of administratation and selling & distribution and percentage of sales.

Table: 4.13

Sales, Selling & Distribution and Administration Expenses

(“000”In Rs.)

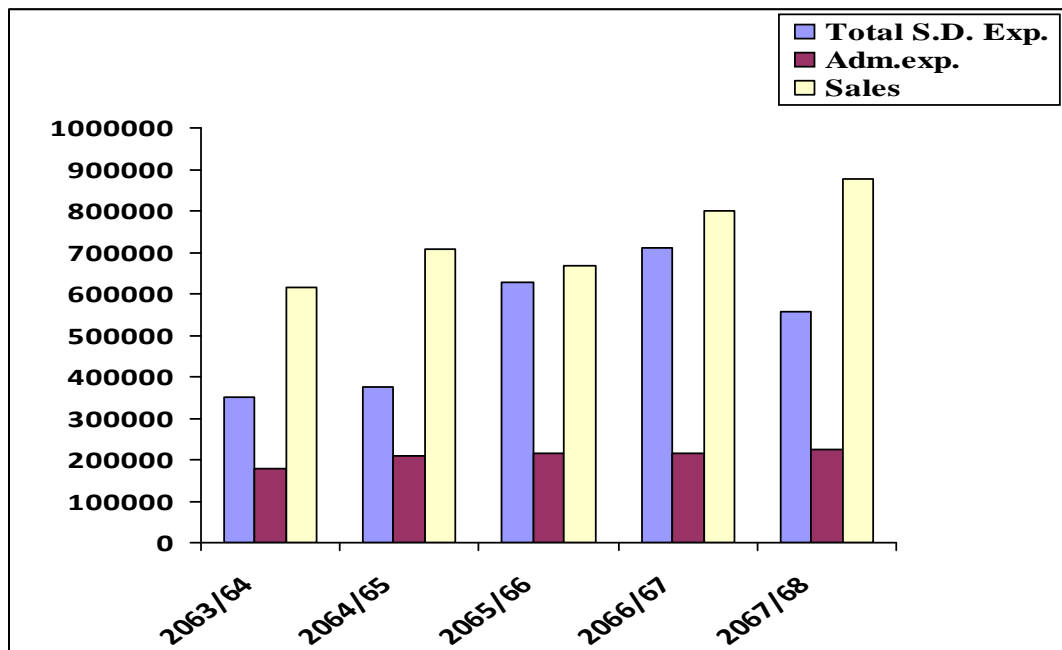
F.Y.	Sales	S&D Exp.	Adm. exp.	S.D. exp % of sales	Adm. exp % of sales
2063/064	615086	343463	179861	55.84	29.24
2064/065	708942	372989	208463	52.61	29.40
2065/066	667864	622724	213886	93.24	32.03
2066/067	799087	700436	216760	87.65	27.13
2067/068	875411	542705	225098	61.99	25.71

(Sources: NFC Annual Report)

From the above table we can see that selling and distribution expenses were the main expenses because NFC supplies food in remote area of country. Some time by helicopter and meal so NFC bear high cost for this. In year 2065/66 and year 2066/67 selling expenses is near the sales. It seems that cost of sales is very high and another hand in fiscal year 2065/66 administration expense also very high because unnecessary depot and facilities of employee is the main cause of high expenses.

The below graphs indicate that selling & distribution expenses is the main source of expenses every fiscal year selling and distribution expenses were the main problem of being loss. In addition, administration expenses also increases every fiscal year. Total expense is greater than total sales revenue. So it is the main problem and case of huge loss of NFC in every year. The above figure can also be more specified through the following graph.

Figure: 4.5
Sales, Selling & Distribution and Administration Expenses



However, NFC has not able to collect sales revenue to recover total expenses in every year so, NFC need to see way of government subsidy for substance. Due to lack of proper planning and forecasting NFC faces unexpected huge expenses in selling and distribution.

4.2.4 Government Subsidies for Supply and Interest

overnments of Nepal were providing subsidies for NFC to provide their service to the people. In every year in budget government were create provision for NFC. NFC was trying to reduce the market monopoly and service in suitable price so government provides subsidies for NFC in supply of goods and in interest. Therefore, it helps to reduce cost of NFC. It helps to increase profit. The below table shows actual subsidies provide by government of Nepal in different year.

The below table shows, the subsidies provided by government of Nepal in interest are increasing every year except in first 2 year. Supply subsidies are increasing in the year 2065/66 is very higher moreover subsidies is increasing every year except in year 2066/67. In year 2066/67 government, provide first time subsidies to operation of buffer stock.

Table: 4.14
Subsidies Analysis Table

(“000”In RS)

F. Y.	Interest Subsidies	Supply Subsidies	Buffer Stock Subsidies	Total Subsidies
2063/064	20000	336000	0	356000
2064/065	20000	369515	0	389515
2065/066	30000	619659	0	649659
2066/067	35700	535000	9500	580200
2067/068	39900	701500	0	741400

(Sources: NFC Annual Report)

From the above we can conclude that NFC fully depends up on subsidy of government because lack of profit margin and constant of government rules. If government don't provide subsidy NFC can't operate properly. Therefore, every year government increase subsidy for transportation of food.

4.2.4 Government Subsidies VS Total Expenses

NFC received yearly subsidies from Nepal government for regular supply of foods In different parts of country as subsidies of interest and supply. Below table shows total and total expenses.

Table: 4.15
Subsidies VS Total Expenses Analysis Table

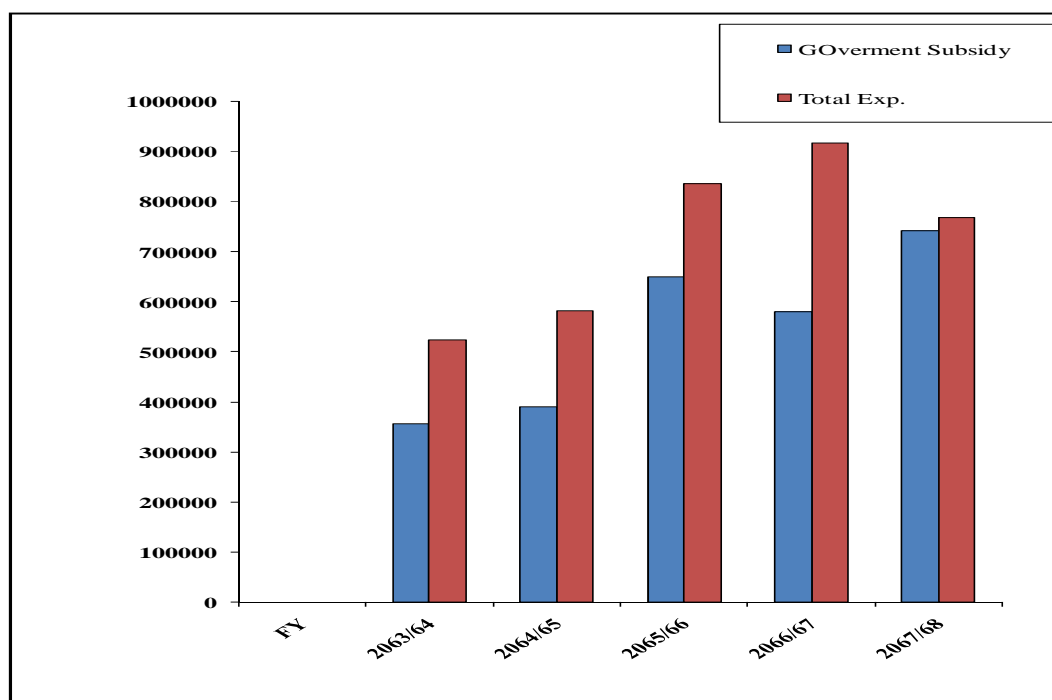
(“000”In RS)

F.Y.	Subsidies	Total exp.	% of Total exp.
2063/064	356000	523324	68.03
2064/065	389515	581452	66.99
2065/066	649659	836610	77.65
2066/067	580200	917196	63.26
2067/068	741400	767803	96.56

(Sources: NFC Annual Report)

The above table shows that every year government provide subsidy regularly. NFC sales also depend up on subsidy of government in fiscal year 2065/66 government increase more subsidies and sales also but in fiscal year 2067/68 subsidies is increase but sales was not because price hike in every sector is main cause. Above figure more specify in following figure.

Figure: 4.6
Subsidies VS Total Expenses



From the above graph we can see that every year government provides subsidy more than half. In every fiscal year subsidies increasing in fiscal year 2067/68 subsidies is almost equal with expenses. In fiscal year 2065/66 is also more subsidies than fiscal year 2063/64, 2064/65 and 2066/67.

From the above, we see that subsidy is increasing every year .Most of the subsidy is related with transportation and interest. Government provides the subsidy based on sales and expenses. So, if NFC will Manage these subsidy it gets converted into profit.

4.3 Analysis of Financial and Profitability Position

Financial analysis helps to diagnose strength and weakness in a firm's performance in quantitative relations. An arithmetic relationship expressed in the form of percentage or in fraction is known as ratios. Ratio analysis is a technique of analysis and interpretation of financial statement to evaluate the performance of an organization by creating the ratio from the figures of different consisting in balance sheet and income statement is known as ratio analysis. Ratio can be classified into three broad groups. Performance ratio shows the overall efficiency of the business. Operating efficiency measure ratio shows management of inventory and sales. Financial ratio shows the long term as well as short term solvency of the concern. Financial analysis involves the three groups which are:

Performance Measures Ratios.

Operating Efficiency Measures Ratios.

Financial Policy Measures Ratios.

4.3.1 Performance Measures Ratios

Performance measure ratio mainly related with profitability ratio basically it measures management's effectiveness by the returns generated on sales and investment.

4.3.1.1 Gross Profit Margin

The most common ratio in operating analysis is the gross profit margin. The gross profit ratio expresses the relationship between the gross profit and sales. A high gross profit margin ratio to sales is a sign of good management. A relatively low ratio is definitely a danger signal.

Table: 4.16**Comparative Gross Profit Margin**

F.Y.	Sales	Gross Profit	Ratio
2063/064	615086	248313	40.37
2064/065	708942	213740	30.15
2065/066	667864	180832	27.08
2066/067	799087	190428	23.83
2067/068	875411	200867	22.95

(Sources: NFC Annual Report)

The above table shows the gross profit margin ratio of NFC. This ratio is satisfactory minimum two-digit ratio is required and there is two-digit ratio. In the year 2063/064, gross margin is 40.37% it is very good. From fiscal year 2063/64 profit margin is going to decrease up to 22.95 %. The main causes of high gross margin are subsidies of Govt. Now gross profit margin is decreasing it is not good for NFC. However, NFC looks well in these years due to subsidy of government.

4.3.1.2 Net Profit Margin:

This ratio tells how much profit a company can make for every rupee of sales. This ratio measures the overall profitability of the firm by establishing relationship between net profit and sales.. Higher the company's profit margin compared to the competitors, the better the company is. A high net profit margin would enable the firm to withstand adverse economic condition and a low margin will have opposite implication. The ratio is calculated by dividing net profit after tax and interest by sales.

Table: 4.17
Net Profit Margin

F.Y.	Sales	Net Profit	Ratio
2063/064	615086	36155	5.88
2064/065	708942	6595	0.93
2065/066	667864	5108	0.76
2066/067	799087	14992	1.88
2067/068	875411	997	0.11

(Sources: NFC Annual Report)

From above table, it is noticed that the profit margin ratio is low most of the year. In the fiscal year in 2063/064 the NFC was in great position this year low administration cost and high subsidies of Govt. In the year 2064/65 and 2065/066 we can see the slightly decrease and in year 2066/67 it seem to good but again in the year 2067/68 it is decreasing because in this year the NFC is not able to create profit. Hence, the corporation is better in year 2066/067.

Hence, The relationship between net profit and sales indicates management's ability to operate the business with sufficient success not only to recover the cost of production, operating expenses of business and cost borrowed fund but also leave a margin of reasonable compensation to the owners for providing their capital at risk. But NFC has low net profit except year 2063/64 which means NFC is facing difficulty to manage expenses. It is service motive origination operated by government and government providing subsidy.

4.3.2 Operating Efficiency Measures

4.3.2.1 Inventory Turnover Ratio

This ratio indicates whether the investment in inventory is efficiently used or not. This ratio is used to measure the efficiency of sales of the organization. A high stock turnover indicates efficient management of inventory, because more frequently the stocks are sold, the lesser amount of capital is required to finance the inventory.

Table: 4.18
Inventory Turnover Ratio

F.Y.	Sales	Inventory	Ratio(:1)
2063/064	615086	472824	0.77
2064/065	708942	562723	0.79
2065/066	667864	488310	0.73
2066/067	799087	612039	0.77
2067/068	875411	689802	0.79

(Sources: NFC Annual Report)

The above table shows the ratio of inventory turnover in different fiscal year. In fiscal year, 2065/66 there is lower turnover i.e. 0.73:1 and in fiscal year 2067/68 and 2064

/65, there is higher turnover i.e.0.79:1. Low stock turnover indicates over investment in stock, poor quality of goods, low profits as compared to total investment and inefficient inventory. Thus, higher the ratio, more times a year the firm is turning over its inventory.

As this is Govt. organization created to maintain market price and supply of food grain. This can be the reason for having high inventory besides NFC has to maintain food grain for SAARC food safety store and stock for buffer period. Another important reason for storing the high inventory is to maintain buffer stock of food grain as a precaution against food shortage problem, which may come as the result of such as flood, earthquake or draught the natural calamities.

4.3.3 Financial Policy Measures Ratios

Two major types of financial policy ratios are considered.

1. Leverage Ratios

Leverage ratios measures the degree to which owners finance total assets compared with financing provided by the creditors.

2. Liquidity Ratios

Liquidity ratio measures the short-term loan paying ability of the firm. It measures the ability of the firm to meet its maturing obligations. It gives a picture of a company's short-term financial situation or solvency. Short-term lenders first glance the liquidity position for deciding to grant or not the credit.

4.3.3.1.1 Debt-Equity Ratio

Debt-equity ratio measures the relative claims of creditors and owners against the assets of the firm. It is a test of long-term solvency of the firm. Debt-equity ratio indicates the relationship between debt and equity. In other words, it measures how much money a company could safely borrow over long periods. It gives the assurance of protection to the long-term creditors. Lower the debt –equity ratio better the condition of firm, higher the debt-equity ratio higher the chance of solvency. Generally, debt-equity ratio of over 40-50% should be looked at more carefully to make sure that there are no liquidity problems. Below table is only showing equity and retaining earning amount.

Table: 4.19
Debt-Equity Ratio

('000'in Rs.)

F.Y.	Total Debt	Total Equity	Ratio
2063/064	141095	954340	7.02
2064/065	145778	997090	6.79
2065/066	161055	1002198	6.15
2066/067	412998	1017190	2.40
2067/068	664582	1018187	1.49

(Sources: NFC Annual Report)

The above table shows higher debt-equity ratio. All the fiscal year have more than minimum required ratio (40-50%). Fiscal year 2063/064 has the highest ratio and the fiscal year 2067/068 has the lowest ratio. A high debt- equity ratio indicates greater contribution at a firm is financing by debt holders than those of equity holders, which is not a good sign for the corporation. This will create great risk for the NFC. So the manager should be serious while the managing the debt.

4.3.3.1.2 Debt Assets Ratio

Debt assets ratio shows the relationship between the total debts and total assets of a firm. It measures the percentage of the firm's assets financed by creditors. The lower the ratio, the greater the protection afforded creditors in the event of liquidation

Table: 4.20
Comparative Debt-Assets Ratio

('000'in Rs.)

F.Y.	Total Debt	Total Assets	Ratio
2063/064	141095	1154815	8.18
2064/065	145778	854213	5.86
2065/066	161055	1135071	7.05
2066/067	412998	1130914	2.74
2067/068	664582	1434745	2.16

(Sources: NFC Annual Report)

The above table shows the relationship between the total liabilities and total assets of different fiscal year. Lower the ratio, more fruitful for the company. The overall data shows NFC is at greater risk since the ratio is higher. At FY 2066/67 NFC is in less riskier position. The corporation has highest ratio in fiscal year 2063/064.

4.3.3.1.3 Interest Coverage Ratio

The interest coverage ratio (also called the “times interest earned ratio”) is determined by dividing earnings before interest and taxes (EBIT) by the interest charges. Generally interest charges should cover six or seven times.

Table: 4.21
Interest Coverage Ratio

(‘000’in Rs.)

F.Y.	EBIT	Interest Charge	Ratio
2063/064	36155	21442	1.69
2064/065	6595	18584	0.35
2065/066	5108	14705	0.35
2066/067	14992	26913	0.56
2067/068	1329	27566	0.05

(Sources: NFC Annual Report)

From the above table it can be noticed that the overall ratio is very poor except in 2064/65 when it have achieved standard ratio. The worst situation NFC was in fiscal year 2063/64 where the ratio is in negative. Because in this year selling and distribution expenses was very high in comparison to sales figure and the Government also do not give sufficient subsidies. In the fiscal year 2065/66 and 2066/67 the interest expenses is run negative figure meaning interest expenses subsidies from government has exceeded the real figure of interest payment.

This ratio indicates the ability of a company to pay annual interest payments out of its profits. Failure to meet such obligations can bring legal action by the creditors, possibly resulting in bankruptcy. In NFC there is no good position. From the above we can seem that NFC interest covering position is very bad because it is very low with standard.

4.3.3.2 Liquidity Ratios

4.3.3.2.1 Current Ratio

The current ratio is a test of a company's financial strength. It indicates the extents to which the claims of short –term creditors are covered by assets that are expected to be converted to cash in a period roughly corresponding to the maturity of the claims. In other words, it measures the availability of current assets for meeting current liabilities. The current ratio 2:1 i.e. current assets double the current liabilities, is regarded as the standard ratio..

Table: 4.22
Comparative Current Ratio

('000'in Rs.)

F.Y.	Current Assets	Current Liabilities	Ratio
2063/064	995481	1292744	1.30
2064/065	7090056	985547	0.14
2065/066	992516	1261297	1.27
2066/067	949758	1423304	1.50
2067/068	1240778	1738948	1.40

(Sources: NFC Annual Report)

The table above shows that the current ratio of NFC is very low than the standard one. That means the NFC is not capable of paying the short-run debt by the availabilities of its current assets. NFC was in poor condition in the fiscal year 2063/64 whereas the condition is increasing little by little in fiscal year 2064/65, 2065/66 and 2066/67. But NFC was not successful meeting current ratio 2.1. It so bad for NFC. Here were current assets below one; it was negative trend in ratio.

Hence below standard indicates that the firm is in liquid and has no ability to pay its current obligations in time as and when they become due. And in other hand, lower current ratio represents that the liquidity position of the firm is not good and the firm face difficulty in payment of current obligations in time

4.3.3.2.2 Quick Ratio (Acid- Test Ratio)

Inventories are typically the least liquid of a firm's assets and the assets on which losses are most likely to occur in the event of liquidation. Therefore, this measure of

the firm's ability to pay off short – term obligations without relying on the sale of inventories is important. The purpose of this ratio is to test the ability of the firm for immediate payment of current liabilities. This ratio is calculated by deducting inventories from current assets and dividing the remainder by current liabilities. Ratio 1:1 is considered as standard ratio.

Table: 4.23
Quick Ratio

('000'in Rs.)

F.Y.	Current Assets	Current Liabilities	Ratio
2063/064	995481	1292744	0.34
2064/065	7090056	985547	6.79
2065/066	992516	1261297	0.25
2066/067	949758	1423304	0.15
2067/068	1240778	1738948	0.11

(Sources: NFC Annual Report)

The table shows lower Quick ratio. The ratios are in decreasing trend. In the fiscal year 2063/064 the ratio is highest (0.427) and lowest (0.290) in the fiscal year 2066/67. The data shows the low capability of NFC to pay off current liabilities without relying on the sale of inventories. Here is quick ratio for below than standard ratio. This shows that the firms do not have ability to payment of current liability because NFC is not maintaining standard ratio. Therefore, management should be serious managing the liabilities.

4.3.4 Financial Statements Analysis

Financial statements are annual documents prepared by the organization. They are prepared for periodical review on the progress made and the results achieved during the period. A financial statement generally refers to the income statement (i.e. profit and loss account) and balance sheet. NFC prepares income statement and balance sheet in every year. So, we mainly describe income statement and balance sheet as follows.

4.3.4.1 Income Statement

Income Statement popularly refers to profit and loss account. It includes trading account and profit and loss account. Income statement shows the cost of production, cost of sale and finally the net operating income and net profit earned or the loss

incurred during the year. In short, it shows the profitability and the performance of the business showing revenues and expenses.

NFC being a non-manufacturing organization it hardly has a cost of manufacturing like production cost, cost of raw materials, factory overhead cost etc. It directly purchases the finished goods and sold to the customers. The profit and loss account shows how much the firm has earned from selling its product or service, and how much it has paid out in costs.

The NFC while fulfilling its objectives has been running of huge financial loss from the time of establishment. Its total loss until date is Rs.110237425.38, which is no way recoverable. Even the government subsidy has not been able to strengthen the financial position of the corporation. The following profit and loss account table shows the profit and loss of NFC of each fiscal year of 2063/064 to 2067/068.

The below table shows the profit/loss and accumulated loss in different fiscal year of NFC. The above result has reflects the very poor condition of NFC. Table shows EBIT is negative in fiscal year 2066/067 but EBT is positive because Government provides more interest subsidies than interest charge. In the fiscal year 2065/066 and 2066/67 net interest charge is negative because in this fiscal year Government provides more interest subsidies less than interest paid.

Table: 4.24
Comparative Profit and Loss Account

Particular	FY 2063/64	FY 2064/65	FY 2065/66	FY2066/67	FY2067/68
Sales	615,086,227.63	708,941,959.20	667,864,005.93	799,086,946.98	875,411,283.46
Low Commission	2,611,782.05	1,179.60	235,593.35	580,570.91	1,094,932.30
Net Sales	612,474,445.58	708,940,779.60	667,628,412.58	798,506,376.07	874,316,351.16
Cost Of Sales	364,160,960.19	495,200,889.23	486,796,445.08	608,078,081.88	673,449,173.42
Gross Profit	248,313,485.39	213,739,890.37	180,831,967.50	190,428,294.19	200,867,177.74
Subsidy on Distribution from Govt.	336,000,000.00	369,515,329.39	619,659,146.00		
Administration Cost	208,462,695.48	204,508,859.03	213,885,679.83	216,760,308.38	225,098,058.39

Operating Profit (Loss)	296,149,210.09	360,284,298.05	33,053,712.33	26,332,014.19	24,230,880.65
Interest Expenses	21,441,810.54	18,584,101.63	14,704,822.19	26,912,591.48	27,566,220.73
Depreciation	7,789,333.72	7,125,701.71	6,725,568.95	8,211,953.51	8,146,087.99
Interest Income	202,246.29	211,507.14	611,585.37	951,879.49	1,203,271.79
Dividend Income	4,233,780.00	2,669,400.00	75,000.00	7,060,209.00	75,000.00
Others Income	-		17,016,892.31	24,248,442.98	19,670,020.54
Profit (Loss) Sales of Asset	1,099,791.39	192,376.25	11,888,441.94	8,488,505.50	424,065.00
Subsidy on Interest from Govt.	20,000,000.00	20,000,000.00	30,000,000.00	35,700,000.00	39,900,000.00
Profit Before Tax(EBT)	299,844,536.67	362,920,818.00	5,107,816.15	14,992,477.79	1,329,167.96
Provision On Tax	-	-	-	-	332,291.99
Net Profit (Loss) after Tax (NPAT)	299,844,536.67	362,920,818.00	5,107,816.15	14,992,477.79	996,875.97

(Sources: NFC Annual Report)

The result of NFC depends on Government subsidies. It shows poor condition of NFC. The roof cases of poor financial condition are; poor management system, no or ineffective monitoring and evaluation system. To improve the bad condition of NFC, it requires capable manpower, effective leadership and introduction of effective monitoring and evaluation system. Apart from those NFC should be allowed to run independently and Government should not interview the management.

4.3.4.2 Balance Sheet

A balance sheet is an accounting statement prepared from accounting balances at a given date. It shows the financial position of a business by detailing the sources of funds and the utilization of these funds. A balance sheet shows the assets and liabilities grouped, properly classified and arranged in as specific manner. The balance sheet consists of two halves one half shows the total assets and another half shows the total capital and liabilities. The value is same for both the halves, hence the term balance sheet.

The given table shows the balance figure of total assets and liabilities of fiscal year 2063/064 to fiscal year 2067/68 of NFC.

Table: 4.25
Balance Sheet (From Fiscal Year 2063/064 to 2067/068)

Particular	2063/64	2064/65	2065/66	2066/67	2067/68
<u>Assets</u>					
Fixed Assets	150,130,645.59	135,966,121.99	133,313,599.87	171,915,184.13	184,725,705.18
Investment	9,203,300.00	9,240,700.00	9,240,700.00	9,240,700.00	9,240,700.00
<u>Current Assets</u>					-
Closing stock	560,852,732.71	396,055,359.41	673,833,638.56	731,732,369.35	1,044,977,309.26
Receivable	262,568,034.54	127,740,660.62	114,670,343.18	130,516,760.52	168,148,567.06
Cash & Bank	133,112,388.85	145,397,971.31	157,592,493.71	218,209,311.74	172,362,039.98
Prepaid & Others	38,947,807.48	39,811,753.32	46,419,940.31	50,455,509.61	49,256,685.90
Differed Expenses					
Total	1,154,814,909.17	854,212,566.65	1,135,070,715.63	1,312,069,835.35	1,628,711,007.38

Capital & Liabilities					
Share Capital	990,495,035.18	990,495,035.18	990,495,035.18	990,495,035.18	990,495,035.18
Accumulated Profit (Loss)	(1,128,424,123.86)	(1,121,829,612.47)	(1,116,721,814.32)	(1,101,729,336.53)	(1,100,732,460.56)
Current Liabilities & Provision	1,151,648,769.48	839,769,164.35	161,054,868.15	1,010,306,460.01	1,074,366,425.61
Short term Debt	-	-	-	208,643,981.47	433,585,421.15
Provision For Differed Payment	141,095,228.37	145,777,979.59	1,100,242,626.62	208,643,981.47	230,996,586.09
Total	1,154,814,909.17	854,212,566.65	1,135,070,715.63	1,316,360,121.60	1,628,711,007.47

(Sources: NFC Annual Report)

The above balance sheet shows that fixed assets are growing and investment is constant. Current assets are fluted. Most of the portion of current assets is closing stock. Closing stock is fluted but in last 2 years it was growing. Receivable and other current assets are normal.

There is no any change in share capital but in accumulate loss of past year is huge. So, the corporation seems very bad. Current liabilities and provision is growing and short term debt and provision for differed payment portion also increasing.

Hence, Due to high cost expenses NFC going to bear high losses every year. So, NFC has huge undercover loss and NFC profitability is lower beside that in last few year NFC start earns little profit it helps to reduce unsettle loss.

4.4 CVP Analysis (BEP Analysis)

CVP analysis is an analytical technique to study the relationship between volume, cost and profit. In CVP analysis, we generally include BEP analysis. In BEP analysis there is no profit no loss situation. That means the sales revenues exactly equals to the total cost.

BEP is that point in which the company is running neither in loss nor in profit. Breakeven analysis rests upon the foundation of cost variability i.e. separate identification and measurement of the fixed and variable components of cost.

For the analysis of BEP, Most require to analyze the cost first. Cost and expense are often used in the same sense. Cost is defined as and expenditure that is entirely recorded as an asset and becomes an expense when it is used up in the future. And expense is defined as an expenditure that is currently consumed or a cost that has been used up. Thus, for management accounting purposes both are regarded as same sometimes an asset and sometimes an expense. Cost can be controllable and non-controllable. In short run all the variable expenses are controllable and all the fixed expenses are non-controllable. Cost or expenses can be segregated into three groups; a) fixed cost, b) variable cost, and c) semi variable cost according to the nature of cost.

As for NFC, it is not segregating its cost into VC, FC and SVC. NFC has not maintained any clear-cut boundaries about cost separation. NFC is not practicing CVP analysis hence no segregation of cost. Here for analyzing CVP the cost is segregated

into VC, FC and SVC with the help of NFC officials. For segregation of SVC in fixed and variable cost, degree of variability method (DOV) is used i.e. 70:30 ratio.

NFC generally categorizes its expenses as;

- a) Administrative expenses
- b) Business expenses and
- c) Distribution expenses.

Segregation of these expenses (cost) in fixed cost, variable cost and semi variable cost are shown in Appendices 8.

For the analysis of BEP, firstly we know that contribution margin of NFC in year based year 2063/64 is 0.57. It shows that 43% of profitable and fixed nature cost structure. BEP is the position of no loss and no profit position in based year 2063/64 is Rs. 527890108.53. Therefore, the corporation in order to remain in no profit and no loss situation in the fiscal year 2063/064 its sale revenue should reach to the level of Rs. 527,890,108.53. And actual sales were Rs. 615,086,227.63. It was good because it was quit above than BEP sales.

From the above, Management should required to analysis the BEP position of every year to maintain profitable position. BEP is the most needed and essential analysis tool for profit planning and forecasting but in NFC there is lack of such practice.

4.4.4 Findings

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

Major findings of the research study are presented below:

- ✓ Profit planning and control was not practiced by NFC management.
- ✓ The planning was made on adhoc basis. The profit trend of company is not satisfactory. As compared to profit proportion is very low with fluctuated trend
- ✓ There were fluctuations not only in the actual but also in the targeted sales. The target was very high and sometime the target was very low. There was no linearity in the target figure.

- ✓ The management used to sales plan for different food grains item but rice and goats were major sales
- ✓ Purchase should depend upon sales but there was no relation between the sales and purchase. Purchases were made on personal judgment
- ✓ There was high variation on actual sales. That means the actual sales was not as per the targeted sales.
- ✓ Purchases were made for short-term. Rice was the major food grains item in the contribution of transactions.
- ✓ The corporation has no proper inventory policies. If purchase exceeds the sales then it is considered as inventory.
- ✓ There was high administrative cost, which increased the expenses of NFC. This high expense made the corporation loss.
- ✓ NFC did not make flexible budget, cash budget and capital expenditure budget without which it is difficult for NFC to identify the necessities of cash requirement and uses of cash.
- ✓ The selling and distribution cost was very high which was another reason for increase of debt.
- ✓ The performance of management was not satisfactory. The gross margin ratio, net profit ratio showed the poor performance of corporation. They were below the standard figure. This shows that management is poor.
- ✓ The return on asset showed that the corporation was not able to utilize its available resources effectively.
- ✓ The liquidity position of NFC was not good. Ratios like current ratio, quick ratio which determines the liquidity position of the NFC showed that the ability of corporation to pay the short term loan was very low. The company was facing difficulty in payment.
- ✓ The corporation was at high risk. The amount of debt was increasing every year.
- ✓ The interest coverage ratio showed that NFC ability to pay the annual interest expenses by the profit was very low.

- ✓ The sales and purchase variance of NFC showed that the condition of NFC was unfavorable.
- ✓ The major cause of loss of NFC was due to high administration, transportation expenses and interest on loan.
- ✓ NFC has not practiced segregation of cost into fixed and variable.
- ✓ There are no any proper criteria for performance evaluation for financial tools.
- ✓ In the company, there is no effective inventory policy. The inventory management and controlling system are not efficient and effective.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Profit planning of the companies and firms has become very important and necessary tools for both deficit and surplus units of the growing financial markets of our country Nepal. So profit plan is the life blood of every organization, which not only keeps it alive but also assures the future and creates the soundness on it. PPC means the development of objectives, which motivates the organization to achieve the objectives effectively and efficiently. It is one of the most important mechanism for planning and controlling business operations. The effective operation of a business concern resulting into the excess of income over the expenditure fully depends upon as to what extent the management follows proper planning, effective coordination and dynamic control.

Profit planning or Budgeting simply refers to planning of revenues and cost. Profit plan is divided into two portions, strategic or long –term plan and tactical or short-term plan. Strategic plan is prepared for three or more than three years while tactical plan is prepared for six months to one year time horizon. Planning can be divided into two groups, a) functional plan, and b) financial plan. Functional plan includes sales plan, purchase plan, expense plan etc. and financial plan includes income statement and balance sheet.

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

NFC, a public enterprise, is associated with selling and distribution of food grains in the different parts of the country. It was established in 2013 B.S in Mangshir 17 under the full ownership of the government. Nepal faces a problem of food shortage every year. Out of 12 months, the people of remote areas have to face the problem of food shortage for 6 or more than 6 months. Their cultivated crops are not enough to feed them for whole years creating famine, malnutrition in children and other problems. Thus NFC has the responsibility to access the food grains to remote villages and food

shortage areas. NFC is a sole organization working for the benefit for the poor people . It is running in loss since the time of establishment creating uncertainty of its future. To find the reason of its failure in generating income was the main objective of this study.

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

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

The study was made with the help of secondary and primary data with historical and descriptive approach. The total period of five years, from the fiscal year 2062/063 to 2066/067 was covered in the study. For the study, various functional budgets were considered and financial condition was determined with the help of different financial tools. To make the study more clear and make the data understandable data are tabulated and distributed and diagram and graph were used. The detailed calculation and data were presented in the Appendix at the end of the chapter.

5.2 Conclusions

The introduction of five year development plan in the country in 1956 brought about a significant increase in the governments responsibilities. Different public enterprises were established then after. The government established NFC in the fields of food supply of national endeavor to gain momentum in development processes to promote public welfare. From then on NFC is providing its services throughout the country. From the time of establishment its financial condition is deteriorating. NFC in spite of its best efforts is suffering from a number of internal and external problems in formulating and implementing profit plans.

Analysis in the details the present practice of profit planning and control in NFC, this study concludes the following.

- ❖ The achievements of NFC are not encouraging as it has committed.
- ❖ The achievement of actual sales has not reached the targeted sales, which show the weak planning management of NFC.

- ❖ The condition in purchase also there is great variation in actual and budgeted purchase.
- ❖ NFC is also suffering from operating loss due to heavy portion of administration and transportation costs.
- ❖ Financial ratios most are not in favorable situation.
- ❖ The liquidity position of NFC is weak.
- ❖ Objectives of NFC are not clear. Conflict between social objective and profit objectives of hindering to profit planning program of PEs.
- ❖ NFC has not a practice of systematic forecasting sales forecasting are made with previous sales figures and production capacity. This short coming is due to lack of skilled experts.
- ❖ The profitability of NFC is also not satisfactory, as a whole the economic condition of NFC is very weak.

5.3 Recommendations

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

- Firstly, there should be controlled operating as well as non-operating expenses. There is increasing unnecessary and wasteful expenses, which are bad debts, written of repair and maintenance expenses and management.
- A thorough analysis of historical data has to be done before planning.
- NFC should allow to deal on other food grains items also for profit generation.
- The purchase of food grains should be made by studying the past sales but not on adhoc basis.
- The administrative expenses and transportation expenses should be managed. An extra expense in administrative and transportation should be controlled.
- NFC is giving subsidy in transportation in rice to remote areas for the transporter, which has created high cost in transportation. NFC should think for transportation facility to remote areas.

- The liquidity position of NFC was very weak. It should utilize its available resources properly.
- The profitability of NFC was also not satisfactory for this NFC should increase in sales.
- Variance analysis should be made to find out the cause of unfavorable variance and correct them in time.
- NFC should segregate the cost into fixed and variable.
- The storage facility should be improved. Due to lack of modern storage facility the stored food grains were wasted in high quantity.
- The main problem in food shortage in remote areas is due to delayed in transportation or difficulties in transporting during monsoon period. If there is well equipped storage facility in remote areas then the food can be transported and kept earlier during difficult situation.
- Although profit needs to be earned for survival and growth of any institution, of should not be the one and the only one goal. The country has expected from PEs in such a way that it income passes the balance development. Economic level of the country can be raised only when the level of people depending upon the agricultures increased.
- Our all recommendation is that NFC has to change existing system of planning and has to adopt modern and comprehensive planning system that is PPC.

