

# **PROFIT PLANNING AND CONTROL OF NEPAL FOOD CORPORATION**

**By :**

**SHIVA BALA**

**POST GRADUATE CAMPUS BIRATNAGAR**

T.U. Registration No.: 23772-91

**A Thesis Submitted to :**

**Office of the Dean**

**Faculty of Management**

**Tribhuvan University**

*In partial fulfillment for the requirements for the degree of*

**Masters of Business Studies (M.B.S.)**

Biratnagar, Nepal

April, 2009



**TRIBHUVAN UNIVERSITY**  
**POST-GRADUATE CAMPUS**  
**FACULTY OF MANAGEMENT**  
**BIRATNAGAR, NEPAL**

Phone No.: 021-526327,522204

Ref.....

Date.....

***RECOMMENDATION***

This is to certify that this thesis:

*Submitted by*  
**Shiva Bala**

*Entitled*  
**PROFIT PLANNING AND CONTROL OF NEPAL  
FOOD CORPORATION**

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

Thesis Supervisor

(Dr. Madhav Bahadur Shrestha)

Head of Department

(Dr. Madhav Bahadur Shrestha)

.....

.....

Campus Chief

( Harihar Bhandari)

.....

Date: .....



**TRIBHUVAN UNIVERSITY**  
**POST-GRADUATE CAMPUS**  
**FACULTY OF MANAGEMENT**  
**BIRATNAGAR, NEPAL**

Phone No.: 021-526327,522204

Ref.....

Date:.....

**VIVA- VOCE SHEET**

*We have conducted the Viva-Voce examination of the thesis presented by*

**Shiva Bala**

*entitled*

**PROFIT PLANNING AND CONTROL OF NEPAL  
FOOD CORPORATION**

*and found the thesis to be the original work of the student written according  
to the prescribed format. We recommend the thesis to be accepted  
as partial fulfillment of the requirement degree of  
Master's degree in Business Studies ( M.B.S.)*

**VIVA-VOCE COMMITTEE**

**Chairperson, Research Committee :-** .....

**Member (Thesis Supervisor) :-** .....  
**(Dr. Madhav Bahadur Shrestha)**

**Member (External Expert) :-** .....

**Date: -** .....

## **ACKNOWLEDGEMENTS**

This thesis entitled " **PROFIT PLANNING AND CONTROL OF NEPAL FOOD CORPORATION** " is Master's Degree thesis prepared to fulfill the partial requirements of the Master of Business Studies ( MBS), Tribhuvan University , Nepal. I am grateful to all those who have been a source of encouragement to complete this thesis.

I would like to express my sincere thanks to my thesis supervisor Dr. Madhav Bahadur Shrestha Head of research department for his co-operation and valuable guidance during the whole period of thesis work.

Similarly, I would like to offer my thanks to Lecturer Mr. Pitri Raj Adhikari for guiding and encouraging me to complete my thesis.

I also thanks to all staffs of Nepal Food Corporation for providing necessary data, information and congenial environment for preparing this thesis.

At last, but not the least I would like to extend my gratitude to my wife Mrs. Sita Bala (Shrestha), who helped me to concentrate on my task by creating a peaceful and favorable environment throughout the study period and my sons Mr. Sachin Bala and Mr. Suyog Bala for making free environment to complete this thesis.

Thanks

Date : April, 2009

.....  
**Shiva Bala**  
Post Graduate Campus  
Biratnagar

# TABLE OF CONTENTS

	page no.
<i>Recommendations</i>	i
<i>Viva-Voce Sheet</i>	ii
<i>Acknowledgement</i>	iii
<i>Content</i>	iv
<i>List of Tables</i>	vii
<i>List of Charts/Graphs</i>	ix
<i>List of Abbreviations</i>	x

## CHAPTER -1: INTRODUCTION

1.1 General Background	1
1.2 Industrialization in Nepal	2
1.3 Nepalese Economy and Agriculture	4
1.4 Historical Background of Nepal Food Corporation	5
1.5 Objectives of Nepal Food Corporation	7
1.6 Operations of Nepal Food Corporation	9
1.7 Present Conditions of Nepal Food Corporation	10
1.8 Organizational Structure of Nepal Food Corporation	11
1.9 Statement of the Problem	12
1.10 Objectives of the Study	14
1.11 Significance of the Study	14
1.12 Limitations of the Study	14
1.13 Scheme of the study	15

## CHAPTER – 2 : REVIEW OF LITERATURE

2.1 General view of Profit Planning	17
2.2 Fundamental concept of Profit Planning and Control	19
2.3 Basics elements of PPC	21
2.4 Foundation for PPC	22
2.5 Activities involved in PPC	23
2.6 Application of PPC	24
2.7 A behavioral problem in PPC	24
2.8 Importance of PPC	26
2.9 Problems of PPC	27
2.10 Critical features or Limitations of PPC.	28
2.11 The profit planning and control process	29
2.12 Components of PPC	30
2.13 Development of the broad objectives of the enterprise	31
2.14 Development of specific goals for the enterprise	32
2.15 Development and evaluation of company strategies	33
2.16 Strategic and Tactical profit planning	33
2.16.1 Strategic (long range) profit plan	34
2.16.2 Tactical (short range) profit plan	35
2.17 Implementation of Profit Plans	36
2.18 Use of periodic Performance Reports	37
2.19 Implementation of Follow-up	38

2.20	Line and Staff Responsibilities Related to PPC	38
2.21	PPC policies manual	39
2.22	Budgeting a tool of Profit Planning and Control	40
2.23	Purpose of Budgeting	42
2.24	Advantages of Budgeting	42
2.25	Essentials of Budgeting	44
2.26	Characteristics of Budget	46
2.27	Classification of Budget	47
2.27.1	On the basis of time factor	47
2.27.2	On the basis of flexibility	48
2.27.3	On the basis of Functions	49
2.28	Master Budget – Budgeting for short range	51
2.29	Constituents of PPC	52
2.29.1	The sales budget	52
2.29.2	The production budget	57
2.29.3	Purchase and Materials Budget	63
2.29.4	Direct Labor Budget	65
2.29.5	Overhead Budget	66
2.29.6	Flexible Budget	69
2.29.7	Capital Expenditure Budget	71
2.29.8	Cash Budget	74
2.30	Planning and Control of Non-manufacturing Organization	75
2.30.1	Merchandise Budget	76
2.30.2	Planning and Inventory and Purchasing	76
2.30.3	Open-to-Buy Planning	77
2.30.4	Others Budgets in Non-Manufacturing Enterprise	78
2.31	Completion of Profit Plan	78
2.32	Performance Reports	78
2.32.1	Features of Performance Reports	79
2.33	Analysis of Budget Variance	79
2.34	Review of the Earlier Studies	79-88

### **CHAPTER – 3 : RESEARCH METHODOLOGY**

3.1	Research Design	89
3.2	Sources of Data	89
3.3	Population and Sample	90
3.4	Period Covered	90
3.5	Data Collection and Analysis	90
3.6	Research Variables	90

### **CHAPTER - 4: PRESENTATION AND ANALYSIS OF DATA**

4.1	Budget Analysis	91
4.1.1	Sales Budget	91
4.1.1.1	Sales Budget of Rice	92
4.1.1.2	Sales Budget of Goats	96
4.1.1.3	Percentage of Rice, Goats and Other items on Total Sales	101
4.1.2	Inventory Plan	102

4.1.3 Purchase Budget	103
4.1.3.1 Purchase Budget of Rice	104
4.1.3.2 Purchase Budget of Goats	108
4.1.3.3 Purchase Budget of Paddy	112
4.1.4 Administrative Expense Budget	114
4.1.5 Selling and Distribution Expense Budget	116
4.2 Financial Analysis of NFC	118
4.2.1 Performance Measures	118
4.2.1.1 Profitability Ratios	118
4.2.1.1.1 Gross Profit Margin Ratio	118
4.2.1.1.2 Net Profit Margin Ratio	119
4.2.1.1.3 Return on Total Assets	120
4.2.1.1.4 Return of Equity	121
4.2.2 Operating Efficiency Measures	122
4.2.2.1 Inventory Turnover Ratio	122
4.2.2.2 Total Assets Turnover Ratio	123
4.2.2.3 Fixed Assets Turnover Ratio	124
4.2.3 Financial Policy Measures	124
4.2.3.1 Leverage Ratios	125
4.2.3.1.1 Debt-Equity Ratio	125
4.2.3.1.2 Debt Asset Ratio	126
4.2.3.1.3 Interest Coverage Ratio	126
4.2.3.2 Liquidity Ratios	127
4.2.3.2.1 Current Ratio	127
4.2.3.2.2 Quick Ratio	128
4.3 Financial Statements	129
4.3.1 Income Statement	129
4.3.2 Balance Sheet	132
4.4 Performance Evaluation	133
4.4.1 Analysis of Variances	133
4.4.1.1 Sales Variances	133
4.4.1.2 Purchase Variances	134
4.5 CVP Analysis	135
4.5.1 Segregation of Cost	135
4.5.2 Terms Used in CVP Analysis	136
4.5.3 Calculation of BEP	137
4.6 Major Findings	138
<b>CHAPTER - 5: SUMMARY, CONCLUSION AND RECOMMENDATIONS</b>	
5.1 Summary	140
5.2 Conclusions	141
5.3 Recommendations	142
<b>BIBLIOGRAPHY</b>	144
<b>APPENDIX</b>	

# LIST OF TABLES

	<u>Table No.</u>	<u>Page No.</u>
Structure of Operational Committee	Table 1	12
Components of Comprehensive Sales Plan	Table 2	53
Format for Open-to-Buy Planning	Table 3	77
Budgeted and Actual Sales of Rice	Table 4	92
Calculation of Different Statistical Tools for Rice	Table 5	94
Calculation of Least Square Trend for Rice	Table 6	95
Budgeted and Actual and Sales of Goats	Table 7	97
Calculations of Different Statistical Tools for Goats	Table 8	98
Calculations of Least Square Trend for Goats	Table 9	99
Percentage of Rice, Goats and Other items to Overall Sales	Table 10	101
Opening and Closing Stock	Table 11	103
Members of Purchasing Committee	Table 12	104
Budgeted and Actual Purchase of Rice	Table 13	105
Calculations of different Statistical Tools for Purchase of Rice	Table 14	106
Calculations of Least Square Trend for Purchase of Rice	Table 15	107
Budgeted and Actual Purchase of Goats	Table 16	109
Calculations of Statistical Tools for Purchase of Goats	Table 17	110
Calculations of Least Square Trend for Purchase of Goats	Table 18	111
Budgeted and Actual Purchase of Paddy	Table 19	113
Calculations of different Statistical Tools for Purchase of Paddy	Table 20	114
Administrative Expense Budget	Table 21	115
Actual Selling and Distribution Expenses	Table 22	116
Budgeted and Actual Selling and Distribution Expense	Table 23	117
Gross Profit Margin Ratio	Table 24	119
Net Profit Margin Ratio	Table 25	120
Return on Total Assets	Table 26	120
Return of Equity Ratio	Table 27	121



Inventory Turnover Ratio	Table 28	122
Total Assets Turnover Ratio	Table 29	123
Fixed Assets Turnover Ratio	Table 30	124
Debt-Equity Ratio	Table 31	125
Debt-Assets Ratio	Table 32	126
Interest Coverage Ratio	Table 33	127
Current Ratio	Table 34	128
Quick Ratio	Table 35	128
Comparative Profit and Loss Account	Table 36	130
Comparative Balance Sheet	Table 37	132
Sales Variance Analysis Table	Table 38	134
Purchase Variance Analysis Table	Table 39	134

## LIST OF CHARTS/GRAPHS

	<u>Graphs No.</u>	<u>Page No.</u>
Budgeted and Actual Sales Trend of Rice	Graph 1	93
Budgeted and Actual Sales Trend of Goats	Graph 2	97
Sales percentage of Rice, Goats and Other Items to Overall Sales	Graph 3	102
Budgeted and Actual Purchase of Rice	Graph 4	105
Budgeted and Actual Purchase of Goats	Graph 5	109
Budgeted and Actual Purchase of Paddy	Graph 6	113
Budgeted and Actual Administrative Expense Budget	Graph 7	116
Budgeted and Actual Selling and Distribution Expense Budget	Graph 8	117

## ABBREVIATIONS

ADO	Agriculture Development Office
ARR	Average Rate of Return
BC	Before Christ
BEP	Break Even Point
BOM	Beginning on Month
BS	Bikram Sambat
CDO	Chief District Officers
CM	Contribution Margin
CV	Coefficient of Variation
CVP	Cost Volume and Profit
DCF	Discounted Cash Flow
DDC	District Development Committee
DOV	Degree of Variability
EAT	Earning After Tax
EBT	Earning Before Tax
EBDIT	Earning Before Donation Interest and Tax
EBIT	Earning Before Interest and Tax
EBT	Earning Before Tax
EOM	Ending of Month
FAMSD	Food Agriculture and Market Development
FC	Fixed Cost
FY	Fiscal Year
GC	Gorkhapatra Corporation
GDP	Gross Domestic Product
HSTR	Historical Sales Turnover Ratio
IRR	Internal Rate of Return
JIT	Just-in-Time
MOA	Ministry of Agriculture
MOF	Ministry of Finance
NFC	Nepal Food Corporation
NPV	Net Present Value
PBP	Payback Period
PPC	Profit Planning and Control
PV	Present Value
ROA	Return on Assets
ROE	Return on Equity
STCL	Salt Trading Corporation Limited
SVC	Semi Variable Cost
TPV	Total Present Value
UF	Unfavorable
VC	Variable Cost