CHAPTER - I

INTRODUCTION

Background of the Study

Nepal is an agricultural country. More than 90 percent of the Nepalese populations are primarily engaged in agriculture sector and they are depending on agriculture to fulfill their needs. Agriculture sector alone accounts for about two thirds of total national production. People produced agricultural goods in bulk quantity but they hardly sell in the market due to lack of advertising. So they are facing many problems in selling of agriculture products(Report from Economic Survey;1997/98).

After the re-establishment of democracy in 2046 B.S. some changes took place in the field of agriculture. Many industries were establishment. The role which manufacturing industry plays in the national economy is only marginal. But gradually, it became easier to sell the agricultural goods and market became larger due to the increase of consumer needs and desires (World Bank Report;2000).

Profit Planning is a comprehensive statement of intentions expressed in financial terms, for the operation of the firm of both short and long term period. It is a plan of the firm's expectation and is used as basis for measuring the actual performance of managers and their units. The success of each enterprise in realizing its optimum profit in each year will be determined by the extent to which it establishes objectives and exercises control results reach or exceed those planned.

Comprehensive PPC is defined process as the designed to help management effectively perform significant phases of the planning and control functions. PPC model involves:-

i) The development and application of broad and long- range objectives of the enterprise.
ii) The specification of enterprise goals.
iii) The development of strategic long –range profit plan in board terms.
iv) The specification of tactical short range profit plan detailed by assigned responsibilities (divisions, departments, projects)
v) The establishment of a system of periodic performance reports detailed by assigned responsibilities;.
vi) The development of follow up procedures.

The main aim of profit planning is to forecast about future. So, it plays the vital role in the development of organization. It is the most important tool in the field of managerial decision making in the enterprises. Main Purposes of Profit Planning and Control are as follows:

i. To state the firms expectations (goals) in clearly format terms to avoid confusion and facilitate their attainability.
ii. To communicate expectation to all concerned with management of the firms so that they are understood, supported and implemented.
iii. To avoid a detailed plan of action for reducing uncertainty and for its proper direction of individual and group efforts to achieve goals.

iv. To co-ordinate the activities and efforts in such a way that the use of resources is maximized (Welsch, et.al;2006:44).

In order to get a depth understanding of the concept of PP, it must recognize that it is a separate technique that can be thought of and operated independently of the total management process. Finally PP is an integral part of management, by the help of which an enterprise should earn realistic profit on investment.

Profit planning plays significant role in public enterprise and private enterprise, for regarding profit, a manufacturing enterprise is taken for studying the application of Unilever Nepal., located at Hetauda, Makwanpur.

1.1 Company Profile

1.1.1 A Brief Introduction of UNL

Unilever Nepal Limited is one of the manufacturing companies, which was established under foreign investment in 1994 as a joint- venture company. "Unilever Nepal Limited" is an important manufacturing establishment after the adaptation of liberal economic policy by the government. It is the first joint venture of Hindustan Lever Limited outside India. The ratio of investment in UNL of the parent company and the promoters of the host company are 8:2. It was established with an objective of manufacturing soaps, detergents, cosmetics, and toiletries, oleaginous, saponaceous, unguents and other chemical products of Hindustan Lever Limited. The company's registered office and factory is located at Basamadi, Hetauda and its corporate office is located at Heritage

Plaza II, Kamaladi, and Kathmandu. UNL is producing different consumer goods in Nepal by using the developed and advanced technology. It has earned the significant popularity in the short period because of its service towards the consumer and the contribution made for the economic development of the country.

a) Human Resources of UNL

Despite the energy & fuel shortages, frequent strides & road blockades, political instability, all the employees demonstrated great commitment & dedication towards meeting the business objectives & worked relentlessly through out the year. There is, therefore, no doubt that the key success factor of its strong performance during 2007-08 has been the contribution of its people in all functions of the business.

In such a volatile & rapidly changing scenario, UNL believe that the growth of the business can only be delivered by having superior people's such , attracting , developing & retaining talent remained high on its agenda throughout 2007-08 .UNL continued to invest in its people with a blend of on the job training , operational visits to other Unilever companies for skill development & familiarizing themselves with Best practices in other parts of Unilever as well as local & international training in Egypt, Philippines , Indonesia & India as part of their personal growth journey .Technical expertise of experts from equipment suppliers were also leveraged to train its operators & maintenance teams, which helped immensely towards the skill improvement of workers. It is a matter of greater pride for UNL that a record amount was invested behind skills development of its employees during the year. Not restricting it to only Unilever employees. UNL also arranged & funded training for all is Distributors Sales Team during the first half of 2008. As at 15th July 2008, Unilever Nepal Limited had strength of 152 full time equivalents staff. UNL welcome 22 new employees at different permanent positions in various functions during a year of uncertainty- once again proving its long term commitment to Nepal.

Harmonious Employee Relations prevailed during 2007-08 with a Long Term Settlement being signed in its Hetauda Factory consequent to bi-lateral negotiations with the employee representatives. As has been its approach,, the settlement was based on the principle of mutual gains , sharing of productivity improvements achieved – which have helped UNL to remain competitive in the market place. Given the prevailing real estate prices in the Valley, UNL are of the view that Shareholders' funds can be utilized more productively in the business-rather than blocking funds in real estate by the Company building its own Corporate Office. Hence, the Company is not keen to construct its own Corporate Office the near future.

b) Directors

2007-08 was a year of change at Board level. Mr. Douglas Baillie, Director & Chairman of the Company resigned form the Board upon his move to the Unilever Executive Committee as President, West Europe. Mr. Dhaval Buch, Executive Director – Supply Chain , Hindustan Unilever Ltd. was appointed as Chairman of Unilever Nepal Ltd. with effect form 4th may , 2008.Mr.Reazul Huq Chowdhury , Director , nominee of Hindustan

Unilever Ltd. also resigned form the Board consequent to his leaving Unilever. Both of them made immense contributions to the development and success of Unilever Nepal during their relatively short tenure. Consequent to the resolution at the last AGM, Mr. Bharat Bahadur Thapa joined the Board of Director as an independent Director of the company. Moreover, Mr. Ahok Gupta, Executive Director, Legal, Hindustan Unilever Ltd. and Mr. Shrijeet Mishra, Executive Director, Foods, Hindustan Unilever Ltd. have been nominated to fill up the vacancies caused by Mr. Douglas Baillie & Mr. Reazul Huq Chowdhury's move.

The Chairman and members of the board of directors of the company as on May 13, 2004 are as follows:

Mr. Dhaval Buch	Chairman
Mr. Kamran Bakr	Managing Director
Mr. Ravi Bhakta Shrestha	Director
Mr. Shambhu Prasad Poudyal	Director
Mr. Bharat Bahadur Thapa	Director
Mr. Bharat B Thapa	Independent Director
Mr. Shreejeet Mishra	Director

c) Managers

Mr. A. B. Thapa is appointed as Personnel Manager and also gives responsibility of Company Secretary.

d) Auditors

M/S R. Bajracharya & Co., Chartered Accountants, Kathmandu retired from the office on July 2008 and being eligible offer themselves for re-appointment till the next annual general meeting (15^{th} annual report;2007/08).

1.1.2 Share Capital of UNL

UNL was started with an Authorized capital of Rs.300 (in million). In the initial period its Issued Capital and paid up capital were Rs.92.07 (in million) divided into 920,700 ordinary shares of Rs.100 each fully paid. The percentage of share capital holding is as follows:

Group	Name of Company	% of Share Capital
A	Hindustan Lever Limited, India	80
B	Sibkrim Land & Ind. Co. (PVT.) Ltd.	5
C	Shares subscribed by general public	15

Sources: Financial Statement of Listed Companies, Nepal Stock Exchange Ltd & Company Report (2007-2008)

1.1.3 Exports of UNL

India is the main country where UNL's products are export. Therefore the exports business of the company was adversely impacted by changes introduced in the Indian Budget wherein the advantage of lower countervailing duty for the company's customers in India was withdrawn. Further, the disadvantage of non- refund of excise duty for raw and packaging materials sourced from India still continued. As a result, company's toothpaste and toilet soap export is being declining and it made the exports business unviable.

1.1.4 Volume

UNL's domestic volume is increase of 8% contributed primarily by high value added products – such as Tootpaste, Skin cream and Shampoos, Exports were lower by 37.3% due to discontinuation of Toothpaste sales to India and a sharp reduction in Soap & Detergent volumes.

1.1.5 Raw Material

Out of the total raw material purchase 90% are imported from India and 10% are obtained from third countries.

1.1.6 Finance & Dividend

In a challenging year of unprecedented hike in input cost with unabated Bahdh and blockade in the country which impacted the supply-chain efficiencies, along with aggressive Brand and Trade investment strategy to invigorate the market , your company has maintained a healthy liquidity position by generating cash of Rs. 232.5 million form its operation during the year. Company management prudently invested the surplus fund in short term fixed deposits by taking care of shareholders' interest in term of liquidity and security of funds.

The Board of Directors had recommended to pa a final dividend of Rs. 325 per share (including an interim dividend payment of Rs. 275 per share) for the fiscal year ending on 15th July , 2008 . The total dividend payout will amount to Rs.299.2 million i.e. Rs 46 million more than last year. Incidentally, this is the highest Dividend (325%) per share being recommended in a year out of the relevant year's profit in the history of this company. If approved, the dividend will be paid to the shareholders who are registered or get registered in the book of the company within seven (7) closure date, which will be notified.

1.1.7 Product Line

UNL produced these product or items:

Detergents & Cakes	:	Wheel, Vim, Rin, Surf excel
Soaps	:	Lux, Liril, Breeze, Lifeboy, Pears, Fair & Lovely
Tea	:	Lipton Taaza, Lipton Green Level, Brooke Bond Red Label, Brooke Bond Yellow Lebel
Shampoo	:	Sunsilk, Clinic Plus
Toothpaste	:	Close Up, Pepsodent
Oil	:	Clinic All Clear, Nihar
Others	:	Fair & Lovely Cream, Vaseline, Lip Guard, Ponds Cream

1.1.8 Capacity of the UNL

The licensed and installed capacities till 17^{5h} July, 2008 are outlined below:-

	Licensed Capacity	Installed Capacity

Detergents/Scourers/Laundry	36,250	35,500
Toilet Soaps	10,000	10,000
Personal Products	8,281	7,781
Soap Noodles	11,660	11,660
Tea	5,000	-
Vanaspati	10,000	-

1.1.9 Performance of the Company during 2007-08 (2064-65)

The company has commendably sustained the growth momentum with a turnover growth of 17.9% .Investments in Brands & Trade grew by 60% from Rs.157 million during 2006-07 to Rs.251 million during 2007-08.At the same time, UNL achieved an underlying improvement in its operating margin, despite unprecedented rising commodity costs leading to a Net Profit growth of 27.4% .The higher profits illustrate the commendable job done in correcting the profitability of the bleeding Home Care business. On the other hand had it not been for the increased investments in Brands & Trade, the Operating Profit before tax would have been higher by 15%.

Despite high levels of growth & the need to meet increasing volume demand in certain categories, Capital Expenditure was carefully controlled to Rs. 11.9 million during 2007-08 compared to Rs. 28.9 million during 2006-07.The company remained in positive funds position throughout the year with a year end balance of Rs 283 million .Operating cash flow remained healthy at Rs 232 million compared to Rs. 250 million in 2006-07 – despite the pressure on margins due to unprecedented global commodity price increases and additional investment on Brands & Trade. UNL continued to be one of the highest contributors to the Government Exchequer by contributing Rs 477 million as compared to Rs. 395 million last year.

1.1.10 Year 2007-08 (2064-65) in Retrospect

This impressive performance was achieved despite the FY 2007-08 remaining challenging as well as eventful in terms of political & economic developments in Nepal. he long awaited Constituent Assembly (CA) elections finally took place in spite of difficult circumstances, remittances continued to grow, tourist arrivals reached ass time high since 2000.Nevertheless , economic growth in Nepal continued to remain modest with an expected GDP growth rate of 4.5 % .This can be attributed primarily to the sustained politically instability and consequent lack of visible improvement in the law & order situation leading to frequent blockades & strikes that disrupted economic activity in most of its major markets. widespread energy & fuel shortage as well as adverse weather conditions badly affecting the production of major crops also contributes to the sluggish economic growth of the country.

Fiscal Year 2007-08 was also badly affected by frequent closures of business owing to host of ad-hoc Public Holidays declared by the Government in addition to the statutory norms – a total of 13 additional working days were lost during the year. Nepal's economy come under severe strain as it felt the impact of soaring global oil prices, forcing government to take the unpopular step of hiking fuel prices during the course of the year. Consequently year – on –year inflation soared t a high of 11% towards the close of the year. The inflation rose to double digit for the first time in nearly two decades because of significant rise in the price of food and beverage group leading to major squeeze on disposable income of its consumers. FY 2007-08 also saw unprecedented increases in the international prices of many our raw and packing materials due to higher oil, chemical and other commodity prices. There was particularly strong cost pressure from palm oil , petroleum based materials such Linear Alkyl Benzene Sulphonic Acid & Ploymers that are used in many our products and packing.

Against this economic & business landscape, UNL following its unwavering belief in the potential of Nepal, continued to invest in expansion of its distribution, introduction of few innovations, strengthening and upgrading its Brands, Trade partners as well as upgrading the skill of its people.

1.1.11 Business Operations

The business delivered commendable Turnover growth of 17.9 % during FY 2007-08. This high growth was achieved by focusing on the big brands in our portfolio and investing in building their equity supported by heavy investments in advertising, trade and rural penetration – to counter the intensive efforts of UNL competitors. A series of strong innovations and excellent executions of brand activation in the marketplace significantly facilitated the growth. Investments in Brands & Trade was raised by 60% from Rs.157 million during 2006-07 to Rs 251 million during 2007-08- to help fuel UNL innovations and supports UNL Distributior4s & Trade partners.

1.1.12 Coverage Expansion

Direct coverage in urban areas was increased by a massive 45.5%, while in rural markets the direct coverage has been increased by 20.8% .The Distributor market servicing (DSRs) team has been further strengthened by increasing the total strength by 31.5%.

1.1.13 Merchandising

Efforts to improve its products presentations on shelf via creatively merchandising its products in shelf were intensified, in both general trade outlets as well as in modern trade outlets, creating some outstanding & record breaking displays. Merchandising its products in shelf was intensified, in both general trade outlets as well as in modern trade outlets, creating some outstanding & record breaking displays.

1.1.14 Corporate Social Responsibility

While UNL remain committed to delivering another year of solid growth, UNL have looked beyond mere financial measures to develop within its community a path to a sustainable and mutually rewarding future. During the year, various voluntary initiatives for the areas surrounding its Factory Factories were implemented. In an effort to focus more on social development issues, Unilever Nepal has recently developed a CSR policy which sets out direction & boundaries of its Voluntary Initiatives Supporting Community Activities. Based on this, UNL have embarked on an ambitious CSR plan phased over the next 2 years – which will bring about a real change in the lives of people living immediately around its area of operations in the areas of Health & Hygiene, Education & Capability Building as well as Women's Empowerment.

1.1.15 Business Risks and Future Outlook

With significant increases in remittances as well as tourism as part of the peace dividend the country is poised to enjoy and consequent rise in rural household income, aggregate consumer spending is likely to rise. Therefore the outlook for the next year appears to be promising. However, possible political instability coupled with the soaring inflation the country is experiencing may prove to be stumbling block in Nepal's road to progress. As such, for the year 2008-09, political unrest & instability, leading to sluggish economic growth & spiraling inflating remains the major risk factor.

In term of its own operations, UNL expect that the unprecedented increases in raw & packing materials as well as energy costs experienced during 2007-08 to continue during FY 2008-09.UNL will need to offset these increased costs with a combination of pricing and cost savings projects. The competitive landscape is expected to intensify significantly. Consumer spending power will be stretched as inflation rises. Inflationary pressures will make consumers more discerning, carefully choosing products that deliver exceptional value.

Unilever Nepal is ,therefore, very well placed to respond to these challenges as its linkage to Unilever provides access to world class resources, research and development–delivering a constant stream of innovation, consumer–relevant product improvement & cost saving. UNL strong regional network leveraging scale for sourcing raw materials will prove to be invaluable in such a scenario. Given the above as well as its increasingly powerful brand portfolio & an unparalleled footprint in Nepal, UNL can grow consistently, profitably and competitively in 2008-09 and expect to make further progress towards its longer-term financial objectives i.e. grow profitably at the rate of twice the GDP growth rate.

1.2 Statement of the Problem

The economy of Nepal is based on agriculture. More than 95% of people are depended on agriculture to fulfill their needs as mentioned in economy survey (2007-2008), Nepal. So, foreign enterprises are established in order to develop infrastructure service needed for national development, to fulfill the demand of the people, to increase export opportunities, to help in controlling price situation, to create employment opportunities, to increase government revenues, to improve balance of trade situation. However the Foreign investments are found to be operating unsatisfactory and their financial position is far from satisfactory. There are various and different reasons for the poor performance of manufacturing industries. Among them profit planning is one of the most important tool for the measuring performance of any company. Such reasons should be invested and should be taken corrective measures for the improvement of their performance.

In the context of Nepal, many foreign companies are making profit but not able to make sufficient and effective profit. Therefore, adoption of systematic profit planning is essential to improve financial performance.

Private enterprises always attempt to hold the big hand for maximizing the profit. Despite of this fact, UNL is leading the monopoly in local markets and also unable to attain handsome prospective for the future growth due to ineffective budgetary system. NL was awarded for the Best Presented Accounts Award–2006 by the Institute of Chartered Accounts of Nepal. But how long can this achievement are continued ? This question is haunting and daunting to every manufacturing concern. This shows that the company is either suffering from inefficient planning and controlling of its sales and others plans or performing the same manner. The main aim of this study to fill the following major gaps by addressing the following questions:

- What is the major mechanism for budgetary system in UNL?
- Whether UNL has prepared master budget?
- What is the present status of PPC System of UNL?
- Is there any significant weakness for PPC System to attain better perspectives?
- Is the future outlook of UNL reliable or not?

1.3 Objectives of the Study

Addressing the comprehensive PPC System of UNL is the fundamental objectives of this study .Through its budgetary system, the main objectives of this study are as follows:

1. To analyze PPC System of UNL.
2. To study the relationship between various budgets
3. To asses the financial performance analysis of NL applying different tools.
4. To provide the adequate and effective suggestions and recommendations through PPC models

1.4 Focus of the Study

This study is focused in evaluating the use of different types of financial budgets, financial ratios and corporate planning system for the effective implementation of overall profit planning and control. This study is designed to describe the purpose of the different kinds of budgets and plans used. Generally two types of profit plan are in practice in organizations. Those are strategic long-range profit plan and tactical short-range profit plan. Both of those plans are equally important for the successful operation of an enterprise. For the purpose of the study, the following short-range plans are taken into consideration

- Sales plan
- Production plan
- Capital expenditure plan
- Cash plan
- Expenses plan
- Financial ratio

This study will give benefit for all those parties or researcher who is interesting to study about the practice of profit planning in manufacturing companies like UNL

1.5 Importance of the Study

Profit Planning is the primary function of management in any company. A company always wants to earn maximum profit through the available resources and means with the help of the profit planning, PP measures the success of any company, so management uses various budgets, which are the main key for profit planning. Profit planning is such a key, which helps to predict the future and minimizes future risks and maximum output from the scarce resources and means and also helps for managerial various kind of decision-making. Therefore, Profit Planning is very important.

In the context of Nepal, most of the manufacturing companies are suffering from poor performance and financial conditions, which is not satisfactory. Most of the companies are in loss, so this study analyzes profit planning, its practicable difficulties and gives recommendations by focusing on the case study of Unilever Nepal Ltd.

Shrinking profit margin is forcing management to appraisal all its expenditure carefully evaluating its sales plan, production plans etc. In the context of Nepal, most of the manufacturing enterprises are suffering from poor performance and losses due to lack of proper management of PPC System. This study focuses its attention to provide a detailed plan of action for reducing uncertainty and for its proper direction of individual and group efforts to achieve goals. It also helps to provide a means for the other different sector of measuring and controlling the performance of manufacturing enterprise for getting their outstanding position. This study would be very useful to the top management of UNL and its operational staffs as well as other concerned bodies to establish the proper budgetary system. This study also useful to the partial fulfillment of the various areas such as:

- to the government of Nepal
- to the management of Manufacturing enterprises
- to the shareholders , consumers, public utility

- to the business partners
- to the researcher of the PPC System and so on

1.6 Limitations of the Study

This study is solely based on Unilever Nepal Ltd. Research is a full blaze and vast investigation study for the settlement of the problem. The sufficient and accurate information as well as data can be obtained which will make the study reliable and effective. As far as possible, the study will try to analyze the fact on the basis of reality but being a student, time and resources are the constraints that are limited to the partial fulfillment of the master's degree. The main focus of this study is confined to comprehensive budget of UNL through product wise based on last five years (2060-61 to 2064-65). Similarly in this study I have to face these limitations:

- The budget covers only the budgeting amount and units, which are available form the UNL and adopted by them.
- Only the five years trends is examined and accuracy of the study is based on the data availability.
- Some data are taken fro government officers and employees of UNL.
- Most of the budget figures are taken form the published annual and quarter data of UNL.
- This study is only the case study, thus the result will not thoroughly applicable for all type of public enterprises
- This study is only related in some managerial, financial and accounting aspects and it has not related with other areas

- The limited time availability to submit the thesis for the partial fulfillment of MBS courses.
- Being a student, financial resources is another factor, which is limit the scope of the study.
- The planned data of the budget is obtained through the direct interviews with the accountant of UNL for unpublished figures.

1.7 Organization of the Study

For every research or study it is necessary to prepare organization of the study. It helps researcher by providing guidelines and way of study. The entire study has been organized into six main chapters as:

Chapter – I: Introduction

The first chapter is introduction, which includes background of the study, objectives of the study, focus of the study, importance of the study and limitation of the study.

Chapter – II: Review of Literature

Second chapter is review of literature, it includes reviews of major studies i.e., review of books, review of journals and periodicals unpublished master degree thesis of T.U.

Chapter – III: Research Methodology

Third chapter is research methodology; it includes Introduction, research design, sources of data, procedure of research methodology, population and sample, method of financial analysis and statistical analysis.

Chapter – IV: Presentation and Analysis of Data

Fourth chapter is data presentation and analysis; it includes primary data analysis, Secondary data analysis, and major findings.

Chapter – V: Summary, Conclusion & Recommendations

Fifth chapter is concerned with summary, conclusion and recommendation.

CHAPTER – II

REVIEW OF LITERATURE

2.1 General Concept of Profit Planning

Profit planning is the key point of management. Without proper planning profit will not just happen. So every enterprise should systematically plan for profits in a proper way. Various functional budgets are the basic tools for proper planning of profit and control over them.

Profit planning is a systematic and formalized approach of determining the effect of management's plans upon the company's profitability. In order to undertake planning for profits the financial manager makes projections of outflows and inflows of the enterprise. The essential inflows of an enterprise are people, capital and materials and they are generally cost incurring factors. On the other hand, the planned outflows are products, services and social contributions that the enterprise generates. Having projected inflows and outflows, the management manipulates the combinations of inflows and planned outflows so that the ultimate goal of the enterprise is reached(Srivastava and Radhey;1992:170).

"Profit planning in fact is a managerial technique and a profit plan is such a written plan, in which all aspects of business operations with respect to a definite future period are included. It is a formal statement of policy, plan, objective and goal established by the top management in respect of gone future period. It is a predetermined detailed plan of action developed and disturbed as a guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus, we can say that profit planning is a tool which may be used by the management in planning the future course of actions and in controlling the actual performance"(Gupta;1992:521). Profit planning as a decisional tool involves establishment of specific goals for the enterprise, development of long range profit plans and short range annual profit plans which are prepared after integrating sales plan, production plan, administrative expenses budget, distribution expense budget etc. (Srivastava and Radhey;1992:170). Profit planning concepts are;

a. Profit planning requires major planning decisions by management.
b. Profit planning entails pervasive management controls activities, and
c. Profit planning recognizes many of the critical behavioral implication throughout the organization.

Comprehensive Profit Planning and Control is defined as the planning process designed to help management effectively perform significant phases of the planning and control functions. Profit planning and control model involves:-

a) The development and application of broad and long- range objectives of the enterprise.
b) The specification of enterprise goals.
c) The development of strategic long –range profit plan in board terms.
d) The specification of tactical short range profit plan detailed by assigned responsibilities (divisions, departments, projects)
e) The establishment of a system of periodic performance reports detailed by assigned responsibilities;.
f) The development of follow up procedures (Welsch, et.al;2002:30).

Profit planning is a summary of overall planning process of an organization. In fact it is a managerial technique in written form in which all aspects of business operations with respect to a definite future period are included. It is a formal statement of policy, plan, objective and goal established by the top management will respect to some future period. Profit planning is deciding in advance or in the present what to achieve in the future. It comprises both the determination of a desired future and the steps to bring it about. It is a process whereby companies reconcile their resources with their objectives and opportunities.

"Profit planning function of management rests upon some fundamental views that is the conviction that a management can plan the long range destiny of a manufacturing enterprise by making a continuing stream of well conceived decisions. The thrust of the comprehensive profit planning concept goes to the very heart of management that is the decision making process especially for long-range success. The stream of managerial decision must generate plans and actions to provide the essential inflows that are necessary of support the planned outflows of the enterprise. So that realistic profits and return on investment are earned. Continuing generation of profits by managerial manipulation of the inflows and outflows provides the substance of profit planning" (Welsch, et.al;2002:31).

2.2 PROFIT

Profit is the primary measure of business success a firm or an Industry is organized to make profits. Generally profit is a controversial term and many authors defined it in different ways. In simply, profit is the main objectives of every organization in the world. According to P.V. Kulkarni, “Profit is the primary objectives of business in view of the heave investment which is necessary for the success of most enterprise. Profit in the accounting sense trends to become a long term objectives which measure not only the success of product but also of the development market of it.”(Kulkarni;1985:245).

Dean Joel clearly distinguishes the views of Accountants and Economist about profit in as following ways. “The most important point of difference between Economist and accountant approaches center around.

i) The business of costs, i.e. what should be subtracted from revenue to get profit.

ii) The treatment of capital gains and losses, and perhaps more important

iii) The meaning of depreciation

iv) The price level basis for valuation of Assets (Joel;2001).

A profit plan is estimation and predetermination of revenues and expenses that estimates how much income will be generated in order to meet the financial requirement. It presents a plan for spending income in a manner that does not result in a loss? It represents an overall plan of operations and covers a definite period of time and formulates the planning decision of the management.

Profit differs from return on other factors in three respects: (a) Profit is residual income and not contractual or certain income as in the case of other factors. (b) There are much greater fluctuation in profits than the reward of the other factors. (c) Profit may be negative aware as rent, wage and interest must always be positive (Dewelf;1981:299). Lynch and Robert William's define the term profits in views from management as follows.

1. A intangible expression of the goals it has set for the firm.
2. A measure of the performance towards the achievement of its goals.
3. A means of maintaining the health growth and continuity of the company (Linch and Willamsol;1988:245).

2.3 PLANNING (The Basic Foundation of Profit Plans)

Planning means a assessing the future making provision for it and assuming that establishing goal can be met with acceptable home frame. Define the planning its simplest terms as the determination of anything in advance of action, it is essentially a decision making process that provides a basis for economical and defective action in the future. Effective planning sets the stage for integrated action to take place, reduce the number of enforceable crises, promotes to use of more efficient methods and provides the basis for the managerial function of control, there by assuming to cusses on organization objectives. Glenn A. Welsch defines management planning as the design of a desired feature state for an entity and effective ways of bringing in about. He further explains, "A fundamental purpose of management is to provide for a feed for ward process. The concept of feed forward planning is generally recognized as the most difficult task facing the manager, and it is one on which it is very easy to procrastinate. It clearly indicated that planning is a decision making process of the highest order, it requires management time and dedication and a systematic approach. The decision made in the planning process is;

a) Anticipatory, since they are made sometime in advance of action and
b) Interrelated, since they comprise broad groups of interdependent choice from and alternatives of the government (Glenn and Welsch;2006).

A planning process includes setting goals, evaluating resources, forecasting by different methods and formulating a master plan. Planning depends upon the organized objectives. For the planning purpose a firm's objectives can distinguish mainly three types; the first is prime, the second one is instrumental and the last another is specific. The prime objective is the aim or end of action, an instrumental objectives are aims for accomplishment of more basis aim; for this purpose the company has establish divisional, departmental and individual job objectives. Specific objective are those objectives that have been specified as to time and magnitude, which is known as goals. So company's objectives provide the ultimate criteria for resolving difficult company decisions and company objectives are the bases for long-range profit planning.

2.4 Types of Planning

2.4.1 Strategic Long-range Planning

Strategic long–range planning is a top management function in which the organization's purpose, mission and overall objectives and policies are developed to position the organization advantageously in its operating environment. Management planning and control is the process also carried on within the framework established by strategic planning.

According to the David W. Ewing a long range planning is closely concerned with the concept of the corporation as a long living institution.“ The best long-range plan is on that establish a broad flexible objectives to serve as guideline for subordinate plans and that is not likely to become absolute as a result of rapidity changes technology.” (David;1964:6)

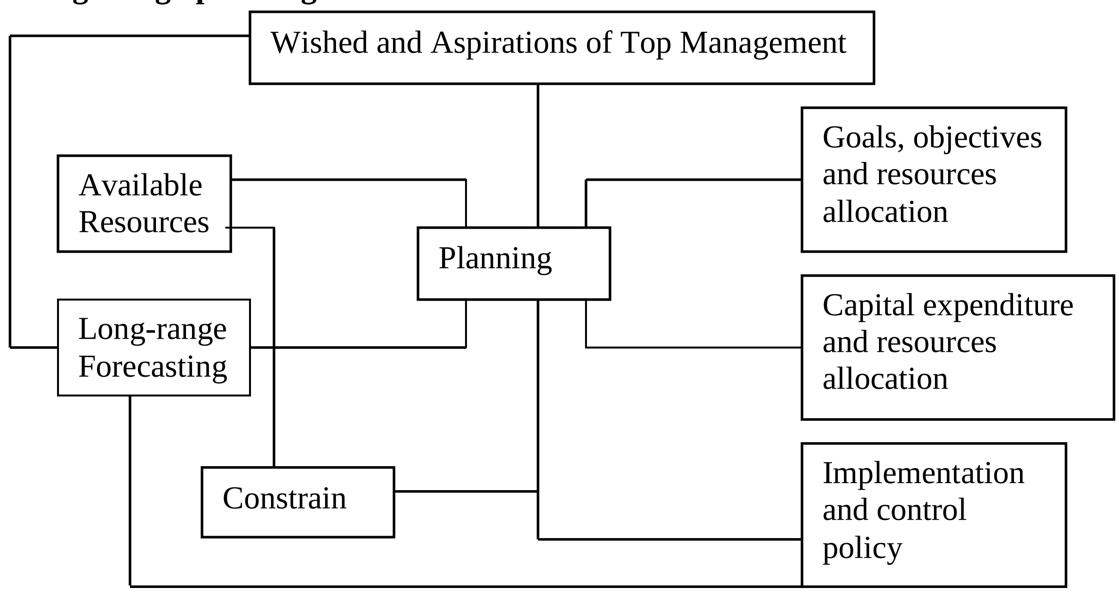
Purpose of Long–range Planning

The main purpose of long – range plan is “to serve primarily as a source of strategy, motivation and direction”. Following are the main objectives of long range planning:

1. It is essential to provide a clear picture of whether the company is handed.
2. It is essential to keep enterprise in strong position.
3. It is essential in focusing on Long-term opportunities.
4. It is important in evaluating management personnel.
5. It is essential to expedite new financing.
6. It is essential for bring attention to new techniques etc.

We can represent a long -range Planning Model by this chart

A Long- range-planning Model



2.4.2 Tactical Short- range Planning

A tactical planning is done it all levels and involves directing the organization's activities to achieve overall strategic objectives consistent with the organization's mission and policies. A short term plans cover about a year, and is less formal and detailed than long rang plans, which usually covers more than three months.

"Tactical profit plan include only those details essential. (i) To provide a general understanding of the annual profit plan and (ii) To provide an overall view of the comprehensive short range profit plan the organizational chart and the statement of broad objectives, the specific goals, the strategies and the planning premises memo as background before studying these schedule" (Welsch, et.al;1992:134).

The Planning Process

Goals Setting

↓

Strength and weakness analysis

↓

Forecasting

↓

Formulating

Welsh, Hilton & Gordon suggest that management an entity, during the planning is related to three dimensions, which may be outlined as follows.

Dimensions Chart

Classification	**Time**	**Scope of entity activities**	**Orientation**
Strategic	Long term	Broad view of activities	Objective & goals
Tactical	Short term	Detailed view of activities	Means to attain goals

2.5 Profit Planning

PP is the key point of management. Without proper planning enterprises will not success to achieve their goals. PP is a comprehensive statement of intentions expressed in financial terms, for the operation of the firm of both short and long term period. It is a plan of the firm’s expectation and is used as basis for measuring the actual performance of managers and their units. The success of each enterprise in realizing its optimum profit in each year is determined by the extent to which it establishes objectives and exercises control results reach or exceed those planned. This process constitutes the budgetary planning and control programme. It includes revenues, cost, profits, cash working capitals, fixed assets, financing and dividend distribution. It extends throughout the entire organization form the chief executive to the front line supervisory levels.

“PP is a comprehensive and coordinated plan expressed in financial terms for the operations and resources of an enterprise for some specific period in the future”. “PP in fact is a managerial technique and a PP is a written plan in which all aspects of business operation with respect to a definite future period are included. It is a formal statement of policy, plan, objective and goal established by the top management in respect of some future period. It is a predetermined detailed plan of action developed and distributed as a guide to current operations and as a partial basis for the subsequent evaluation of performance”(Gupta;1992:52).

Comprehensive PPC is defined as a process designed to help management effectively perform significant phases of the planning and control functions.

Profit planning and control model involves:

- The development and application of broad and long- range objectives of the enterprise.
- The specification of enterprise goals.
- The development of strategic long-range profit plan in board terms.
- The specification of tactical short-range profit plan detailed by assigned responsibilities (divisions, departments, projects)

- The establishment of a system of periodic performance reports detailed by assigned responsibilities;.
- The development of follows up procedures (Welsh & Hilton;1992:30)

"PP function of management rests upon some fundamental views that is the conviction that a management can plan the long range destiny of the manufacturing enterprise by making a continuing stream of well conceived decisions. The thrust of the comprehensive PP concept goes to the very heart of management that is the decision making process especially for long-range success. The stream of managerial decision must generate plans and actions to provide the essential inflows that are necessary of support the planned outflows of the enterprise. So that realistic profits and return on investment are earned. Continuing generation of profits by managerial manipulation of the inflows and outflows provides the substance of PP".

PP is a summary of overall planning process of an organization. In fact it is a managerial technique in written form in which all aspects of business operations with respect to a definite future period are included. It is a formal statement of policy, plan, objective and goal established by the top management in respect of some future period. PP is deciding in advance or in the present what to achieve in the future. It comprises both the determination of a desired future and the steps to bring it about. It is a process whereby companies reconcile their resources with their objectives and opportunities.

PPC is an important approach, which has been developed for facilitating effective performance of management system mainly in profit-oriented enterprises. The aggregate meaning of the preparation of various functional annual budgets is known as PP. The determination of next year production tends to achieve the sales, which is directly related with revenue generation. The decision on new capital investment and financial borrowing represent PP. In all cases, the firm is deciding now how it will use its resources i.e. men, material, machine, and money in the future. A formal PP is the key to corporate survival in a world of rapid social change and intense competition. PP can take the best use of firm's opportunities and resources to meet the target profit.

"Modern PP encourages desirable action & recognize the divisional & departmental autonomy & responsibility of managers, moving them, to strive for attainment of their personal objectives"(Milton;2006:471-472).

2.6 Components of Profit Planning

1. **Long Range Profit Plan**

   A. Substantive Plan

   - Broad objectives of the enterprise
   - Specific enterprise strategies
   - Enterprise strategies
   - Executive management planning instructions

   B. The Financial Plan

   - Strategic long range profit plan
   - Sales, cost & profit projection

– Major projects & capital additions

– Cash flow& financing

– Personnel requirements

2. Tactical Short Range Profit Plan

a. Operating plan:

Planned income statement

i) Sales plan

ii) Production plan

iii) Administrative expenses budget

iv) Distribution expenses budget

v) Appropriation type budget

b. Financial position plan:

Planned balance sheet

i) Assets

ii) Liabilities

iii) Owner's equity

Cash flow plan

c. Variable Expenses budgets

Output expenses formulas

Supplementary Data:

(e.g. Cost volume Profit analysis, ratio analysis)

Performance reports

Follow up. (Welsch;1986:74)

2.7 Forecasting

Most managers are not familiar with the theoretical aspect of forecasting and its limitations because they do not depth. Yet many companies have a forecasting function because it can help them to cope with an increasing uncertain environment. Management planning involves uncertainly, and reliable forecast can help reduce the uncertainly in planning. Since each area of organization is related to all others, a good or bad forecast can effect the entire organization.

“Planning or budgeting is not nearly forecasting although forecasts from the basic of budgeting. Forecasting is the estimate of the future environment within which the company will operate”(Grace;1987:102).

“Predication, estimation or expectation of future situation is known as forecasting. The need for forecasting as management attempts to decrease its dependence on chance and becomes more scientific is dealing with its environment. Since each area of an organization is related to all others a good or bad forecast can effect the entire organization”(Makridakris; 1985:4).

Forecasting provides the maximum help to the planning. In case of certainly, forecasting does not require much effort whereas in the case of ignorance forecasting could provide some clue about future possibilities. In any organization the major purpose of forecasting is to reduce uncertainly and minimize ignorance because both forecasting and planning concern them several with the future.

In one word, market study and research about change in price, advertising, consumer behavior, income quality and other related factors are need for good forecasting, continuity of these researches in essential for effective result. In any organization the major purpose of forecasting is to reduce uncertainly and minimize ignorance because both forecasting and planning concern them several with the future.

There are different methods of forecasting which is used to nature and situation of enterprises but there are no any universal forecasting method for every situation and circumstance. Among them two or more methods are broadly classified as (a) Quantitative (b) Technical and (c) Judgment. These methods include time series smoothing decomposition for time series, simple and multiple regression and modeling.

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

2.8 Levels of Forecasting

Forecasting is an integral part of decision-making activities of management. The need for forecasting is increasing as management attempts to decrease its dependence on chance and becomes more scientific in dealing with its environment. According to the time or period, levels of forecasting are classified. Generally, level of forecasting includes short term, Intermediate and long term forecasting.

2.8.1 Short Term Forecasting

The short term forecasting is needed in budget making. The short term forecasting is a prediction extending a maximum of two years in to the future. The short term forecast of general business conditions is often important in deriving a short term sales forecast is useful in making internal estimates of company operations.

2.8.2 Intermediate Forecasting

It covers from three to five years period. This is one of the least developed areas of prediction, because the forecaster does not have the advantage of surveys of consumer and business intentions, or can be extrapolate long term trends, nor is he a particularly good position to rank the importance of qualitative factors.

2.8.3 Long Term Forecasting

A Long-term forecast may indicate the volume of investment necessary in plant and equipment. Fore cast are frequently made in the form of long-term projection that compares an economic situation with minimum of given years into future with present circumstances on with those of the relevant past. The purpose of long range projection is to give a rough picture of future prospects; a picture that has some empirical foundation, sought is reasonable statement of the most probable out come of an explicit combination of assumptions.

2.9 Planning VS Forecasting

“Planning can be performed under conditions of certainty, uncertainty or ignorance about the future. It is in those situations involving uncertainly that forecasting provides the maximum help to planners. When certainly exists, forecasting does not require, when there is ignorance, the must that forecasting can do provide some clues about future possibilities in many organizations the major purpose of forecasting is to reduce uncertainty and minimize ignorance. Because, both forecasting and planning concerns themselves with the future activities. It is important to integrate these two functions with the organization. Knowledge of forecasting techniques is of little values, unless they can be effectively applied in the organization planning process**”**(Makridakis;1985:534).

Planning can be performed under condition of certainty, uncertainty or ignorance about the future. It is in those situations involving uncertainty the forecasting provides the maximum help to problems. In much organization the major purpose of forecasting is to reduce uncertainty and minimize ignorance because both forecasting and planning concern to integrate these two functions with in the organization.

There is slightly difference between planning and forecasting, forecasting is an attempt to find the most probable course of events or at a best range of probabilities while planning is deciding what one will do about it. Forecasting plays important role in management. It is the best tool to use proper plan. Strategic and tactical planning is based on forecasting. If forecasting is wrong or inaccurate, planning will not accurate. So, this statement is actually correct ‘Good planning depends on good forecasting.’ In one word, knowledge of forecasting technique is of little value unless they can be effectively applied in the organization planning process.

2.10 Purpose of Profit Planning

Profit planning and control has the ultimate objectives of attaining the optimum profit. As indicated by many successful applications, the must reasonable approach to attaining optimum profits is to plan them as a percentage of capital employed to produce them and to manage the enterprises with the objective of achieving the planned percentage (Keller;1995:388).

Keller and Ferra further states about the principles and purpose of profit planning in the following points:

i) To provide a realistic estimate of income and expenses for a period and of the financial position at the close of the period, detailed by areas of management responsibility.

ii) To provide a coordinated plan of action which is designed to achieve the estimates reflected in the budget.

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

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

v) To provide a ready basic for making forecasts during the budget period to guide management in making day to day decision (Keller;1995:389).

Some other purpose for the application of profit planning:

1. To state the firm's expectation in clear and facilitate for attainability.
2. To provide a detail plan of action for reducing uncertainty and for the proper direction of individual and group efforts to achieve goals.
3. To communicate expectations to all concerned with the management of the firm so that they are understood, supported and implemented.
4. To coordinate the activities and efforts in such a way that the use of resources is maximized
5. To provide a means of measuring the performance of individuals and units and to supply information on the basis of which the necessary corrective action can be taken.

Glenn A. Welsh summarized the board concept of profit planning in short form as "The profit planning and control means the development and acceptance of objectives and goals and moving an organization efficiently to achieve the objective and goals"(Welsch;1986:4). Other terms used in the same context of comprehensive profit planning and control are; business budgeting, managerial budgeting and budgeting.

2.11 Advantage of Profit Planning

Profit is the indispensable element in a successful business enterprise. A firm making inadequate profits will not only survive but will perhaps become a social or economic disaster to vary society. In order to make or earn profit a firm should have prepare a profit planning. The Following main arguments are usually given for PPC:

- It forces early consideration of basic policies.
- It requires that management put down in figures what is necessary for satisfactory performance.
- It requires adequate and appropriate historical accounting data.
- It compels all members of management, from the top down, to participate in the establishment of goals and plans.
- It requires adequate and sound organization structure that is there must be a definite assignment of responsibility for each function of the enterprises.
- It reduces cost by increasing the span of control because less supervision is needed.
- It compels management to plan for the most economical use of labour, material and capital.
- It frees executives from many day-to-day internal problems through predetermined polices and clear-cut authority relationship. It thereby provides more executive time for planning and creative thinking.
- It pin points efficiency and inefficiency.
- It forces recognition and corrective action.
- It forces management to consider expected future trends and conditions.

- It aims in obtaining bank credit, banks commonly require a projection of future operations and cash follows to support large loans.
- It rewards high performance and seeks to correct unfavorable performance.
- It tends to remove the cloud of uncertainly that exists in many organizations, especially among lower levels of management, relative to basic policies and enterprises objectives.
- It promotes understanding among methods of management of their co- workers problems.
- It instills at all levels of management that habit of timely, careful and adequate consideration of the relevant factors before reaching importance decisions.
- It compels departmental manager to make plans in harmony with the plans of other departments and of entire enterprises.
- It checks progress or lacked of progress towards the objective of enterprises. (Welsch, et.al;1992).

2.12 Development of Profit Plan

For the development of sound profit planning certain steps that an enterprise should take to establish as the foundations.

These steps are as follows:

1. Top management commitment and understanding.
2. Identification and evaluation of enterprise's characteristics and environmental factors controllable and non-controllable.
3. Evaluation of organizational structure.

4. Organism of accounting system in such a way that provided data should be particularly useful for planning.
5. A policy determination must be made about the time dimensions to be used for profit planning purpose.
6. A program of budgeting should be developed to inform management at all level about (a) the purpose of program (b) the manner in which it will operate, including the basic management policies and guidelines for its administration (c) the responsibility of each level of management in the program and (d) a way in which the program can facilitate the performance of each manager's functions.

2.12.1 Sales Plan

Sales budget forms the fundamental basis for other functional budgets and it is needed to co-ordinate the production function with expected demand for a particular product. The preparation of sales budget requires forecast of quantities to be sold and also the standard price at which these quantities may be sold(Gupta;2000:537). The sales plan is the foundation for periodic planning in the firm because particularly all other enterprise planning is built on it. The primary source of cash is sales. The capital additions needed the amount of expenses to be planned, the manpower requirement, the production level, and other important operational aspects depend on the volume of sales. Therefore the sales plan must be realistic.

"The sales planning process is necessary part of profit planning and control because, (a) it provides for the basic management decision about marketing (b) based on those decisions, it is an organized approach for developing a comprehensive sales plan. If the sales plan is not realistic, most if not all of the other parts of the overall profit plan also are not realistic"(Welsch;1992:171).

The sales plan has three district parts:

(i) The planned volume of sales at the planned sales price per unit for each product.

(ii) The sales promotional plan

(iii) The sales expenses plan

2.12.1.1 Strategic Sales Plan

Strategic long- term sales plans are usually development as annual amounts. The long-term sales plan uses broad groupings of products with separate consideration of major and new products and service. Long- term sales plans usually involve in depth analysis of future market potential, which may be built up form a basis foundation such as production changes, state of the economy, industry projections and finally company objectives, long term managerial strategies would affect such areas as long-term pricing policy, development of new products and innovations of present products, new directions in marketing efforts, expansion or changes in distribution channels and cost patterns (Sharma and Gupta;2000:796).

2.12.1.2 Tactical Sales Plan

Strategic sales plan is known as long-range sales plan. Usually it is 5 to 10 years, it is to be developed annual amount. Usually it requires depth analysis of future market potentials, which may build up from a basis foundation such as population changes, state of economy, industry projections and company objectives. The effect of long-term strategies is also brought to bear on the long -term sales plan. They would effect in such area as pricing development of new product expansion of distribution channel, cost pattern.

2.12.1.3 Developing a Comprehensive Sales Plan

Glenn, Ronald and Paul have mentioned the following steps in developing a comprehensive sales plan:

Step 1 – Develops management guidelines specific to sales planning process and planning responsibilities.

Step 2 – Prepare sales forecasts consistent with specified forecasting guidelines including assumptions.

Step 3 – Assemble all the other relevant data.

(a) Manufacturing capacity

(b) Sources of raw materials and supplies, or goods fore resale.

(c) Availability of key people and a labour force.

  i. Capital availability

  ii. Availability of alternative distribution channels

Step 4 – Develop the strategic and tactical sales plan. There are various participate approaches widely used in the process of developing sales plan.

(i) Judgmental Approaches:

  (a) Sales force composite (maximum participation)

  (b) Sales division supervisors composite (participation)

(c) Executive opinion (decision) (participation limited to top management)

(ii) Statistical Approaches: [technical specialists plus limited participation]

(a) Economic rhythm approach

(b) Cyclical sequence approach

(c) Special historical analogy

(iii)Specific purpose methods (approaches)

(a) Industry analysis

(b) Product line analysis

(c) End-use analysis

(iv) Combination of methods

Step – 5 Secure managerial commitments to attain–1 goal in the comprehensive sales plan.

2.12.2 Production Plan

When a tentative sales plan is completed the next step in building the short-range profit plan for a manufacturing company is development of production plans. In broadest terms a production budget to and estimate of the number of units of each products will be produced in the coming budget period. The production planning refers the development of policies about efficient production level, use of production facilities and inventory levels. The second step of profit planning and control is the production budget. Quantities planned in marketing budget, adjusted to confirm to production and inventory policies, volume of outputs that most be manufactured by product and by interim time period are the areas of production planning. We can classify the market in three categories to know the area of production planning.

(a) **Direct market sale:** When the production is based only market demand, no need of production budget because the production process starts after the demand of goods. In case of job or unit production system production budget is not necessary. The quantity produced is always equal to the quantity sold.

(b) **For Inventory:** When the nature of product is scarce, the firm can manufacture with its full capacity. If demand is always high than its supply; in this situation there is not necessary of production budget. The over stock of inventory is favourable in this case.

(c) **For Sales and Inventory:** The production budget is important when the objective is both to sell and to store, the budgeted sales and the inventory effect the production volume. So production budget is necessary only those firm which has got the combined objective of sales and inventory(Fago and Koirala;2056:21). The personnel complying the production budget will assume a pattern of demand for the finished product. Normally, this pattern will be based on previous requirements of the selling department though major alternation in sales policy will also be taken in to account.

2.12.2.1 Long Range VS Short-Range Production

"Planned levels of production are important long-range and short-range issue. To develop a long-range plan, broad estimates of production levels are necessary to plan plant capacity requirements, factory cost structures, personnel requirements and cash flows.

For long-range planning purpose only major increase or decrease in inventories need to be taken into account.

2.12.2.2 Planned Production

Mathematically, we can present production budget as under:

Planned sales unit	xxx
Add Desired ending inventory	xxx
Total Requirements	xxx
Less: Beginning inventory	xxx
Unit to be produced	**xxx**

2.12.2.3 Setting Inventory Policies

The objectives of inventory policies should be (i) to plan the optimal level of inventory investment, and (ii) through control, to reasonably maintain these optimal levels.

Inventory policies should include (1) the establishment of inventory standards, such as maximum and minimum levels or target turnover rates, and (2) the application of techniques and methods that will ensure conformity with planned inventory standards. Budgeting requires that inventory policies be established and provides for reporting variances of actual inventory levels from standard levels from month to month.

In most business, inventories represent a relatively high investment and may exert significant influence on the major functions of the enterprise, such as:

1. **Sales:** Large inventories of finished goods are needed to meet market needs readily.
2. **Production:** Large inventories of raw materials are needed to assure availability for manufacturing activities, and a flexible inventory policy with respect to finished goods in needed to facilitate the attainment of stable production levels.
3. **Purchasing:** Large purchases minimize unit cost and overall purchasing expenses, therefore, a flexible inventory policy for raw materials is desirable.
4. **Finance:** Low inventory levels minimize investment requirements (cash) and reduce inventory-carrying cost (storage, obsolescence risks and others).

2.12.3 Material Plan

A comprehensive profit planning and control program includes planning and controlling raw materials and components use in the manufacturing of finished products. When the production budget is finished, a purchase budget can be prepared. A purchase budget on a monthly or quarterly basis, some firms, even prepare if on a weekly basis. Direct materials as the materials represent a manufacturing cost, and the parts utilized directly in the manufactures of finished goods.

The objectives served by the direct materials budgets are:

(i) To give information regarding the stock position.

(ii) To enable estimates to be made of the total quantity of all materials required for production.

(iii) To arrive at the costs of the various raw materials.

(iv) To provide the purchasing department with the data for formulating purchase programme.

Required unit of materials = [Production Units | Required unit of material for each unit of production] + Closing stock of materials

As we know, materials may be direct or indirect. Thus material budget deals with the requirement and procurement of direct materials. Indirect materials are dealt with under the works overhead budget. The budget should be related to the production budget and the period of the budget should be short duration because has an important bearing on the cash budget.

2.12.4 Planning & Controlling Direct- Labour Costs

This budget gives an estimate of the requirements of direct labour essential to meet the production target. Planning and controlling labor costs involve major and complex problem areas: (i) Personnel needs, (ii) recruitment (iii) training (iv) job description and evaluation (v) performance measurement (vi) union negotiation and (vii) wage and salary administration. Each of these problems may dominate in various situations. A comprehensive profit planning and control program should incorporate appropriate approaches applicable to each problem area. A profit planning and control program cannot resolve special personnel problems but it directs careful consideration to them and aids in placing them in perspective. Effective planning and control of long-term labor costs will benefit both the company and its employees (Glenn, et.al;2000:281). The direct labour budget includes the planned direct labour requirements necessary to produce the types and quantities of outputs planned in the production budget. Labour generally is classified as direct or indirect. Direct labor costs include the wages paid to employees who work directly on specific productive output. As with direct material costs, labor costs that can be directly traced to specific production are defined as direct. Indirect labor involves all other labor cost, such as supervisory salaries and wages paid to toolmakers, repair personnel, storekeepers and custodians. Direct material and direct labor costs are frequently referred to collectively as the prime costs of product." "Direct labour as a manufacturing costs, is defined as these labour costs directly identifiable with the production of specific units of finished goods. The direct labour budget is to provide planning data about the amount of direct labour required, number of direct labour employees needed, labour cost of each product unit and cash flow requirements as well as the direct labour budget is to establish a basis for control of direct labour (Glenn, et.al;2000:280).

2.12.5 Expenses Budget

Expenses planning and controlling is not reduction of cost but it means better utilization of limited resources. Expenses Planning and controlling should focus on the relationship between expenditure and benefits derived from those expenditure. Therefore, expenses planning and controlling is necessary to obtain enterprises goals.

1. **Fixed expenses:** Those expenses those are constant in total from month to month within relevant range of output and given set of conditions. For example, salaries, property taxed, insurance depreciation.
2. **Variable expenses:** Those expense that change in total directly with changes in output or volume of work done. For example, direct materials direct labour etc.

3. **Semi variable expenses:** Those expenses that is neither fixed nor variable. Semi expense changes in the same direction as output changes but not in proportion to the change in output.

Expenses Budget are classified in to three types:

2.12.5.1 Manufacturing Overhead Budget

Manufacturing overhead is a part of total production cost. It has not directly traceable to specific products and jobs. Manufacturing overhead consults of (i) indirect material (ii) Indirect labour (including salaries) (iii) all other miscellaneous factory expense such as taxes insurance depreciation, repairs etc. It is a problem in the allocation of manufacturing overhead to products because it includes much dissimilar expense. Control responsibility is widely diffused.

There are two distinct types of responsibility centers producing and service. Producing centers are those manufacturing departments that work directly on product manufactured. But service department do not work on the product directly rather they furnish services to the producing departments and to the other service departments(Fago and Koirala;95). We can calculate the manufacturing overhead using the following simple formula.

While developing the manufacturing overhead budget the following steps should be taken:

(i) Translate the requirement specified in the production plan into output or activity in each department. By doing this we can compute the planned departmental output or activity.

(ii) Plan departmental overhead.

(iii) Allocate the planned departmental expenses to the producing departments.

(iv) Allocate the producing department expenses to the products.

2.12.5.2 Selling & Distribution Expense Budget

Distribution expense affects the potential profit of the firm. It is a significant portion of total expense. Distributions expenses include all costs related to selling, distribution and delivery of products to customers.

The two primary aspects of planning expenses are as follows:

a. Planning and Co-ordinations
b. Control of distribution expenses.

Top marketing executives has the direct responsibility for planning the optimum economic balance between (i) sales budgets (ii) the advertisement budget and (iii) the distribution expenses budget. Sales, advertisement and distribution expenses are three separate problems in profit planning and control.

Distribution expenses include home office expenses and field expenses. For planning and controlling purpose, they must be planned by responsibility center. Distribution expense is not product costs and is not allocated to special products. Therefore a separate distribution expense plan should be developed for each responsibility center in distribution function.

2.12.5.3 Administrative Expenses Budget

“Administration expense includes those expenses then manufacturing and distribution. They are incurred in the responsibility centers that provide supervision of and service to all function of the enterprise, rather than in the performance of any one function. Because a large portion of administrative expenses is fixed rather than variable, the nation persists that they can’t be controlled. General administrative expenses are close to top management; therefore there is strong tendency to overlook their magnitude and effects on profits. Each administrative expense should be directly identified with a responsibility center and the center manager should be responsible for planning and controlling the expenses. Budgeted administrative expenses should base on specific plans and programmers. Past experience, adjusted for anticipated changes in management policy and general economic conditions is helpful. Because most administrative expenses are fixed an analysis of the historical record will often provide a sound basis for budgeting them"(Glenn, et.al;2000:281-82).

2.12.6 Capital Expenditure Budget

Capital expenditure plan is often called capital budgeting. It is the process of planning and controlling the strategic and tactical expenditures for the expansion and contraction of investments in operating assets. A capital expenditure is the use of funds to obtain operational assets that will (a) help earn future revenue or (b) reduce future costs. Capital expenditures include such fixed assets as property plant, equipment major renovations and patents etc.(Glenn, et.al;2000:356). “Capital budgeting may be defined as the decision making process by which firms evaluate the purchase of major fixed assets, including building, machinery and equipment"(John;1994:299).

2.12.7 Cash Flow Budget

Cash is the most liquid assets. It is one major responsibility of management to plan, control and safe guard of the cash of enterprises. The planning and controlling of the cash inflows, the cash outflows and the related financing is important in all enterprises. Cash budgeting in an effective way to plan and control the cash flows, assess cash needs, and effectively use excess cash. A primary objective is to plan the liquidity position of the company as a basis for determining future borrowing and future investments. For example, excess cash if not invested incurs an opportunity cost that is loss of ht interest that could be earned on the excess cash. The timing of cash flows can be controlled in many ways by the management such as increasing the effectiveness of credit and collection activities, making payment by time drafts rather than by check, making payments on the last day of discount periods batching payments and giving discounts on cash sales. A cash budget is a detailed estimate for some future period of time of cash inflows from all sources, cash disbursement for all purposes and the resultant cash balance. It is the process of forecasting the expected receipts and expected payments of cash to meet the future obligations. It is an effective way to plan and control the cash flows, assets cash needs and effectively uses excess cash.

The primary purpose of the cash budget is to

1. Give the probable cash position at the end of each period as a result of planned operations.

2. Identify cash excesses or shortages by times periods.
3. Establish the need for financing and/or the availability of idle cash for investment.
4. Coordinate cash with (a) total working capital (b) sales revenue (c) expenses (d) investments, and (e) liabilities.
5. Establish a sound basis for continuous monitoring of the cash position.
6. Indicate the availability of cash discounts.
7. Preserve liquidity

The preparation of cash budget is relatively simple matter in a undertaking with a complete system of budgetary control because most of the information needed for the preparation of cash budget is contained in budgets the precede its formulation. In case a business is satisfied to confine its system of budgetary control to cash and fixed assets budgets, the preparation would become a little more involved due to the fact that the information usually contained in various operating budgets under a comprehensive budgetary system will have to be some how assembled and this is likely to prove difficult owing to the absence of detailed budgeting.

There are three methods usually used in preparation of cash budget. These methods are:

(a) Receipt and Payments methods

(b) Adjusted profit and loss methods, and

(c) Balance sheet method

Representing different approaches to the preparation of cash budget the first method is useful over short periods while the other two methods are generally, used over long periods.

2.13 Cost–Volume–Profit and Contribution Analysis

The analysis of relationship between cost, volume and profit is known as CVP analysis. It is an analytical tool for studying the relationship between volume, cost, price and profit. It is also an important tool, used for profit planning in a business. There are three factors of cost volume profit analysis, which are interconnected and dependent with each other. For example, profit depends upon sales, selling price to a greater extent will depend upon the volume of production.

Cost volume profit analysis is great helpful in managerial decision-making. Specially, cost control and profit planning is possible with the help of CVP analysis. Generally, cost volume profit analysis provides the answer to the questions such as:

(i) What sales volume is needed to avoid losses?

(ii) What sales volume is needed to earn a desired net profit?

(iii) What will be the effect of change in price?

(iv) Which product or operation of a plant should be discontinued and so on.

In the scheme of cost volume profit analysis, an attempt is made to measure variations of cost with volume cost may depend on volume which in its turn, depends on demand while profits depend on the price that can be obtained for the goods manufactured placed in the market less the cost thereof. The general impression to the effect that an increase in production would automatically increases the profit does not hold good where the profits, that a procedure can earn on a longer turnover, are not as high as those he can get on a lower turnover owing to fall in the level of profits being more than the gain arising from the increase in turnover due to fall in price. A business most incurred certain minimum expenditure on fixed and semi-variable charge. Such expenditure must be paid out of the marginal profit earned on each unit of production with the result that a minimum volume of business becomes essential, the direct variable cost of each article sold being covered by the sale proceeds.

2.13.1 Meaning of Break Even Analysis

Break-Even–Analysis is the term to study of the interrelationship between cost volume and profit at various level of activity. It is the most widely known form of the CVP analysis. Therefore, the CVP analysis is also called as BE Analysis.

The BEP is used under BE Analysis. BEP is the level of activity at which total cost equal to total revenue. In other word, BEP is a point of “No profit no loss”. If the sales or production is higher than the BEP volume, there will be a profit. In the same way if the sales (production) is less then BEP sales there will be a loss.

Break even analysis is a method of relating fixed costs, variable costs, and total revenues to show the level of sales that must be attained if the firm is to operate at a profit. It may be interpreted in two senses narrow sense and broad sense. In narrow sense it refers to a system of determining that level of operation where total revenues equal total expenses i.e, the point of zero profit. Taken in its broad sense, it denotes a system of analysis that can be used to determine the probable profit at any level of operations.

2.13.2 Methods of Break Even Analysis

1. Mathematical or Algebraic Formula Method

In order to understand mathematical relationship between cost volume and profit it is desirable to understand the following four concepts, their calculation and application.

i. **Contribution Margin:** It is the difference between the sales and the marginal cost of sales and it contributes towards fixed expenses and profit. The main aim of contribution will first go to meet fixed expenses and then to earn profit contribution can be represented as:

Contribution = Selling price – Marginal cost

Or, Contribution = Fixed expense + Profit

Or, Contribution – Fixed expense = Profit

Contribution is different from the profit, which is the net gain in activity or surplus and remains after deducting fixed expenses from the total contribution.

ii. **Profit Volume (P/V) Ratio:** The profit volume ratio is one of the most important ratios for studying the profitability of operations of a business and establishes the relationship between contribution and sales. It helps to find out which product is more profitable. Higher the P/V ratio, more will be the profit and lower the P/V ratio, lesser will be the profit. Hence, it should be the goal of every concern to increase or improve the P/V ratio.

It can be done by:

i. Increasing the selling price per unit;

ii. Reducing direct and variable costs by effectively utilizing men, machines and materials.

iii. Switching the production to more profitable products showing a higher P/V ratio.

The P/V ratio is very useful and is used for the calculation of:

$$\text{(i) Break even point X}\frac{\text{Fixed cost}}{\text{P/v ratio}}$$

$$\text{(ii) Value of sales to earn a desired amount of profit X}\frac{\text{Fixed cost }\Gamma\text{ Desired profit}}{\text{P/v ratio}}$$

(iii) Variable costs = Sales (1 – P/v Ratio)

(iv) Profit = (Sales x P/v Ratio) – Fixed cost

(v) Fixed cost = (Sales x P/v Ratio) – Profit

$$\text{(vi) Margin of safety X}\frac{\text{Profit}}{\text{P/v ratio}}$$

$$\text{Required Production or sales to recover the losses X}\frac{\text{Fixed cost }\Gamma\text{ Amount to be recovered}}{\text{P/v Ratio}}$$

iii. Break Even Point: A business is said to break-even when its total sales are equal to its total costs. It is a point of no profit or loss. At this point, contribution is equal to fixed cost. A concern, which attains break even point at less number of units will definitely be better from another concern where break even point is achieved at more units of production.

The break-even point can be calculated by the following formula.

$$\text{Break even point (in unit) X}\frac{\text{Total fixed expenses}}{\text{Selling price per unit – Marginal cost per unit}}$$

$$\text{Or, } X\frac{\text{Total fixed expenses}}{\text{Contribution per unit}}$$

$$\text{Break even point based on total sales } X\frac{\text{Fixed cost}}{\text{P/v Ratio}}$$

iv. **Margin of Safety:** It is the difference between the actual sales and the sales at break-even point. Margin of safety is the excess production over the break-even points out put. Sales or output beyond break even point is known as margin of safety because it gives some profit, at break even point only fixed expenses are recovered. It can also be expressed in percentages.

Margin of Safety (m/s) = Present sales – B.E. sales

$$\text{Margin of safety } X\frac{\text{Profit}}{\text{P/v Ratio}}$$

Larger margin of safety is the best, which is an indicator of the strength of a business.

2.14 Types of Ratio

Several ratios can be calculated from the accounting data contained in the financial statement.

In general the following ratios are on practices.

1. Analysis of short-term financial position or tests of liquidity.
2. Analysis of long- term financial condition or tests of solvency.
3. Test of profitability
4. Test of overall profitability

2.15 Relation with Profit Planning

The ratio analysis can be of invaluable aid to management in the discharge of its basic functions of forecasting, planning, coordination, communications and control. By on analysis study of the past performance of the business, it helps in predicting and projecting the future it assets in communication by conveying and formulation, which is pertinent and purposeful, to those for when it is meant, it promotes coordination by a study of the efficiency of the business it paves the way for effective control of business operations by undertaking an appraised of both the physical and monetary targets. It is therefore, ratio analysis is an integral part of profit planning system.

2.16 Review of Research Work

Khagendra Prasad Ojha (1995), has submitted a thesis on the topic, "Profit planning in manufacturing PEs, A case study of Royal drugs Ltd and Herbal Production and processing Co. Ltd" to the faculty of management central department T.U on the course of practical fulfillment of MBA. In this research, Mr. Ojha has focused his study to highlight the current practice of profit planning and its effectiveness on RDL and HPP Co. Ltd. In his research paper he has used primary as well as secondary data i.e. published documents, booklets, magazines document. Mr. Ojha has made research covering the time period of six years from FY 1991/92 to FY 1995/96.

The main objectives of this research were:

– To highlight the current practice of profit planning and its effectiveness on Nepalese Enterprises.
– To evaluate the variance between targets and actual of the EPs.
– To analyze the various functional budgets adopted on these EPs.
– To draw a picture of profit planning process adopted in these two EPs with theoretical prescriptions.

The major findings of this research were:

– Role conflict between departmental managers.

– Failure to establish adequate forecasting system.

– In adequate authority and responsibility to planning department.

– In adequate planning of profits due to lack of skilled planners.

– Unrealistic sales forecasts.

– No efforts of market research for indigenous products.

Recommendations:

– A systematic approach to comprehensive profit planning should be adapted from the very beginning to the end.

– Nepalese PEs should be clearly defining broad objectives.

– Price-cost volume relationship should be taken into consideration while developing sales plan and pricing strategies.

– Nepalese public enterprises should attempt to solve the behavioral problems that arise in organization.

– PEs should adequately identify and evaluate external variables as well as internal variables.

– Nepalese public enterprises should be operating on commercial basis.

– Trained and qualified manpower of budgeting and planning should be hired and present manpower should be trained to develop and implement the profit plans effectively.

– To eliminate red- tapism, unnecessary formalities should be corrected and avoided which creates delays in decision making and functioning.

Laxman Sharma Poudel (2052-53), has submitted a thesis on the topic, “Profit planning in manufacturing PEs, A case study of Gorakh Lali Rubber Industry Ltd.” to the faculty of management central department T.U on the course of practical fulfillment of MBA. In his research, Mr. Poudel has tried to examine how far the difference functional budgets are being applied as tool for profit planning in the business enterprise. In his research paper he has used primary as well as secondary data i.e. published documents, booklets, magazines document. Mr. Badu has made research covering the time period of four years from FY 049/50 to FY052/53.

The main objectives of this research were:

– To sketch the trend of profit and loss.
– To see the Gorakh Kali Rubber Industry’s profit planning on the basis of overall managerial budgeting.
– To examine the practice and effectiveness of profit planning.
– To evaluate the variance between targets and actual of the enterprise.

The major findings of this research were:

– Unrealistic of over ambiguous sales forecasts.
– Inadequate planning of profits due to lack of skilled planners.
– Inadequate evaluation of relevant internal and external market variables.
– Inadequate knowledge of technical knows how.

Recommendations:

– Industry should develop the long-term strategic plan for every aspect of its operations.

- Pricing policy should be revised and cost volume profit relationship should be considered while pricing the products.
- Effective sales promotion activities should be made to increase the export of the industry.
- Industry should clearly state its objectives, and should have in depth analysis of the industry's strength and weakness.

Mina Kumari Acharya (2054-55), has submitted a research on the topic, "Profit planning and control in manufacturing public enterprises of Nepal, A study of Himal Cement Co. Ltd.." to the faculty of management central department T.U on the course of practical fulfillment of MBA. In her research, Miss Acharya has tried to examine how far the difference functional budgets are being applied as tool for profit planning in the business enterprise. In her research paper she has used primary as well as secondary data i.e. published relevant documents, reports of auditor general were the secondary sources of data and personal interview with the top level management and the questionnaire were the primary source of data. Miss Acharya has made research covering the time period of five years from FY 050/51 to FY054/55.

The main objectives of this research were:

- To analyze the various functional budgets adopted in Nepalese Enterprises.
- To Examine how far the profit planning system is applied in HCC..
- To sketch the trend of profit and problems of Planning in HCC.
- To examine the practice and effectiveness of profit planning.
- To evaluate the variance between targets and actual of the enterprise.

The major findings of this research were:

- The Company did not fix its board and long-range objectives and periodic performance report systematically.
- Company has satisfactory production plan. Production is formulated as required by sales plan. The planning procedure and system of company are also good.
- Actual production of company is largely depend upon plan.

Recommendations:

- Company should try to increase its market share.
- It should be benefited to prepare a realistic sales plan..
- There must be opened separate profit planning unit and have to appoint profit-planning director to achieve company's goal.
- Company should try to increase its market share.

Ishwor Raj Chalise (2001), has studied "Profit Planning in Nepal ".He has carried out a study with following objectives:-

- To examine the practices and effectiveness of profit planning in NLL.
- To analyze the various functional plan formulated and implemented in NLL.
- To evaluate the variance between targets and actual of NLL.
- To evaluate the profit planning process applied in NLL with conceptual perspective,
- To point out feasible suggestion and recommendation to make betterment of Nepalese manufacturing enterprises with speed reference to NLL.

Chalise has listed the following major findings regarding Nepal Lever Ltd.

- The company has been no planning division. It has no skilled and expert planners as well.
- NLL has been suffering from many internal and external factors in formulating and implementing plans. However, it has no proper practice of environment scanning.
- The company has no proper of segregating cost into fixed, variable, semi-variable and manufacturing cost.
- The company has no practice of sales forecasting. It does not prepare sales and production plans. Sales and production are made on ad-hoc basis. Sales are depending upon production rather than on sales plan. Which is delivered after sales forecasting?
- In NLL various costs are not diagnosed as controllable and non-controllable expenses. So no effective programs can be launched to reduce the controllable expenses. The company has been suffering from excessive fixed costs and non-manufacturing expenses. But the company has not any effective cost reduction program.
- NLL has EOQ inventory policy. The finished goods inventory level of the company has been fluctuating from year to year.

On the basis of his findings, he recommended the following facts:-

- There is no profit planning of NLL, no special plans division. All profits are made without proper planning. So, no effect no of profit planning appeared in NLL .If a systemic planning is made the company can earn more profit. Therefore, for better performance company should prepare strategic long range and tactical short range profit plans. Trained and qualified manpower of profit planning should be hired and present manpower should be trained to develop and implemented the plans effectively.

- NLL has no practice of preparing long range as well as short range sales plan. They have policy of trying to sell all products that they are produced in factory. Therefore for better performance NLL should consider about the product line to improve its profit. The company should appoint reliable agents and dealers to improve its sales performance programs to improve the employee productivity should be making effective.
- In NLL there is no practice of preparing either long range of short range production plan. The company has tried to prepare short range production plan since fiscal year 2051-52.Production budget is prepared on arbitrary system. Therefore for better performance NLL should consider about the product line to improve its profit. The company should appoint reliable agents and dealers to improve its sales performance programs to improve the employee productivity should be making effective.

Tara Nath Bhattarai (2006), has also studied "Sales Budget in Manufacturing Enterprises ".The basic objective of the present study is to highlight the sales budget in the manufacturing enterprises established under foreign investment. The broad objectives have further specified in the following sub objectives:

- To analyze the sales budget prepared by NLL.

- To evaluate the difference between budgeted & actual sales.
- To comparison of sales with profit in NLL.
- To point out suitable suggestions and recommendations and recommendation for improvement of planning system of NLL.

The main findings of Bhattarai are as follows:

- No practice in sales budget with statistical tools.
- Budgeted sales always higher than actual sales.
- NLL can meet its sales goals as specified in annual program because of the correlation between budgeted and actual sales shows a positive relation.
- The company is able to occupy 60% market of tooth paste, 50% of toilet soap, 80% of detergent powder, 45% of fairness cream and 30% of shampoo of the total market.
- Authorities and responsibilities are not clearly defined among various departmental working management role conflicts and lack of co-ordination among them is paramount.
- Application of profit is not realistic. Every thing is prepared on ad-hoc manner.

Bhattarai had provided some major recommendations to improve process of sales budgeting of NLL are as follows:

- NLL must practice classification of cost according to departments and products.
- To be practice about participate management.
- Marketing specialists should be appointed to develop effective marketing policy for sales expansion.

- The company should have in depth analysis of the company's strength and weakness. It should try to overcome its weakness by using the strength.
- NLL should be used feedback mechanism to control overall activities.
- NLL should be allocated certain amount for promotional research and development about sales.
- NLL should formulate prepare profit planning and control calendar.

Shyam Shrestha (2008), has written thesis on ‘A sales planning in manufacturing enterprises: A case study of Nepal Lever Limited. The objectives, conclusions and recommendations of this thesis are as follows.

Objectives of the study:

- to analyze the sales budget prepared by Nepal Lever Limited
- to evaluate the differences between budget and actual sales
- to comparisons of sales with profit of the NLL
- To provide the appropriate suggestion and recommendation for improvement of planning system of Nepal Lever Limited.

Conclusions

- There is not complete and comprehensive budgeting system .NLL doesn’t prepare long-term strategic budget, but prepare short-term profit plan only in terms of budget for each year.
- There is no planning for purchasing materials and sales of goods.
- Lack of skilled planner & budgeting experts. Budgets are prepared on traditional basis etc.

Recommendation:

- NLL should have major program to achieve set up objectives by taking full advantage of the latest techniques.
- The management of the company needs to increases production and sales volume for the utilization of availability capacity.
- The company should develop long-term strategic plan.
- The company should clearly state its objectives and should have in depth analysis of the company's strength and weakness etc.
- Sales budget should be prepared on the systematic approach. Sales forecasting should be made after analyzing all the variables that affected the market of the company.
- Trained and qualified manpower for budgeting and planning should be hired and present manpower should be trained to develop and implement the profit plan effectively.

2.17 Research Gap

Profit planning system is getting a wide scope in the field of management for planning and controlling function. Many researchers and planners have realized PPC as a significant tool for the success of an organizing. So, there have been made many dissertations in the field of profit planning and control.

The entire dissertation reviewed while preparing this study has pointed out that there is no proper planning system and have recommended for the effective implementation of profit planning system. The previous researchers have given more emphasis on sales and production budget but not of them have focused on controlling various types of costs. The study would be different in the sense of focusing the specific area of overall profit planning starting from sales plan to all other departmental budget. This study covers the different statistical tools as well as financial indicator.

This study attempts to show the budget of UNL of all its department in order to enhance the betterment of each department for creating effective control mechanisms, this study is very genuine in the research area.

CHAPTER- III

REASEARCH METHODOLOGY

3.1. Introduction

Research is undertaken not only to solve a problem existing in the work setting, but also to add or contribute to the general body of knowledge in a particular area of interest to the researcher. Research in thus a knowledge, which can be used for different purpose. It is used to build a theory, develop policies, support decision making and solve problems with the opening of new frontiers knowledge through research, new concepts and theories are developed to explain, verify analyze the social phenomena.

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objects in view. Research methodology refers to the systematic method consisting of finding the problem, collecting facts of data, analyzing the facts critically and reaching conclusions based on them.

Thus this chapter highlights the research methodology used for the study of profit planning of Unilever Nepal Ltd.

3.2. Procedure of Research Methodology

In a procedure of Research Methodology, the following steps are included:-

- 1. Tentative selection of the problem
- 2. Initial survey of literature
- 3. Defining of selecting the research problem

- 4. Extensive literature survey
- 5. Specification of the information required formulating the hypothesis
- 6. Design of the research project
- 7. Sample design
- 8. Collection of data/ construction of questionnaires
- 9. Execution of project
- 10. Analysis of data
- 11. Testing the hypothesis
- 12. Arriving at generalization and
- 13. Preparation of report.

3.3 Research Design or Framework

"A Research Design is the arrangement of conditional for collection and analysis if data in a manner that aims to combine relevant to the research purpose with economy in procedure"(Selltiz;1962:50).

In other words Research Design is the framework for a study that helps the analysis of data related to study topic. It helps to collect the accurate information, which is related to profit planning of Unilever Nepal Ltd. This study is closely related with the various functional budgets and other accounting statements as well as the actual result of budgets.

3.4. Period OR Time Covered

The time period of 5 years are covered by this study i.e. FY 2060-61 to 2064-65. Analysis is basically made on the basis of these 5 years data, which is provided by Unilever Nepal Limited.

3.5. Nature and Sources of Data

i. Primary data:

The analysis is specially concern upon primary sources of data by conducting the interviews, discussions and meeting directly to the stakeholders of UNL. The conversations and interviews with the concerned department is vital to obtain the budgeted data of the company's planned achievement.

ii. Secondary data:

Most of the major budgeted data are collected through the published data and reports of UNL. These secondary sources consist of two sources.

a) Internal sources:

- Annual general meeting reports of UNL from the fiscal year 2060-61 to 2064-65 B.S.
- Prospects and Memorandum of the UNL.
- Budgeted books of UNL
- Website of UNL
- The Operational reports
- MIS report of UNL

b) External sources

- Books Journal articles and Publications
- Business related magazines
- Previous unpublished thesis
- National and Local Newspaper
- Economic survey (2006, Ministry of finance) and so on.

3.6 Population and Sampling

This research study intends to explore the budgetary procedure for the whole five years in profit planning and control system of UNL. So, the population and sampling becomes the irrelevant for this study to collect the vital data for the data presentation and analysis.

3.7 Data Processing and Analysis

This study is confined to examine the profit planning and control system of UNL. The date is collected accordingly and managed, analyzed and presented in appropriate tables, formats, diagrams, graphs and charts .PPC models, statistical tools and financial tools is useful to analyze and present the data.

PPC Models:

- Sales budget
- Production budget
- Material budget
- Direct labour budget
- Overhead budget
- Cash budget
- Pro-forma Income statement
- Balance Sheet

Statistical Tools:

- Mean
- Standard deviation and coefficient Variance
- Correlation

- Regression analysis
- Trend analysis
- Time series analysis
- Percentage, graphs and diagrams

<u>Financial Tools:</u>

- Ratio analysis
- CVP analysis
- Variance analysis

3.8 Research Variables

Basically, this research study is related with the budgets of UNL. Budgeted and actual data in units and rupees, sales trends as well as pricing trends are the research variables of this study.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

Data presentation and analysis is the sole component of the research study. There are many essentials and effective plans for the application of profit plan and control. Some of them are sales plan, production plan, and direct labour plan, overhead plan etc. Sales plan is the first step of profit plan. Other budget of profit plan depends upon the sales plan. The prime objective of business firm is to earn net profit. First of all, the sales plan must be set up from profit plan. Sales Plan is the major sources of revenue. Sales plan is a tool of profit planning and control, which is used for controlling various functional budgets and the actual performance in manufacturing companies. A comprehensive sales plan includes both strategic and tactical sales plan. Both sales plans must be prepared in comprehensive profit plan. Strategic sales plan is known as long-range sales plan. Usually, it is five to ten years strategic sales plans. It is to be developed as annual amount. It requires depth analysis of future market potentials, which may build up from a basic foundation such as population changes, state of economy, industry projection and company objectives. Sales plan so captures the entire plan and help to enhance the effective budget.

4.1 Sales Plan in UNL

UNL is a manufacturing company, which produces and sells different types of products. UNL has practice of preparing long range as well as short-range sales plan. It sells all goods beings produced in the factory. Sales budget of UNL is prepared on the basis of sales forecast.

The attempt to present the UNL's previous sales performance and forecast the possible future trend of the company. For this, we have to analyze the past sales data of UNL. Sales manager of UNL is directly responsible for the preparation of sales budget but sales personal have also participate in the process. The sales department concentrates on the last year data, external environment, potential of market as well as competitors for the planning of sales, and then data collection, data screening, executive meeting, data analysis and plan formulation process is adopted for sales planning process. With the help of such process, top-level management determines the selling prices and delegates the conclusion to the middle level management to operate as soon as possible.

4.2 Annual Performance Analysis of Overall Products

The following schedule presents actual and budgeted sales of last five years from FY 2060 to 2065.

Table No. 4.1

Annual Performance Analysis of Overall Products

(Rs.00,000)

S.No	Fiscal Year	Budgeted Sales	Actual Sales	Variances		Achievements (%)
				Rs.	%	
1.	2060-61	20,245.62	15,249.01	(4996.61)	24.68	75.32
2.	2061-62	21,565.48	14,815.6	(6749.88)	31.3	68.70
3.	2062-63	19,869.04	14,349.42	(5519.62)	27.78	72.22
4.	2063-64	23,118.83	18,185.27	(4933.55)	21.34	78.66
5.	2064-65	25,091.66	21,445.89	(3645.76)	14.52	85.47

Source: Annual Reports and Accounts

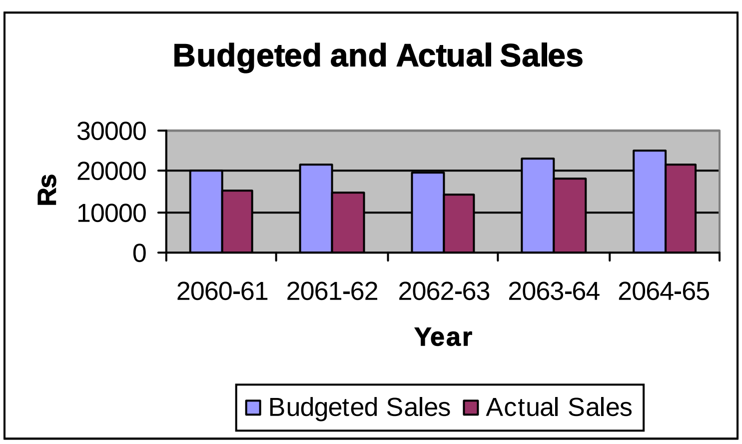
( ) = Unfavorable Variance

It is from the above table that organization could never attain its budget sales. There is no progress in sales achievement as compared to the budgeted sales. Annual performance show unfavorable variances.

From the table it shows that sales achievement is always less than sales targets. In 2064-65 actual sales is 85.47 of sales target, which is best among five years. Actual sales trend is in decreasing trend. Based upon the achievement trend, it becomes clear those targets of UNL are very optimistic.

The analysis of above table shows that there is no systematic sales plan and performance of budget and planning section of UNL is poor. Budgets are prepared without consideration of market condition or challenge that may arise in market only prepared based on historical data. UNL has affected by external environment such as political situations. So, its target & achievement are different. By UNL view, if Nepalese political situation is better, sales will be growing up. We can present the sales budget and achievement more effectively by following diagram.

Figure 4.1



One of the most objectives of statistical analysis is to get single value that described characteristic of the entire mass of huge and unwieldy data. Such a value called standard deviation with coefficient of budgeted and actual sales of UNL products. To find out the correlation between the budgeted and actual sales, Karl Person's coefficient of correlation 'r' is determined. For the purpose of correlation of 'r' budgeted sales (X) are assumed to be independent variable. The correlation between 'X' & 'Y' variable should be positive. This analysis covers a period of five years i.e.2060-61 to 2064-65 and is calculated below.

Calculation of Mean, SD,CV, Correlation Coefficient and PE.

Fiscal Year	Budgeted Sales(X)	Actual Sales(Y)	$U=X-\overline{X}$	$V=Y-\overline{Y}$	U^2	V^2	UV
2060-61	20,245.62	15,249.01	-1732.2	-1560	3,000,517	2,433,600	2,702,232
2061-62	21,565.48	14,815.6	-413.2	-1993	170,734	3,972,049	823,507.6
2062-63	19,869.04	14,349.42	-2109.2	-2460	4,448,725	6,051,600	5,188,632
2063-64	23,118.83	18,185.27	1140.8	1376	1,301,425	1,893,376	1,569,740.8
2064-65	25,091.66	21,445.89	3113.8	4637	9,625,750	21,501,769	14,438,690.6
Total	**ΣX=109,891**	**ΣY=84045**	**ΣU=0**	**ΣV=0**	**ΣU^2= 18,617,150.8**	**ΣV^2= 35,852,394**	**ΣUV= 24,722,803**

I) For Budgeted Sales :

$$\text{Mean } (\overline{X}) = \frac{X}{N} = \frac{109{,}891}{5} = 21{,}978.2$$

$$\text{Standard Deviation } (\pm_x) = \frac{\sqrt{U^2}}{N} = \frac{\sqrt{18{,}617{,}150.8}}{5} = 362.95$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\pm_X}{\overline{X}} \mid 100 = \frac{362.92}{21978.2} \mid 100 = 3.93\ \%$$

II) For Actual Sales :

$$\text{Mean } (\overline{Y}) = \frac{Y}{N} = \frac{84{,}045}{5} = 16{,}809$$

$$\text{Standard Deviation } (\pm_y) = \sqrt{\frac{V^2}{N}} = \frac{\sqrt{35{,}852{,}394}}{5} = 1197.54$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\pm_y}{\overline{Y}} \mid 100 = \frac{1197.54}{16809} \mid 100 = 7.12\%$$

Calculation of Correlation Coefficient:

$$r_{(xy)} = \frac{UV}{\sqrt{U^2}\sqrt{V^2}} = \frac{24{,}722{,}803}{\sqrt{18{,}617{,}150.8.}\sqrt{35{,}852{,}394}} = 0.95693$$

To calculate value of 'r' is 0.95693 the value of 'r' shows that there is positive correlation between actual and budgeted sales .Increased in budgeted sales will also increase in actual sales or vice versa.

Calculation of Probable Error:

$$PE \, X0.6745 \mid \frac{(1 - r^2)}{\sqrt{N}}$$

$$PE \, X0.6745 \mid \frac{(1 - 0.95693^2)}{\sqrt{5}}$$

=0.0254

The calculated value of probable error is 0.0254 considering probable error (PE). It is found that the value of r is more than 6PE i.e. 0.9565 > 6 | 0.0254 .So, it can be concluded that the calculated value of r is significant ad actual sales will go in same direction of budgeted sales.

Regression Analysis

Regression is the estimation of unknown values or prediction of one variable from known values or other variables. A regression line also can be fitted to show the degree of relationship between budgeted and actual sales. This method is used to predict the future achievement on the basis of provided past records. For this purpose, a budgeted sale is assumed as independent variable and an actual sale is assumed as dependent variable. Here,

The regression line of actual sales (Y) on budgeted sales (X) will be:

The regression of Y on X is given by:

$$Y-\overline{Y} \quad = b_{(yx)} \ (X-\overline{X}\,)$$

$$Y-\overline{Y} \quad = r \ \frac{\pm_{y}}{\pm_{x}} (X-\overline{X}\,)$$

$$\ldots \ Y-16{,}809 \quad =0.95693 \ \mid \ \frac{1197.54}{362.95} \ (X-21{,}978.2)$$

… **Y = 3.16 X – 52,585.98**

Since the regression may be negative, it is clear that the actual sales may be or may not be in increasing trend.

Summary of Mean, Standard Deviation, Coefficient of Variation, Correlation Coefficient, Probable Error of Budgeted & Actual Sales.

Statistical Tools	Budgeted Sales	Actual Sales
Mean	21,978.2	16,809
S.D. (±)	362.95	1197.54
C.V.	3.93	7.12
r	0.9569	
P.E.	0.02542	

4.3. Actual Sales of Overall Products

The following schedule presents actual sales of last 5 years from FY 2060-2065.

Table No. 4.2

Actual Sales of Overall Products

(Rs' 00,000')

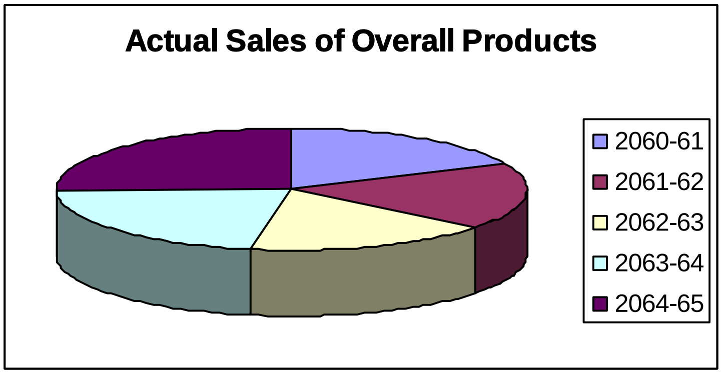
Particulars	2060/61	2061/62	2062/63	2063/64	2064/65	Total
Detergents/Scoures/Laundry	3794.21	4764.30	4984.64	5933.83	6652.32	26129.3
Toilet Soaps	4416.90	5187.41	4623.65	5989.48	7149.76	27,367.2
Personal Product	4441.90	4863.89	4741.14	6261.96	7643.80	27,952.69
Soap Noodles	2596.00	-	-	-	-	2596
Tea	-	-	-	-	-	
Vanespati	-	-	-	-	-	
Total	15,249.01	14,815.6	14,349.42	18,185.27	21,445.89	84,045.19

Source: Annual Reports and Accounts

The table 4.2 shows the actual sales of all the 6 verities of products produced by the company. Beginning from the year 2060 , the actual sales of overall products of the company has been decreasing .In the year 2064-65 , the actual sales of overall products of the company was maximum. As comparison to the year 2060-61, the actual sales is decreased by 2.84% in 2061-62, 3.15% in 2062-63, and the actual sales is increased by 26.7 % in 2063-64 and 17.9% in 2064-65.The decline of the sales volume of UNL in recent years was due to economic condition and political conflicts. If this trend continues it will create adverse effect on the company's financial position.

The above total sales can depicted through a pie diagram.

Figure 4.2



The above pie-diagram shows the highest sales in the year 2064-65 i.e.25.5% and the lowest in the year 2062-63 i.e.17.07% .From the above figure it is clear that the organization is not in the better condition in recent years. Thus, the organization has to adopt the process of preparing both long range and short range sales budget.

4.4 Time Series Analysis

A time series is a sequence of observation of a variable made at regular point of interval of time and arranged in chronological order. Time Series analysis is on quantitative method used to determine patterns in data collective over time. A time series shows the relationship between two variables one of them being time.

Operationally a time series is defined by the functional relationship y=f (t)

Where y is the value of variable under consideration at time t.

The most popular and widely used least square method is used here to describe the trend of actual sales and to estimate the possible future sales.

Table 4.3

The Unilever Limited

Estimation of Trend Line By LSM

Fiscal Year(X)	Actual Sales(y)	x = X-(2062-63)	x^2	xy	yc=a+bx
2060-61	15,249.01	-2	4	-30,498.02	13,656.36
2061-62	14,815.6	-1	1	-14,815.60	15,233.06
2062-63	14,349.42	0	0	0	16,809.04
2063-64	18,185.27	1	1	18,891.27	18,385.74
2064-65	21,445.89	2	4		19,961.72
N=5	*y* X84,045.19	Σx=0	Σ x^2=10	Σxy=15,763.43	

Thus,

We know that, Trend line is yc = a + bx

$$\ldots a = \frac{y}{N} = \frac{84045.19}{5} = 16809.038$$

And

$$\ldots b = \frac{xy}{x^2} = \frac{15763.19}{10} = 1576.43$$

By using the trend line equation of expected annual sales volume for the fiscal year 2064-65 assuming base fiscal year to be 2062-63.

Expected actual sales for fiscal year 2064-65:

YC= 16809.038 + 1576.343 | x

When X=2064, x = (X-2062) = 2064-2062 = 2

…YC = 16809.038 + 1576.34 | 2 = Rs.19,961.72

The trend line shows the positive figure; therefore the sales will increase if the trends of past years continue for future.

Here is an attempt made to analyze the actual sales by applying statistical tool for the development of tactical sales plan of overall products.

4.5 Actual Territorial Sales of UNL

On the basis of territories the total sales by UNL can be categories into two territories of product i.e. Domestic sales and export sales. The following table presents the actual condition of sales of UNL by territories.

Table No. 4.4

Actual Sales by Territories

(Rs.00, 000)

Fiscal Year	Total Sales		Growth % (of sales unit)	Domestic Sales		Growth % (of sales unit)	Exports Sales		Growth % (of sales unit)
	Unit	amount		Unit	Amount		Unit	Amount	
2060- 61	22,624	15,249	22.07	17,746	11,883	21.16	4848	25959	(25.5)
2061-62	21,232	14,816	(6.15)	21,232	14,816	19.64	NIL	NIL	(100)
2062-63	22,409	14,349	5.54	22,409	14,349	5.54	NIL	NIL	(100)
2063-64	26,974	18,185	20.37	26,974	18,185	20.37	NIL	NIL	(100)
2064-65	26,243	21,445	(2.71)	26,243	21,445	(2.71)	NIL	NIL	(100)

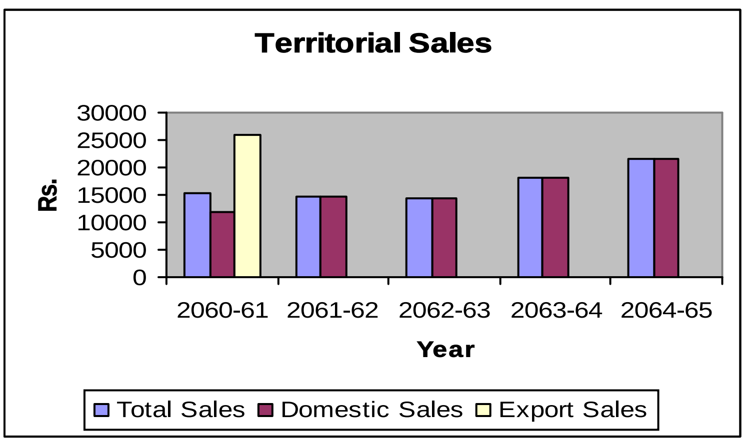
Sources: Annual Reports and Accounts

Above table indicate territories wise actual sales during five fiscal years. To calculate the growth rate, previous year sales unit is taken as base such as sales of 2060-61 is subtracted by the sales of the year 2061-62 and divided by the sales unit of 2060-61 and multiplied by 100. At present the condition of export sales have been decreased and adversely affected because of different reasons. In spite of this unfavorable condition in export trade and domestic sales are in increasing trend. In the fiscal year 2061-62 it is increase by 19.64 % and in fiscal year 2063/64, it has 20.37% growth in sales.

The total sales of UNL are in increasing from 2062-63 to 2063-64 .It is decreased in 2061-62 and again in 2064-65.

The sales of 5 year shows that growth percentage of domestic sales and export sales are (2.71%) and (100%) respectively in FY 2064-65.Thus, we can say that main market of UNL is domestic market. So, the management of UNL should try to promote expected sales by using new equipment and generate foreign currency.

Figure 4.3



4.6 Production Planning

After sales budget the next step in manufacture organization is to develop production plan. This plan covers the area of efficient inventory levels, development of policies, productive facilities and production level .Production plan is the outcomes of effort made by marketing plan. In the case of manufacture enterprises, the sales plan must be translated into production plan which can be stated numerically by the following equation.

Production Unit = Planned Sales + Closing Inventory – Opening Inventory

The production budget specifies the planned quantity of goods to be manufacture during the planned period. In order to develop the production budget, the first step is to establish policies for inventory levels. The next step is to plan the total quantity of each product that if to be manufactured during the budget period. The third step is to schedule this production by interim period.

The following factor are to be considered while production planning.

- Total production requirement (by product) fro the budget period.
- Inventories policies about levels of finished goods and work in progress.
- Plant capacity policies
- Adequacy of manufacturing facilities
- Available of direct material, purchase components and labor
- Length of processing time
- Economic lots
- Timing of production throughout the budget period, by product and by responsibility centers.

Production Planning of UNL

UNL prepares production budget but it on product basis. At present, UNL has the licensed capacity of 81,191 tons. Company has sufficient capacity to produce goods, to fulfill the demand of sales. The overall production responsibility of production is upon production department. The department manager prepares the production budget based upon the adequacy or available of raw material and sales trend.

UNL has no practice to develop strategic long range production plan. There is no record of previous year regarding budgeted production. The company has tried to develop short range production plan since the year 2051-52. A budgeted sales has been considered into account while preparing the production plan of UNL.UNL planed its production quantity, which equal to the quantity of planned sales of the next year.

Table No. 4.5

Budgeted Production & Actual Achievement of UNL

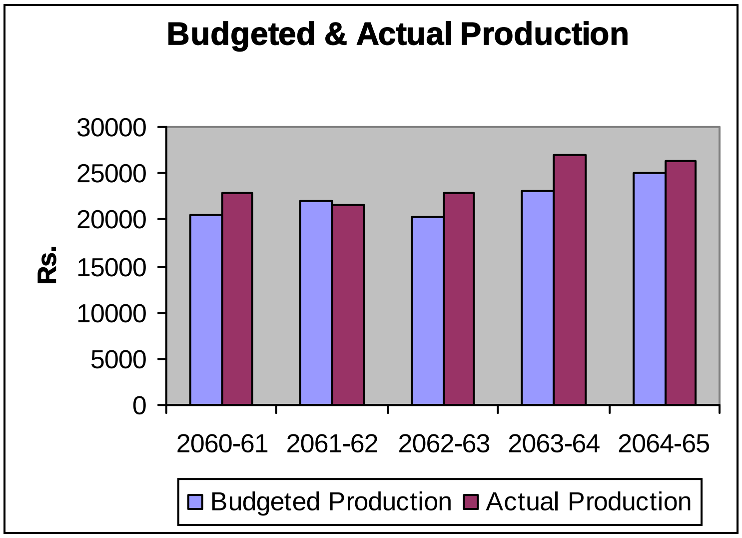
(Rs. Tones)

Fiscal Year	Budgeted Production	Actual Production	Budgeted production increased or decreased by % over previous Year	Actual production increased or decreased by % over previous Year	Achievement %
2060-61	20,402.62	22,781	-	-	111.66
2061-62	21,977.48	21,644	7.72	(4.99)	98.48
2062-63	20,266.04	22,806	(7.79)	5.37	112.53
2063-64	23,019.83	26,875	13.59	17.84	116.75
2064-65	24,979.66	26,294	8.51	(2.16)	105.26

Sources: Annual Reports and Accounts

This table shows that except in the year 2061-62, actual production is higher than the target production .Actual production is on an average of 108.94 % of budgeted sales of the 5 years. In the fiscal year, 2061-62, actual production has just covered 98.48% of budgeted production. So, budgeted production is enough to utilize the installed capacity.

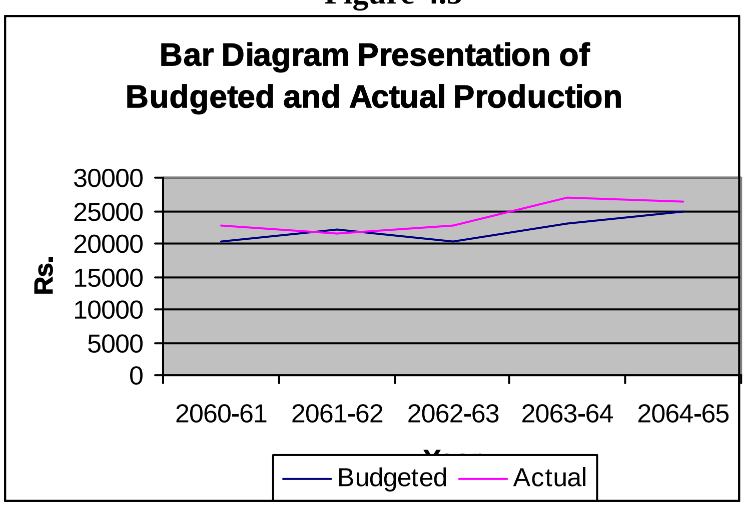
Figure 4.4



The above figure shows that the target sales estimated by UNL department are relevant to the actual production except in the year 2061-62.In the year 2060-61 actual production is more than the budgeted production. But budgeted production in not enough to utilize the installed capacity.

We can present the budgeted and actual production more effectively by a bar diagram.

Figure 4.5



From the above figure it can be stated that variability of actual and budgeted production is not much in the year 2063-64 as compared to other years. In the year 2060-61, the organization had an estimated and actual production of 20,402.62 and 22,781 ton but there has been drastically decreased to 21,644 tons in the next year. From the above figure it can be concluded that the management anticipation in regard to production corresponding with present market and economic condition.

In order to find the variance between budgeted production and actual production of different years we have to calculate the mean, standard deviation and coefficient of variation of budgeted and actual figure of overall products. The detail calculation is as follows:

Calculation of Mean , S.D. , C.V. , Correlation Coefficient , P.E. & Regression Line

Fiscal Year	Budgeted Production (X)	Actual Production (Y)	U= X- $\overline{X}$	V=Y- $\overline{Y}$	U^2	V^2	UV
2060-61	20,402.62	22,781	-1726.2	-1299	2,979,766.44	1,687,401	2,224,333.8
2061-62	21,977.48	21,644	-152.2	-2436	23,164.84	5,934,096	370,759.2
2062-63	20,266.04	22,806	-1863.2	-1274	3,471,514.24	1,623,076	2,373,716.8
2063-64	23,019.83	26,875	890.8	2795	7,935,524.64	7,812,025	2,489,786
2064-65	24,979.66	26,294	2850.8	2214	8,127,060.64	4,901,796	6,311,671.2
N=5	**Σ X =110646**	**Σ Y= 120400**	**Σ U=0**	**Σ V=0**	**Σ $U^{2=}$ 15,395,030.8**	**Σ $V^{2=}$ 21,958,394**	**Σ UV= 13,788,267**

I) For Budgeted Production :

$$\text{Mean } (\overline{X}) = \frac{X}{N} = \frac{110{,}646}{5} = 22{,}129.2$$

$$\text{Standard Deviation } (\pm_{x}) = \frac{\sqrt{\quad U^{2}}}{N} = \frac{\sqrt{5{,}395{,}030.8}}{5} = 784.730$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\pm_{X}}{\overline{\overline{X}}} \mid 100 = \frac{784.730}{22{,}129.2} \mid 100 = 3.546\ \%$$

II) For Actual Production :

$$\text{Mean } (\overline{Y}) = \frac{Y}{N} = \frac{120{,}400}{5} = 24{,}080$$

$$\text{Standard Deviation } (\pm_{y}) = \frac{\sqrt{\quad V^{2}}}{N} = \frac{\sqrt{21{,}958{,}394}}{5} = 937.1956$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\pm_{y}}{\overline{\overline{Y}}} \mid 100 = \frac{937.1956}{24{,}080} \mid 100 = 3.4608\%$$

Calculation of Correlation Coefficient:

$$r_{(xy)} = \frac{UV}{\sqrt{\quad U^{2}}\sqrt{\quad V^{2}}} = \frac{13{,}788{,}267}{\sqrt{15{,}395{,}030.8}\sqrt{21{,}958{,}394}} = 0.7499$$

To calculate value of 'r' is 0.7499 the value of 'r' shows that there is positive correlation between actual and budgeted production .Increased in budgeted production will also increase in actual production or vice versa.

Calculation of Probable Error:

$$PE = 0.6745 \mid (1\text{-}r^{2} / \sqrt{N}\ )$$

$$= 0.6745 \mid (1\text{-}0.7499 / \sqrt{5}\ )$$

$$=0.132$$

The calculated value of probable error is 0.132 considering probable error (PE). It is found that the value of r is more than 6PE i.e. 0.7499 > 6 | 0.132 .So, it can be concluded that the calculated value of r is significant ad actual production will go in same direction of budgeted production.

Summary of Mean, Standard Deviation, Coefficient of Variation, Correlation Coefficient, Probable Error of Budgeted & Actual production.

Statistical Tools	**Budgeted production**	**Actual production**
Mean	22,129.2	24,080
S.D. (±)	784.73	937.195
C.V.	3.546	3.461
r	0.7499	
P.E.	0.132	

The above table depicts that the budgeted production are more variable than the actual production. Also, the coefficient of variation of budgeted production is little higher than actual production. Only the mean of actual production is higher than budgeted mean. It is found that budgeted production and actual production both are uniform in itself. Another statistical tools, correlation coefficient can be used to analyzed and examine the relationship between budgeted and achieved production for this most useful tool. Karl Pearson's co-efficient of correlation is used here to find out the degree of relationship among them it is denoted by (Y) .Calculation of Y defines the nature i.e. (+) time or (-) time relationship existing between them.

We can fit the regression line to show the degree of relationship between budgeted production and actual production with the given budgeted figure.

So, the regression line of actual production (Y) on budgeted production (X) will be:

The regression of Y on X is given by:

$$Y-\overline{Y} = b_{(yx)} (X-\overline{X})$$

$$Y-\overline{Y} = r \frac{\pm_y}{\pm_x} (X-\overline{X})$$

$$\ldots\ Y-24{,}080 = 0.7499 \mid \frac{937.195}{784.73} (X - 22{,}129.2)$$

$$\ldots\ \mathbf{Y = 0.8956\ X + 4260.41}$$

The trend line shows the positive figure; therefore the production will increase if the trend of past years continues for future.

By using this regression equation we can ascertain the actual production for the coming year. The production department of UNL has predicted proposed production X to be 26,294 tons in the year 2064-65.

$$y = 0.8956 \mid 26{,}294 + 4260.41$$

$$= 27{,}809.32$$

The actual production for the year 2064-65 will be 26,294 tons as per above calculation, if the budgeted and actual production relationship remains constant.

The following table shows the budgeted and actual production activities form 2060-61 to 2064-65.

Table No. 4.6

Estimation of Trend line by LSM (Actual Production)

Fiscal Year (X)	Actual Production (Y)	X=(X– 062/63)	X^2	XY	Trend Value YC= a+bx
2060-61	22,781	-2	4	-45,562	21,628.5
2061-62	21,644	-1	1	-21,644	22,854.3
2062-63	22,806	0	0	0	24,080
2063-64	26,875	1	1	26,875	25,305.7
2064-65	26,294	2	4	52,588	26,531.4
N=5	ΣY= 120,400	Σ X=0	ΣX^2=10	ΣXY= 12,257	

$$a=\frac{y}{N}=\frac{120,400}{5}= 16809.038$$

And

$$b=\frac{xy}{x^2}=\frac{12257}{10}=1225.7$$

By using the trend line equation of expected annual production volume for the fiscal year 2064-65 assuming base fiscal year to be 2062-63.

Expected actual production for fiscal year 2064-65:

YC= 24080 + 1225.7 | x

When X=2064 , x = (X-2062) = 2064-2062 = 2

…YC = 24080 + 1225.7 | 2 = Rs.26, 531.4

The trend line shows that the positive figure, therefore the production will increase if the trend of past year continue for future.

Table No. 4.7

Actual Production and Installed Production Capacity of UNL in One Accounting Period

Products	Installed Production Capacity	Actual Production	Capacity Utilization (%)
Detergents/Scourers/Laundry	36,250	17,917	49.42
Toilet Soap	10,000	5,887	58.87
Personal Products	8,281	2410	29.10
Soap Noodles	11,660	-	-
Tea	5,000	-	-
Vanaspati	10,000	-	-
Total	81,191	26,294	32.38

Sources: Annual Reports and Accounts

Table 4.8

Actual Production of UNL (Overall Products)

(In Tones)

S.No.	Products	2060-61	2061-62	2062-63	2063-64	2064-65
1.	Detergents/Scourers/Laundry	12,667	15,585	16,585	19,542	17,997
2.	Toilet Soap	4,023	5,059	4,550	5,333	5,887
3.	Personal Products	1,213	1,303	1,671	2,000	2,410
4.	Soap Products	4,878	-	-	-	-
5.	Tea	-	-	-	-	-
6.	Vanaspati	-	-	-	-	-
Total		22,781	21,644	22,806	26,875	26,294

Sources: Annual Reports and Accounts

Table No. 4.9

Actual Inventory Trend of Overall Products by Year

(In Tones)

Fiscal Year	Opening Inventory	Closing Inventory
2060-61	734	891
2061-62	891	1303
2062-63	1303	1700
2063-64	1700	1601
2064-65	1601	1489

Sources: Annual Reports and Accounts

Table No. 4.10

Budgeted Production of Overall Products

(Rs.00, 000)

Particulars	2060-61	2061-62	2062-63	2063-64	2064-65
Budgeted Sales	20,245.62	21,565.48	19,869.04	23,118.83	25,091.66
Add: Closing Stock	891	1303	1700	1601	1489
Total Requirement to be produced	21,136.62	22,868.48	21,569.04	24,719.83	26,580.66
Less: Opening Stock	734	891	1303	1700	1601
Budgeted Production	20,402.62	21,977.48	20,266.04	23,019.83	24,979.66

Sources: Annual Reports and Accounts

Note:

- Closing stock for the year is calculated as per actual basis.UNL has no such policy and practice to maintain the stock level for future year sales.
- So, the sales target cannot be calculated for the coming year 2065-66

The table shows the budgeted production for overall product .Budgeted production for 2064-65 is the highest in the comparison to previous year's .In the year, 2062-63, it has the lowest production of 20,266.04.

Production Budget and its Implementation

Production Department involves producing the products. Generally UNL produces all types of product, which is required for sales. No any monthly and yearly plan about production is made. This department always based o demand of product and seasonal consumption. High product produces in summer and vice versa in winter. Similarly high demand high production and low demand low production. In other word production is based on sales volume. So it has not discussed about production budget.

4.7 Comparison between Actual Sales and Actual Production

All goods are produced with a motive to sell. There is no matter if the budgeted production is not achieved but it is most important that sales could meet production. Actual sales and actual production are presented below.

Table No. 4.11

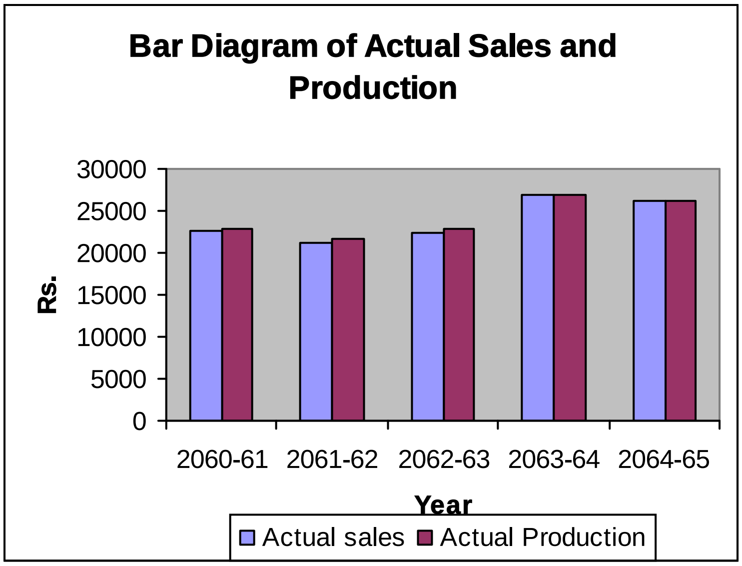
Comparison between Actual Sales and Actual Production

Fiscal Year	Actual Sales	Actual Production	Sales Achievement %
2060-61	22,624	22,781	99.31
2061-62	21,232	21,644	98.09
2062-63	22,409	22,806	98.26
2063-64	26,974	26,875	100.36
2064-65	26,243	26,294	99.81

Sources: Annual Reports and Accounts

The above table represents the actual production and actual sales made by UNL of overall products in last five years. In the year 2063-64, it has secured more than 100% achievement in actual sales. It has fluctuation in sales over the period of five years.

Figure 4.6



The above figure represents the actual product in and actual sales of overall products of UNL.

In order to find out the nature of variability of actual production and actual sales, correlation and other statistical tools are used below. The detail calculation of these figures is shown below.

Calculation of Mean, S.D., C.V., Correlation Coefficient , P.E. & Regression Line

(In Tones)

Fiscal Year	Actual Production (X)	Actual Sales(Y)	U= $X-\overline{X}$	V= $Y-\overline{Y}$	U^2	V^2	UV
2060-61	22,781	22,624	-1726.2	-1272.4	1,687,401	1,619,001.76	2,196,416.88
2061-62	21,644	21,232	-152.2	-2664.4	5,934,096	7,099,027.36	405,521.68
2062-63	22,806	22,409	-1863.2	-1487.4	1,623,076	2,212,358.76	2,771,323.68
2063-64	26,875	26,974	890.8	3077.6	7,812,025	9,471,621.76	2,741,526.08
2064-65	26,294	26,243	2850.8	2346.6	4,901,796	5,506,531.56	6,689,687.38
N=5	**Σ X= 120400**	**ΣY=119,482**	**Σ U=0**	**Σ V=0**	**Σ U^{2}= 21,958,394**	**Σ V^{2}= 25,908,541.2**	**Σ UV= 14,804,475.6**

I) For Actual Production :

$$\text{Mean } (\overline{X}) = \frac{X}{N} = \frac{120{,}400}{5} = 24{,}080$$

$$\text{Standard Deviation } (\pm_x) = \frac{\sqrt{U^2}}{N} = \frac{\sqrt{21{,}958{,}394}}{5} = 937.1956$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\pm_X}{\overline{\overline{X}}} \,|\, 100 = \frac{937.1956}{24{,}080} \,|\, 100 = 3.4608\ \%$$

II) For Actual Sales :

$$\text{Mean } (\overline{Y}) = \frac{Y}{N} = \frac{119{,}482}{5} = 23{,}896.4$$

$$\text{Standard Deviation } (\pm_y) = \frac{\sqrt{V^2}}{N} = \frac{\sqrt{25{,}908{,}541.2}}{5} = 1018.008668$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\pm_y}{\overline{\overline{Y}}} \,|\, 100 = \frac{1018.008668}{23{,}896.4} \,|\, 100 = 4.26\%$$

Calculation of Correlation Coefficient:

$$r_{(xy)} = \frac{UV}{\sqrt{U^2}\sqrt{V^2}} = \frac{14{,}804{,}475.6}{\sqrt{21{,}958{,}394}\sqrt{25{,}908{,}541.2}} = 0.620$$

To calculate value of 'r' is 0.620 the value of 'r' shows that there is positive correlation between actual and budgeted production .Increased in budgeted production will also increase in actual production or vice versa.

Calculation of Probable Error:

$$PE = 0.6745 \,|\, (1\text{-}r^2 / \sqrt{N}\ )$$

$$= 0.6745 \,|\, (1\text{-}0.620 / \sqrt{5}\ )$$

$$=0.1854$$

The calculated value of probable error is 0.1854 considering probable error (PE). It is found that the value of r is not more than 6PE i.e. 0.620 < 6 | 0.1854 .So, it can be summarized that nothing can be concluded.

Summary of Mean , Standard Deviation, Coefficient of Variation ,Correlation Coefficient , Probable Error of Budgeted & Actual Sales.

Statistical Tools	Actual Production	Actual Sales
Mean	24,080	23,896.4
S.D. (±)	937.1956	1018.008
C.V.	3.4608	4.26
r	0.620	
P.E.	0.1854	

The above table represents that actual sales are more variable than actual production. Co-efficient of variation of actual sales is also mare than the actual production. Efficiency and effectiveness of any management organization can be interpreted by its sales achievement. Thus it can be said that production department effort is fruitful. But production must be increased as per the increase in sales.

The correlation coefficient is calculated to find out the relation between actual production and actual sales. Here Karl Person's formula is used to calculated correlation coefficient, which is denoted by Y.X is denoted for actual production and Y is denoted for actual sales to be independent variable.

The value of Y depicts the positive correlation between actual sales and actual production .This value indicates that there is a high degree of positive correlation between actual sales and production.

The significant of Y is tested by the help of probable error of Y .From the above table, we have PE equal to 0.1854 .The value of Y is less than 6 P.E., and so we can say that nothing can be concluded.

4.8 Production and Capacity Utilization of UNL

Any manufacturing company must be installed with an economic and market view. Capacity is most important factor in manufacturing enterprises. Investment in fixed assets is considered to be most important achievement in manufacturing enterprises. Production, sales, and profit all are dependent on capacity installed. If the capacity installed is higher, then higher units can be produced. Capacity must be installed in an enterprise to cover the fixed cost incurred in production process. Cost of production must be minimum at the optional capacity utilization. Optional capacity utilization reduces the cost of production. Over utilization of capacity reduces the working life of machine .In UNL capacity installed is much higher as compared to actual production.

Table No. 4.12

Production and Its Utilization

(In Tones)

Fiscal Year	Installed Capacity	Actual Production	Capacity Utilization (%)
2060-61	18500	22,781	123.14
2061-62	29191	21,644	74.15
2062-63	29191	22,806	78.13
2063-64	29191	26,875	91.28
2064-65	29441	26,294	89.31

Sources: Annual Reports and Accounts

From above table it is clear that UNL has a uniform installed capacity from 2060-61 to 2064-65. It can produced 22,624 tons in 2060-61 year. From the year 2061-62 the company increased its capacity to 29191 to cope the demand of products. In the years 2060-61, the company utilized in excess of normal installed machines. This table clearly depicts that UNL will be unable to cover its fixed costs if the present capacity utilization continues. It is operating under low capacity in each year. The trend of capacity utilization continues. It is fluctuating, which result in higher production cost and adverse effect in health of machinery. According to management of UNL , the main reasons behind the low capacity utilization is unavailability of raw material on time ,frequent changes in government policies and various administrative causes. And the main reason behind the high capacity utilization is to cope the unexpected demand of products, lack of arrangement of fund to installed additional capacity and technical causes. Therefore the management should try to change prevailing condition and utilization idle capacity with proper application of profit planning. It is expected to utilize 90% of capacity in the coming year 2065-66.

4.9 Classification of Cost of UNL

Table 4.13

Classification of Cost of UNL

particulars	Nature
Raw Material Consumed	Variable
Packing Material Cost	Variable
Labour Cost:	Variable
➢ Salaries & Wages	
➢ PF Contribution	
Other Manufacturing Expenses	Variable
Utilities	Variable
Administrative Cost	Fixed
Distribution Cost	Fixed
Advertisement and Promotional Cost	Fixed
Depreciation	Fixed
Interest	Fixed
Rent	Fixed
Staff Bonus	Fixed
	Fixed

4.10 Cost Volume Profit Analysis

CVP analysis is an analytical tool used in manufacturing organization to study the relationship between cost, volume and profit. The analysis of relationship between cost volume and profit is known as cost volume profit analysis. It is a cost behavior .Generally cost behaves in two ways with relation to the volume of output. The previous type of cost is called variable cost and the second type is called the fixed costs. The CVP is an analytical tool to differentiate these two costs and interpret the required volume of production and estimated profits.

CVP analysis is an important tool of profit planning. It is generally used to determine break even point or to gain certain amount of profit. It is the method to cover fixed variable cost and have an estimation of profit. In a way it is a plan for future manufacturing activities. CVP analysis provides attention –direction motive in the overall performance of the business enterprises. BEP is defines as those levels of production where revenues and cost of firm are equal and there is neither profit nor loss.

The CVP analysis of UNL of overall products is based on following assumptions.

1. It is based on data provided by production department.
2. Opening and closing stock are not changed.
3. Calculation is based on individual cost incurred in the production of the overll products.
4. Non-operating incomes are not included in sales revenue.

Table No. 4.14

CVP Analysis of Overall Products

Particulars	2060-61	2061-62	2062-63	2063-64	2064-65
V/C Ration	0.61	0.61	0.69	0.69	0.65
P/V Ration	0.39	0.39	0.31	0.31	0.35
BEP (Rs.)	371,787,669	723,927,549	754,770,039	737,307,267	1,006,297,754

Sources: Annual Reports and Accounts

Cost classification is done on the basis of information / data supplied by the production department .As per data: (on tonnage basis)

Table No. 4.15

Classification of Cost Incurred

Variable Costs	2060-61	2061-62	2062-63	2063-64	2064-65
Material Consumed	660,008,696	623,620,486	669,257,738	874,144,498	945,123,056
Packing Materials	135,120,744	137,673,037	177,590,551	214,716,855	256,251,610
Labour Costs	24,028,233	19,560,701	20,576,074	25,641,633	32,584,799
Utilities	106,283,424	112,503,886	116,059,758	140,154,733	158,253,506
Total VC	925,441,097	893,358,110	983,484,120	1,254,657,719	1,392,212,971

Sources: Annual Reports and Accounts

Table No. 4.16

Classification of Cost Incurred

(Rs.)

Fixed Cost	2060-61	2061-62	2062-63	2063-64	2064-65
Administration Overhead Cost	43,587,279	38,784,029	36,068,993	43,639,605	52,810,308
Distribution Cost	46,321,659	40,223,424	27,376,534	27,536,753	48,205,399
Advertisement Promotional Expenses	250,088,253	203,324,291	170,533,185	157,388,895	251,188,507
Total FC Cost	339,997,191	282,331,744	233,978,712	228,565,253	352,204,214

Sources: Annual Reports and Accounts

V.C. Ratio: Variable cost volume ratio shows the proportion of variable cost to each of Rs. of sales revenue. From the above table shows that variable cost incurred in the production of skin cream is high and it shows good condition of the production department. VC ratio is at an average of 0.65 which shows the department can not earn a good range of profits.

P.V. Ratio: Profit volume ratio shows the proportion of contribution margin left for the fixed costs and profit per Rs. of sales. Generally for the above five year P.V. Ratios is maintained lower than 0.50 and in an average 0.35. It denote that if the department is able to cover the fixed cost it will earn a reasonable return.

With the help of V.C. ration and P.V. ration, BEP has been calculated

BEP = $\frac{FC}{P.V.ratio}$

Fixed cost incurred by the department is even lower than the variable costs. BEP is that point where sales meets to total cost. It is the situation of no profit or loss. In this case BEP is low in each year. So the organization has not to bear risk. BEP is also in increasing trend. In the analysis BEP is lowered than the sales generated in previous year. In the above analysis BEP is lowered than the sales generated in previous year. It indicates that production department are running to low cost or it can be said that UNL have set high selling price of overall products. It can be assumed that UNL has adopted this strategy to cover costs.

4.11 Flexible Budget

Flexible expenditure is complementary to tactical profit plan. Flexible budget is the estimation of cost at different level of activity. Flexible expenditure budget is also called dynamic activity or output adjusted expenses budget. By this technique business organization can determine the operation level by considering cost and profit at different levels of capacity.

A flexible budget of UNL has been depicted here. Since UNL has not adopted the policy of developing flexible budget. On the basis of cost and another data of the FY 2064-65, a flexible budget has been prepared below. To prepare flexible budget all cost may be identified as fixed and variable. Sales revenue has been assumed in the same ratio as it in FY 2064-65.Similarly variable cost is assumed as the same represented by VC ratio of 0.65.Below mention table shows the flexible budget at various levels of activity i.e. 25% , 50% , 75%, 90%, 100%, 110%.

Table 4.17

Flexible Budget of UNL Production Department

(Total Annual Capacity of 29,441 Tones)

Sources: Annual Reports and Accounts

Particulars	25%	50%	75%	90%	100%	110%
Sales Unit	7360.25	14750.5	22080.75	26496.9	29,441	32385.1
Sales (Rs.) Revenue Less: VC(60% of Sales)	601,482,860 390,963,859	1,202,965,720 781,927,718	1,804,448,580 1,172,891,577	2,165,338,296 1,407,469,892	2,405,931,440 1,563,855,436	2,646,524,584 1,720,240,979
Contribution Margin Less: Fixed Cost	210,519,001 352,204,214	421,038,002 352,204,214	631,557,003 352,204,214	757,868,404 352,204,214	962,372,576 352,204,214	926,283,605 352,204,214
Net Income (Loss)	(141,685,213)	68,833,788	279,352,789	405,664,190	610,168,362	574,079,391

The above table shows that UNL's flexible budget at 100 percentage is 610168362, which is commendable.

4.12 Planning and Controlling Expenditure

Expenditure planning and controlling is actually not reduction of cost but it means better utilization of limited resources. Expenditure planning and controlling should focus on the relationship between expenditure and benefits derived from these expenditure. This planning supports the objective and planned program to be ruled. It is also called overhead budget. Generally factory expenditure and administrative expenditure budget is formulated for the purpose of budgeting administrative expenditure.

UNL has not any proper practice of planning various expenses. This study is only concentrated upon overall products at UNL.

4.13 Manufacturing Overhead Cost Budget

Simultaneously with the preparation of production plan these budgets are developed. Manufacturing (factory) overhead is that part of total production cost not directly identifiable with specific products or job .Manufacturing overhead consists of :

1. Indirect materials
2. Indirect labour (including salary)
3. All other miscellaneous factory expenditure.

In this section of study only traceable factory OH cost budget are prepared:

Table No. 4.18

Manufacturing Overhead Cost Budget

Fiscal Year	Actual Production(Tones)	Factory OH Rate(Rs.)	Factory OH Cost Incurred (Rs.)
2060-61	22,781	13,564.80	309,019,680
2061-62	21,644	14,254.37	308,521,653
2062-63	22,806	15,359.79	350,295,375
2063-64	26,875	23,035.48	619,078,474
2064-65	26,294	30,398.35	799,294,129

Sources: Annual Reports and Accounts

Factory OH includes:

- Packing Material Cost
- Labour Cost
- Utilities
- Adm. OH

4.14 Selling and Distribution Budget

Selling and distribution cost incurred by the manufacturing organization is not a type of direct cost. It is a part of overall expenditure used to make available the product in the market. Management on the basis of planned volume of activity sets the distribution expenditure. Usually this cost is planned in marketing firm. UNL has not adopted this form of budget in records. Whereas, management has incurred huge amount of expenses for selling and distribution .This selling and distribution expenses included advertisement expenses according to the management of UNL. Table below depicts the actual figure of amount expended in previous five years. Since UNL have a policy to record its expenses on per tons bases this analysis is also done of tonnage basis.

Table No. 4.19

Selling and Distribution Budget

Fiscal Year	Actual Sales (Tones)	Selling & Distribution Cost Rate (Rs.)	Selling & Distribution Cost Budget (Rs.)
2060-61	22,624	13,101.57	296,409,912
2061-62	21,232	11,470.79	243,547,715
2062-63	22,409	8,831.71	197,909,719
2063-64	26,974	7,226.43	194,925,648
2064-65	26,243	11,408.52	299,393,906

Sources: Annual Reports and Accounts

The above table shows the cost of selling and distribution incurred by the company. It is in raising trend till the year 2064-65, which shows the effect and essence of advertisement. But in the year 2061-62 & 2062-63, the selling and distribution cost is decreased as compared to previous year.

4.15 Raw Material Budget of Overall Products of UNL

Another most important element of production is material. Manufacturing enterprise cannot produce finished good without material. Planning and controlling raw material and its components used in manufacturing of finished product is the key concept of comprehensive profit plan and control program.

UNL has not accepted the policy of preparing raw magter4ial budget .Expense made no the purchase of RM are not recorded material wise but total amount is accumulated and recorded as cost of raw material consumed. Total material requirement is calculated on assumption and purchase is unplanned.

Here analysis is made of purchase for overall products as per data provided by the production department.

Table No. 4.20

Annual Material Purchased (Rs.) & Actual Production

(Tones)

Fiscal Year	Amount (Rs.)	Actual Production (Tones)
2060-61	696,087,792	22,781
2061-62	652,868,651	21,644
2062-63	687,470,689	22,806
2063-64	804,340,706	26,875
2064-65	821,714,465	26,294

Sources: Annual Reports and Accounts

The above table shows the total amount of raw material purchase for overall products of UNL. It also indicates the relationship between actual production and material cost incurred. It is clear from above that even though the production of UNL decreases cost incurred for raw material is in regular hike. Details presentation of raw material cannot be due to insufficient data provided by UNL.

4.16 Planning and Controlling Direct Labour Cost (Man Power)

Another aspect of profit plan is planning and controlling labour cost. Labour budget includes the estimate of labour requirements necessary to produce the types of quantities of output budgeted in production budget. Direct labour cost occupies a significant portion of total production cost. The main reason behind the preparation of labour budget is to estimate direct labour hour, labour employees need for budgeted period for each unit.

Labour cost includes all expenses for employees like top executives, middle level management personnel, office's supervisors and skilled and unskilled employees. Direct labour cost includes the wages paid to employees who work directly on the company's product. While indirect cost refers to the cost of other employees who do not work directly on the product.

UNL have no practice to forecast and develop long-term human resource planning. The company does not prepare direct labour budget also. It has permanent and temporary staff working in the factory and corporate office and they are paid salary on the monthly basis. The company does not plan for direct labour hours and direct labour cost needed to produce the plans quantities of goods. All staff's are paid monthly salary and this expense is treated as administrative expenses. Since there is no hourly record of direct labour, the company can not calculate the total labour hours and hourly rate of labour appropriately. So, the company is unable to control labor cost.

The following table presents the classification employees in terms of permanency and in terms of grade.

Table 4.21

Actual Manpower in UNL

Particulars	Trainees	Probation	Conformed	Total	Non- Nepali	Nepali	Total
Manager	0		15	15	5	10	15
Officer	0		18	18	5	13	18
Supervisor	0		10	10	0	16	10
Office Assistant	0	7	9	16	0	16	16
T.S.C	0	3	7	10	0	10	10
W-3	6		14	20	0	20	20
W-2	25		100	125	0	125	125
W-1	0		0	0	0	0	0
Total	31	10	173	214	10	204	214

Sources: HR Department of UNL

UNL has set direct labour cost on per ton analysis. It has record of actual cost incurred for the production on yearly basis. So, a prepared format of direct labour cost including the combined record of cost i.e. production and packing cost has been shown in the following table.

Table No. 4.22

Production Labour Cost from the period of 2060-61 to 2064-65

Fiscal Year	Actual Production (Tones)	Labour Cost per Tones	Production Cost Budget (Rs.)
2060-61	22,781	2597.49	59,173,357
2061-62	21,644	2611.44	56,522,044
2062-63	22,806	2706.58	61,726,248
2063-64	26,875	3446.87	89,947,163
2064-65	26,294	3954.31	103,974,572
Total	120,400		371,343,384

Sources: Annual Reports and Accounts

The above table shows the actual cost incurred i.e. 371, 343,384 for the production of 120400 ton in last five years. Labour cost is fluctuating in compare to production fluctuation. In the year 2063-64, there is the highest production incurred and production cost is increased in comparison to various years.

4.17 Analysis of Actual Sales with Operating Profit (Loss) of UNL

Profit is the excess of revenue earned over its cost. To increase the profit means, therefore to increase the revenue or to reduce the cost by not cutting down the cost rather to increase the efficiency of cost. To earn maximum profit with optimum resources is the main objective of any organization. Profit so highly depends on the sales turnover. The sales and operating profit (loss) of UNL is tabulated as under.

Table 4.23

Sales and Operating Profit/ Loss

(Rs.00, 000)

Fiscal Year	Sales Actual	% change in sales	Operating Profit/ Loss	Operating Profit Ratio	% change in Operating Profit
2060-61	15,249	-	1903	12.48	-
2061-62	14,816	(2.84)	2498	16.86	31.27
2062-63	14,349	(3.15)	2955	20.59	18.29
2063-64	18,185	26.73	2983	16.40	0.94
2064-65	21,445	17.93	4222	19.69	41.54

Sources: Annual Reports and Accounts

Above table clearly reveals that there is an oscillatory fluctuation in the actual sales as well as the operating profit as loss. In the fiscal year 2061-62 and 2062-63, the actual sale is negatively fluctuated. As the matter of fact when actual sales positively oscillate by (3.15%) the operating profit ration also oscillate by 20.59%.This is sole cause of the highest profit in FY 2062-63.The main reason of fluctuating profit and loss is unstable political situation in the country and in stability in government.

Relationship between Actual Sales and Operating Profit

To see the relationship between the actual sales and operating profit, correlation coefficient is calculated:

Calculation of Mean, S.D., C.V., Correlation Coefficient, P.E. & Regression Line

Fiscal Year	Actual Sales (X)	Operating Profit (Y)	U= X- $\overline{X}$	V= Y- $\overline{Y}$	U^2	V^2	UV
2060-61	15,249	1903	-1559.8	-1009.2	2,432,976.04	1,018,848.64	1,574,150.16
2061-62	14,816	2498	-1992.8	-414.2	3,971,251.84	171,561.64	825,417.76
2062-63	14,349	2955	-2459.8	428	6,050,616.04	1831.84	105,279.44
2063-64	18,185	2983	1376.2	70.8	1,893,926.44	5012.64	97,434.96
2064-65	21,445	4222	4636.2	1309.8	21,494,350.44	1,715,576.06	6,072,494.76
N=5	**Σ X =84,044**	**Σ Y= 14561**	**Σ U=0**	**Σ V=0**	**Σ $U^{2=}$ 35,843,120.8**	**Σ $V^{2=}$ 2,912,466.8**	**Σ UV= 8,674,777.08**

I) For Actual Sales:

$$\text{Mean } (\overline{X}) = \frac{X}{N} = \frac{84044}{5} = 16{,}808.6$$

$$\text{Standard Deviation } (\pm_x) = \frac{\sqrt{U^2}}{N} = \frac{\sqrt{35{,}843{,}120.8}}{5} = 1197.382$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\pm_x}{\overline{X}} \,|\, 100 = \frac{1197.382}{16{,}808.6} \,|\, 100 = 7.1236\ \%$$

II) For Operating Profit:

$$\text{Mean } (\overline{Y}) = \frac{Y}{N} = \frac{14{,}561}{5} = 2912.20$$

$$\text{Standard Deviation } (\pm_y) = \frac{\sqrt{V^2}}{N} = \frac{\sqrt{2{,}912{,}466.8}}{5} = 341.319$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\pm_y}{\overline{Y}} \,|\, 100 = \frac{341.319}{2912.2} \,|\, 100 = 11.7203\%$$

Calculation of Correlation Coefficient:

$$r_{(xy)} = \frac{UV}{\sqrt{U^2}\sqrt{V^2}} = \frac{8{,}674{,}777.08}{\sqrt{35{,}843{,}120.8}\sqrt{2{,}912{,}466.8}} = 0.84903$$

To calculate value of 'r' is 0.8490 the value of 'r' shows that there is positive correlation between actual sales and operating profit .Increased in actual sales will also increase in operating profit or vice versa.

Calculation of Probable Error:

PE $= 0.6745 \; | \; (1\text{-}r^2 / \sqrt{N} \;)$

$= 0.6745 \; | \; (1\text{-}0.84903 / \sqrt{5} \;)$

$=0.084201$

The calculated value of probable error is 0.084201 considering probable error (PE). It is found that the value of r is more than 6PE i.e. 0.84903 > 6 | 0.084201 .So, it can be concluded that the calculated value of r is significant ad actual sales will go in same direction of operating profit.

Summary of Mean , Standard Deviation, Coefficient of Variation ,Correlation Coefficient , Probable Error of Budgeted & Actual Sales.

Statistical Tools	**Actual Sales**	**Operating Profit**
Mean	16,808.6	2912.2
S.D. (±)	1197.382	341.3190
C.V.	7.1236	11.7203
r	0.84903	
P.E.	0.084201	

4.18 Analysis of Actual sales and Net Profit

Table 4.24

Analysis of Actual Sales and Net Profit

Fiscal Year	Sales (Rs.)	% Deviation on an average sales	Net Profit	% Deviation on an average net profit
2060-61	15,249	(9.28)	1407	(39.69)
2061-62	14,816	11.86	1892	(18.9)
2062-63	14,349	14.64	2382	2.10
2063-64	18,185	8.19	2631	12.77
2064-65	21,445	27.58	3351	43.63
Average	16,809		2333	

Sources: Annual Reports and Accounts

Relationship between Actual Sales and Net Profit

To see the relationship between the actual sales and net profit, correlation coefficient is calculated:

Calculation of Mean, S.D., C.V., Correlation Coefficient, P.E. & Regression Line

Fiscal Year	Actual Sales (X)	Net Profit (Y)	U= X- $\overline{X}$	V=Y- $\overline{Y}$	U^2	V^2	UV
2060-61	15,249	1407	-1559.8	-925.6	2,432,976.04	856,735.36	1,443,750.88
2061-62	14,816	1892	-1992.8	-440.6	3,971,251.84	194,128.36	878,027.68
2062-63	14,349	2382	-2459.8	49.4	6,050,616.04	2440.36	121,514.12
2063-64	18,185	2613	1376.2	298.5	1,893,926.44	89042.56	410,658.08
2064-65	21,445	3351	4636.2	1018.4	21,494,350.44	1,039,138.56	4,721,506.08
N=5	**Σ X =84,044**	**Σ Y= 11,663**	**Σ U=0**	**Σ V=0**	**Σ $U^{2=}$ 35,843,120.8**	**Σ $V^{2=}$ 2,179,485.2**	**Σ UV= 7,575,456.84**

I) For Actual Sales :

$$\text{Mean } (\overline{X}) = \frac{X}{N} = \frac{84044}{5} = 16{,}808.6$$

$$\text{Standard Deviation } (\pm_x) = \frac{\sqrt{\quad U^2}}{N} = \frac{\sqrt{35{,}843{,}120.8}}{5} = 1197.382$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\pm_X}{\overline{X}} \,|\, 100 = \frac{1197.382}{16{,}808.6} \,|\, 100 = 7.1236\ \%$$

II) For Net Profit :

$$\text{Mean } (\overline{Y}) = \frac{Y}{N} = \frac{11663}{5} = 2332.6$$

$$\text{Standard Deviation } (\pm_y) = \frac{\sqrt{\quad V^2}}{N} = \frac{\sqrt{2{,}179{,}485.2}}{5} = 295.2616$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\pm_y}{\overline{Y}} \,|\, 100 = \frac{295.2616}{2332.6} \,|\, 100 = 12.6580\%$$

Calculation of Correlation Coefficient:

$$r_{(xy)} = \frac{UV}{\sqrt{\quad U^2}\sqrt{\quad V^2}} = \frac{7{,}575{,}456.84}{\sqrt{35{,}843{,}120.8}\sqrt{2{,}179{,}485.2}} = 0.85709$$

To calculate value of 'r' is 0.85709 the value of 'r' shows that there is positive correlation between actual sales and net profit .Increased in actual sales will also increase in net profit or vice versa.

Calculation of Probable Error:

$$PE = 0.6745 \,|\, (1\text{-}r^2 / \sqrt{N})$$

$$= 0.6745 \,|\, (1\text{-}0.85709 / \sqrt{5})$$

$$=0.0800531$$

The calculated value of probable error is 0.0800531 considering probable error (PE). It is found that the value of r is more than 6PE i.e. 0.85709 > 6 | 0.0800531 .So, it can be concluded that the calculated value of r is significant and actual sales will go in same direction of net profit.

Summary of Mean, Standard Deviation, Coefficient of Variation, Correlation Coefficient, Probable Error of Budgeted & Actual Sales.

Statistical Tools	Actual Sales	Net Profit
Mean	16,808.6	2332.6
S.D. (±)	1197.382	295.2615
C.V.	7.1236	12.6580
r	0.85709	
P.E.	0.0800531	

The above table shows the relation between sales and profit from the fiscal year 2060-61 to 2064-65 .From the above table; it is observed that the average sales and net profit during the study period are Rs. 16,809 and 2333 lakh respectively.

4.19 Profit and Loss Trend of UNL

Profit earning is an owner's responsibility of management. All strategies are made to earn profit by the organization. It is major element and the earnest attempt of any firm. It is the base for survival and reason for the establishment of any firm .Profit and loss account is summarized below on the basis of P/L A/C of UNL.

Table No. 4.25

Profit and Loss Trend of UNL

(Rs.00,000)

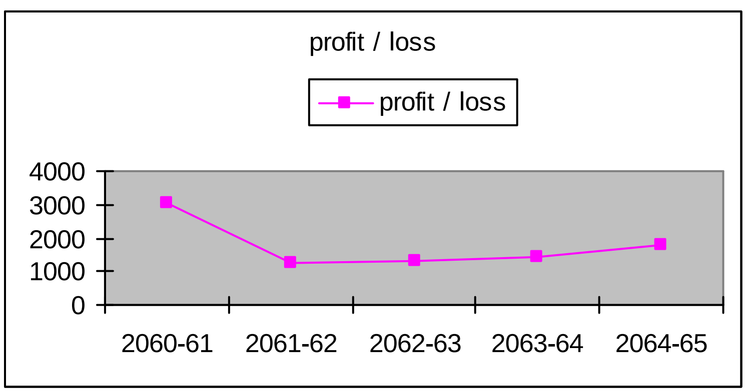
Fiscal Year	Profit / Loss	% change on previous year
2060-61	3039	-
2061-62	1249	(58.90)
2062-63	1328	6.33
2063-64	1427	7.45
2064-65	1786	25.16

Sources: Annual Reports and Accounts

The above table shows the net profit and loss pattern of UNL. The profit trend of UNL has fluctuation over the period of five years. It has highest profit in the year 2064-65. In the year 2060-61 it has decreased by 58.90% as compared to previous year. The main reason of fluctuating profit and loss is unstable political situation in the country and instability in governance.

Figure 4.7

Profit and Loss Trend of UNL



4.20 Cash Flow Statement

The cash flow statement is prepared to plan the liquidity position of the company as a basis for determining future borrowing and future investments. With the help of cash flow, planned cash inflows and ending position by interim period for a specific time span can be achieved. UNL has the practice of preparing cash flow considering operating activities, investing activities and financial activities.

Table No. 4.26

Cash Flow Statement of UNL

For the Year End 31st Ashadh, 2065 (15th July, 2008)

(Figure in brackets represents deductions)

Particular	**31.03.2064 (Rs.)**	**31.03.2065 (Rs.)**
A. Cash from Operational Activities		
Net Profit	335,121,739	263,064,838
Add:		
-Depreciation	20,650,892	19,517,262
-Interest	129,055	1,059,458
-Provisions (Increase)	104,242,933	50,992,951
-Loss in Sale/Write off of Fixed Assets	-	4,940,773
Cash Flow Prior To Change In Working Capital	**460,144,620**	**339,575,282**
changes in Working Capital		
-Decrease(Increase) in Current Assets	(124,031,516)	(22,133,323)
-Increase (Decrease) in Current Liabilities	(1,670,598)	(1,517,048)
-Interest Payments	(129,055)	(1,059,458)
-Provisions (Decrease)	-	-
-Advance Income Tax Paid	(101,800,000)	(80,950,000)
Net Changes In Working Capital	**(227,631,169)**	**(88,967,732)**
Net Cash Flow From Operation:	**232,513,451**	**250,607,550**
B. Cash Flow From Investment		
Interest/Dividend Receipt		
-Sales / (Purchase) of Fixed Assets	(11,934,631)	(27,616,000)

Fixed Deposit	30,000,000	30,000,000
Sale of Govt. Securities	-	79,764,185
Net Cash From Investment	**18,065,369**	**22,148,185**
<u>C.Cash Flow From Financial Activities:</u>		
-Dividend Distribution	(253,192,500)	(230,175,000)
Net Cash Flow From Financial Activities	**(253,192,500)**	**(230,175,000)**
Gross Increase in Cash /(Decrease) (A+B+C)	**(2,613,680)**	**(42,580,735)**
Opening Cash and Bank Balance	**101,602,475**	**59,021,739**
Closing Cash and Bank Balance	**98,988,795**	**101,602,475**

Sources: 15th Annual Reports and Account

4.21 Balance Sheet

The main purpose of management is to maintain sound financial position. To ascertain the financial position on a particular date of the business, balance sheet must be prepared. The balance sheet is a statement of assets and liabilities of the business enterprises as on given date. It depicts the financial position of the business at the close of the accounting period. It consists of all the accounts balance, which was not adjusted to trading, and P&L account. UNL prepares its balance sheet at the end of each financial year. The balance prepared by UNL for 2065 is depicted below:

Table No. 4.27
Balance Sheet of UNL
As at 31st Ashadh, 2065 (15th July, 2008)

(Figure in brackets represents deductions)

Capital & Liabilities	31.03.2064(Rs.)	31.03.2065(Rs.)
1.Shareholders' Funds		
a) Share Capital	9,20,70,000	9,20,70,000
b) Reserves and Retained Earnings	17,86,11,380	14,27,17,141
Total	**27,06,81,380**	**23,47,87,141**
Assets		
1.Fixed Assets		
a) Gross Block	36,46,25,902	33,69,71,880
b) Less: Depreciation	(22,97,36,119)	(20,90,85,226)
c) Net Block	13,48,89,783	12,78,86,654
d) Assets under Construction	53,28,055	2,10,47,446
Total	**14,02,17,839**	**14,89,34,100**
2.Investment		
a) Government Securities	-	-
b) Fixed Deposit	18,36,50,000	21,36,50,000
Total	**18,36,50,000**	**21,36,50,000**
3.Current Assets		
a) Inventories	41,01,16,557	32,16,24,869
b) Trade & Other Receivables	14,81,32,838	13,64,49,877
c) Cash and Bank Balance	9,89,88,795	10,16,02,475
d) Pre-paid, Advances , Loans & Deposits	10,41,47,947	8,02,91,080
Total	**76,13,86,137**	**63,99,68,301**
Less: Current Liabilities & Provisions		
a) Trade and Other Payables	38,41,11,430	38,57,82,027
b) Short Term Loans	-	-
c) Provisions	**43,04,61,166**	**38,19,83,233**
Total	**81,45,72,595**	**76,77,65,260**

Net Current Assets	**(5,31,86,459)**	**(12,77,96,959)**
Grand Total	**27,06,81,380**	**23,47,87,141**

Sources: 15th Annual Reports and Accounts

4.22 Financial Ratio Analysis of UNL

Financial analysis is a method to evaluate the stratus of an organization in prevailing market and economy. It is a tool for measuring performance of an organization. Ratio analysis is a most commonly used tool of financial analysis. Ratio explains the quantitative relationship between two items. It is useful to evaluate the financial efficiency of a business organization.

The management of business organization must always be known with the financial condition of the enterprise. Financial efficiency and soundness is a vital element to achieve the predetermined goals of business enterprise. Therefore, every enterprise needs to analyze its financial ratios to acquired knowledge of the financial position of the company whether it is running efficiency or not without any problem.

Table 4.28

Summary of Financial Statement

Particular	2060-61	2061-62	2062-63	2063-64	2064-65
a. Current Assets b.Fixed Assets	724,244,807 135,710,594	891,414,671 127,776,972	741,606,265 145,776,135	639,968,301 148,934,100	761,386,137 140,217,839
A. Total Assets(a+b)	859,955,401	1,019,191,643	887,382,400	788,902,401	901,603,976
c.Current Liabilities	543,705,764	882.022,532	742,231,782	767,765,260	814,572,595
B.Total Liabilities	543,705,764	882,022,532	742,231,782	767,765,260	814,572,595
C.Net Profit	140,782,744	189,199,474	238,156,507	263,064,383	335,121,739
D.Sales	1,524,901,045	1,484,894,595	1,469,685,740	1,818,527,500	2,144,589,477
E.Capital Employed (A-C)	316,249,637	137,169,111	145,150,618	21,137,141	87,031,381

Sources: Annual Reports and Accounts

Total Assets = Current Assets + Fixed Assets

Capital Employed = Total Assets – Current Liabilities

The above table represents the financial status of UNL. These financial indicators are used below to calculate different ratio with the help with their respective formulas.

Current Ratio (Liquidity Ratio)

Current Ratio represents the ratio of current assets to current liabilities (CA/CL).Current Assets includes all those assets which can be converted into cash normally within short term i.e. one year current liabilities includes the short term loan which matures within one year. A high current ratio indicates excessive investment in CA and it affects profitability .On the other hand low current ratio indicates that the company is not able to meet its short term obligation .Generally, the desirable standard current ratio is 2:1.

Table No. 4.29

Presentation of Current Ratio (CA/CL)

(In Rs.)

Fiscal Year	Current Assets	Current Liabilities	Ration (In Times)
2060-61	724,244,807	543,705,764	1.33 :1
2061-62	891,414,671	882,022,532	1.01 :1
2062-63	741,606,265	742,231,782	0.99 :1
2063-64	639,968,301	767,765,260	0.83 :1
2064-65	761,386,137	814,572,595	0.93 :1

Sources: Annual Reports and Accounts

Above table shows that the CR is fluctuating. The CR in the year 2060-61 is maximum and from 2061-62 it is decreasing trend. None of the year's ratio is at standard level. Only

FY 2060-61 ratio is satisfactory .It can be concluded that it is not in the position to pay current liabilities and unable to improve its working capital. It is in insufficient liquidity in each year and UNL will find difficulty in paying bills.

Total Assets Turnover Ratio:

Total assets turnover ratio reflects the firm's ability and efficiency in utilization of total assets in generating sales and profit from all financial resources committed to total assets. High assets turnover ratio indicates the total resources have been well managed and over investment in assets represents and low assets turnover ratio. The total assets turnover ratio indicates the sales generated per rupee of the investment in total assets. The total assets of the firm are calculated by diving sales by total assets of the firm.

Table No. 4.30

Total Assets Turnover Ratio

Fiscal Year	Sales	Total Assets	Ratio: (Sales / Total Assets)
2060-61	1,524,901,045	859,955,401	1.77
2061-62	1,484,894,595	1,091,191,643	1.36
2062-63	1,469,685,740	887,382,400	1.66
2063-64	1,818,527,500	788,902,401	2.31
2064-65	2,144,589,477	901,603,976	2.38

Sources: Annual Reports and Accounts

Firm's performance is also measured in its ability to produce a large volume of sales on a small total asset .UNL is able to generate high sales on the basis of lower total assets. FY's 2063-64 and 2064-65 reflect the better utilization of total assets .Total assets turnover ratio of 2061-62 is lower than previous year but it is still in profitable situation to invest in assets to increase the sales. During the year 2064-65, the company has been able to produce Rs.2.38 sales per rupee of investment in total assets, which is highest among five years.

Capital – Employed Turnover:

Capital employed may be defined as non-current liabilities plus owner's equity. It represents the permanent capital or ling-range funds entrusted to the firm and can be defined as working capital plus non-current assets. Higher the ratio, the more efficient the utilization of owners and long – term creditors funds.

Capital Employed Turnover Ratio = Sales / Capital Employed

Table No. 4.31

Capital Employed Turnover Ration

Fiscal Year	Sales	Capital Employed	Ratio : (sales / capital employed)
2060-61	1,524,901,045	316,249,637	4.82
2061-62	1,484,894,595	137,169,111	10.83
2062-63	1,469,685,740	145,150,618	10.13
2063-64	1,818,527,500	21,137,141	86.03
2064-65	2,144,589,477	87,031,381	24.64

Sources: Annual Reports and Accounts

This ratio indicates the firm's ability of generating sales per rupee of long term investment. The higher the ratio, the more efficient the utilization of owners and long term creditors funds. From the above table, UNL has achieved highest ratio in the year 2063-64 and the lowest in the year 2060-61.

Net Profit Ratio:

Net profit is obtained when operating expenses and income tax are reduced from the gross profit.Net profit ratio is the relationship between net profit and sales of business enterprise. The net profit ratio is measured by dividing net profit by sales. This ratio is the overall measure of the firm's ability to turn each rupee of sales into profit. A firm with a high net profit ratio will be able to face of falling sales prices, raising cost of production and decreasing demand of product.

Net Profit Ratio = Net Profit after tax / Sales

Table No. 4.32

Net Profit Ratio

Fiscal Year	Net Profit / Loss	Sales	Ratio(%) : net profit after tax / sales
2060-61	140,782,744	1,524,901,045	9.23
2061-62	189,199,474	1,484,894,595	12.74
2062-63	238,156,507	1,469,685,740	16.20
2063-64	263,064,838	1,818,527,500	14.47
2064-65	335,121,739	2,144,589,477	15.63

Sources: Annual Reports and Accounts

This ratio establishes a relationship between net profit and sales and indicates management's efficiency in manufacture, administrating and selling the products. The above figure shows that even though none of the ratio is in negative. The net profit ratio in the year 2060-61 is minimum. It indicates that fall in net profit due to increased in cost of production and operation. The net profit ratio is increasing from the year 2061-62 to 2064-65.

Quick Ratio:

This ratio expresses the relationship between quick or liquid assets and current liabilities. The quick or acid test ratio is a more refined measure of the firm's liquidity. Quick assets include cash and book debts (debtors and bills receivables) .Only cash is most liquid asset. Another liquid assets is marketable securities, this all are separated to calculate the quick acid test ratio. This ratio is sometimes also called liquidity ratio. Quick ratio is found out by dividing the total of the quick assets by current liabilities.

Quick Ratio = Quick Assets / Current Liabilities

Where, quick assets = Total current assets - Inventory

Table 4.33

Quick Ratio

Fiscal Year	Quick Assets	Current Liabilities	Ration (Times) : QA/CL
2060-61	540,029,071	543,705,764	0.99
2061-62	616,650,125	882,022,532	0.83
2062-63	485,438,311	742,231,782	0.55
2063-64	318,343,432	767,765,260	0.41
2064-65	351,269,580	814,572,595	0.43

Sources: Annual Reports and Accounts

Generally quick ratio of 1:1 is considered to present a satisfactory current financial condition. But in the case of UNL only in the FY 2060-61, the organization has achieved satisfactory level. It means that in this year, firm was able to pay its current liabilities at the same time. But in the year 2061-62 to 2064-65, the firm's liquidity performance is unsatisfactory.

Return on Shareholders Equity:

The return on shareholders equity (or return on net worth) is net profit after taxes divided by the total of performance share holder's equity and common share holder's equity's return on share holder's equity is calculated to see the profitableness of the owner's investment. The total shareholder's equity is same times called net worth. Preference shareholders have a priority in receiving dividend where as common shareholders are entitle to the residual profits.

Return of Shareholders equity = Net Profit after tax / Shareholders equity

Table 4.34

Return on Shareholder's Equity

Fiscal Year	Net Profit after tax	Shareholder's Equity	Ration (%) : NPAT/Equity
2060-61	140,782,744	396,013,822	35.55
2061-62	189,199,474	216,933,296	87.22
2062-63	238,156,507	224,914,802	105.88
2063-64	263,064,838	234,787,141	112.04
2064-65	335,121,739	270,681,380	123.81

Sources: Annual Reports and Accounts

This ratio indicates how well the firm has used the resources of the owner's .This ratio is satisfactory level in the FY 2062-63 to 2064-65.

Key Figure of UNL:

UNL has achieved the enormous prestigious performance providing the better services among the competitors. The Company is able to achieve the commendable achievement and some of them are depicts in the following bar diagram .From the below figure, it is clearly identified that the company is successfully to enhance its budgeted target within its prescribed schedule. The key figures are shown in the Appendices II

4.23 Preparation of Budget with the help of Primary Data

The primary data is collected from the respondents of UNL such as the managerial level, executive level and administration level at the site visit by preparing the questionnaire about the budget procedure adopted by the UNL and its future prospects to be utilized for effective control mechanism building. For this purpose the questionnaire is prepared which is shown in appendix and the conclusion form this data is summarized as follows.

The primary data is basically concerned with the administrative, sales, marketing and plant to the company. These have become very much helpful to know about the opinion of the managerial and about the budgeting system, especially sales budgeting system. The primary data collected in reference to different topic as per the purpose of study. A set of questionnaire was distributed among the thirty employee of UNL .Out of them, twenty respondents returned back the questionnaire fully answered which is 66.67% of total questionnaire distributed, and they kept in analysis.

Responsible for effective Budgetary System

To know about the budget preparation of effective budget of UNL, A question was asked "Which level of management is the key responsible for the effective budgetary system?" The data ascertain from the respondents are depicted below:

Table No. 4.35

Responsible for effective Budgetary System

Option	No. of Respondents	Contribution %
Low Level Management	-	-
Medium Level Management	6	30
High Level Management	14	70
Total	**20**	**100**

Sources: Opinion Survey, 2065

The above table clearly indicates that 70% of employee thinks high level management is responsible for effective budgetary system and remaining portion goes to middle level management.

Sales Forecasting and Planning Method

For achieving the standard sales target and preparing the standard planning mechanism, the questioned was asked "What sort of sales forecasting and sales planning methods are used to enhance reliable projected sales?" The data ascertained from the respondents are depicted below:

Table No. 4.36

Sales Forecasting and Planning Method

Option	No. of Respondents	Contribution %
Sales force composite	1	5
Sales Division Manager Composite	3	15
Judgment of Chief executive (Rule of Thumb)	0	-
Statistical Method	2	10
Market Studies & Experiment	3	15
Survey	11	55
Total	**20**	**100**

Sources: Opinion Survey, 2065

The above table shows that survey method is the best method for enhancing reliable projected sales which consists 55% and the other method are also useful to support for planning.

Basis of Projected Sales:

To know about the basis of projected sales of UNL, the question was asked "On what basis sales budget is projected?" The data ascertained from the respondents are depicted below:

Table 4.37

Basis of Projected Sales

Option	**No. of Respondents**	**Contribution %**
Territorial Sales Basis	1	5
Product basis	19	95
Time period basis	0	-
Total	**20**	**100**

Sources: Opinion Survey, 2065

Above table reveals that 95 % of respondents are given the emphasis to product basis and remaining for the territorial sales basis for the basis of projected sales.

Responsible Level

For the point of view of responsibility distributed to executive level, the questioned was asked "Among the executive level, whose responsibility is more in preparation of sales budget?" The data ascertained from the respondents are depicted below:

Table 4.38

Responsible Level

Option	**No. of Respondents**	**Contribution %**
Marketing Representative	0	-
Account Representative	0	-
Sales Representative	20	-
Production Representative	0	100
Total	**20**	**100**

Sources: Opinion Survey, 2065

Cent percent of employee give their conclusion that sales representative have the sole responsibility to prepare the whole sales budget for sales forecasting.

Effective Inventory Policies

Another questioned was asked to know the inventory policy that was adopted by UNL in the past and in order to approach the effectiveness of such inventory "What Kind of Inventory Policy is adopted for effective production policies?" The data ascertained from the respondents are depicted below:

Table No. 4.39

Effective Inventory Policy

Option	No. of Respondents	Contribution (%)
Stable Inventory Policy	5	25
Fluctuating Inventory Policy	8	40
Inventory-production Coordination Policy	3	15
Just-in-Time Inventory Policy	4	20
Total	20	100

Sources: Opinion Survey, 2065

The table shows that fluctuating inventory policy takes 40% mark, so the respondent are advised that fluctuating inventory may give the fruitful result to UNL in future.

Responsible for Production Plan

To know the responsible key person for production budget, the questioned was asked "Who is the top most responsible for preparing production plan?" The data ascertained from the respondents are depicted below:

Table No. 4.40

Responsible for Production Plan

Option	**No. of Respondents**	**Contribution %**
Chief Executive	2	10
Sales Manager	18	80
Production Manager	0	-
Administrative Manager	0	-
Financial Manager	0	-
	20	**100**

Sources: Opinion Survey, 2065

Out of 20 respondents 80% give the favor to sales manager to the preparation of production plan by considering that sales automatically increases the production level.

Approach of Direct Labour Cost

For ascertaining the demand of labour and their settlement of disputes arising during the factory operation, the questioned was asked" What approach has been adopted in planning direct labour cost in your organization? The data ascertained from the respondents are depicted below:

Table No. 4.41

Approach of Direct Labour Cost

Option	**No. of Respondents**	**Contribution %**
Time and Motion Studies	1	5
Standard Costs	17	85
Direct Estimate by Supervisor	0	-
Statistical estimate by a staff group	2	10
Total	**20**	**100**

Sources: Opinion Survey, 2065

The concerned respondent have the favor of 85% in standard cost approach to determine the direct labour cost budget.

Tools for Selling and Distribution of Product

To know about the promotional tool by UNL, the questioned was asked "For selling and distribution of product, what kind of promotional tools has been applied more?" The data ascertained from the respondents are depicted below:

Table No. 4.42

Tools for Selling and Distribution of Product

Option	No. of Respondents	Contribution %
Consumer Oriented Strategy	15	75
Sales Force Oriented Strategy	1	5
Trade Oriented Strategy	4	20
Total	20	100

Sources: Opinion Survey, 2065

In the above table 75% of respondents answered consumer oriented strategy is the promotional tools used by UNL .So, conclusion can be drawn that UNL is using consumer oriented strategy.

Level of Competition

To enhance about the competitive market of UNL, the questioned was asked "For competitive product market policy, which level of competition has to be enhanced?" The data ascertained from the respondents are depicted below:

Table No. 4.43

Level of Competition

Option	**No. of Respondents**	**Contribution %**
Local rivals	0	-
National rivals	0	-
International rivals	20	100
All of Above	20	100
Total	**20**	**100**

Sources: Opinion Survey, 2065

The table shows that 100% respondents think UNL faces completion from all the local, national as well as international rivals

4.24 Major Finding of UNL

From the above analysis of data and informal discussion, these some major findings are presented in accordance of primary and secondary data.

The Following are some major findings of UNL:

1. Actual sales and production are below than budgeted plan.
2. The top executive are only one involved in planning and decision making and lower lever participation is not encouraged.
3. The company is suffering from high fixed cost.
4. The correlation between budgeted and actual sales shows a positive correlation. It means that the company can meet its sales goal as specified in annual program.
5. The company produces mainly cosmetics and households products.
6. UNL is not preparing proper budget regarding sales, purchase, material etc.
7. Lack of proper practice of Profit Plan has been exercised in UNL
8. UNL lack the diversity of product.
9. UNL has positive of selling its products sales on cash and credit.
10. Both the sales and production is in fluctuating trend over the period of five years.
11. The company has no separate costing department and professional cost experts. It has no separate cost for each type of products. But it has measured as per standard.
12. Most of the managers are from parent company (HLL) as well as the managing director.

13. The quick ratio is 0.43 times during the study period. It is ranging between 0.41 to 0.99 times.
14. Current assets and current liabilities are fluctuating during the study period. It is ranging between 639.968 to 891.414 and 543.705 to 882.022.
15. Both the production and Sales budget are decreasing trend.
16. Out of total raw material purchase 90% are imported from India and remaining 10% are imported from third countries.
17. The company has no proper practice of segregating cost into fixed, variable, semi-variable etc.
18. Mainly eight different types of consumer product lines are produced in UNL.
19. The domestic sales of UNL are in increasing trend and export sales of the company are completely stopped form 2061-62.
20. The sales territories of UNL is divided in to domestic and export sales, and mainly export sales consist of the goods sold in India which is now stopped.
21. UNL has not success to earn effective profit. Net profit trend of UNL is fluctuating every year.
22. The inventory turnover is fluctuating during the study period.
23. UNL has no practice of sales forecasting. It doesn't prepare sales and production plans. Sales are depended upon production rather than on sales plan.
24. UNL has not been suffering from excessive fixed costs and non-manufacturing expenses but the company has not any effective cost reduction program.
25. There is seasonal policy in UNL.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Profit is one of the comprehensive approaches that have been developed to facilitate effective performance of the management process. Profit planning is one of the most important management tools used to plan business operation. In other words profit planning is a systematic and formulized approach for performing significant phases of the management planning and control system. It is a systematic and formalized approach for performing significant phase of management planning and control function. Without proper planning and control, no organization can achieve it goals. Therefore, these days profit planning and control has become one of the most important management tools.

Profit planning means the development and acceptance of objectives and goals and moving an organization efficiently to achieve the objectives and goals by substantive and financial plan techniques.

Profit planning plays a vital role in the performance of all organizations manufacturing and non-manufacturing. Without proper and efficient profit planning no firm can accomplish its predetermined goals and objectives.

Profit plans are prepared for two-time dimension. Strategic long-range plan are for 5 to 10 years and tactical short-range plan for a year detailed by interim time periods.

The concept of comprehensive profit planning are must recognize that it is not a "separate technique" that can be thought of and operated independently of the total management process. Profit planning entitles an integration of numerous managerial approaches and techniques that might be exploited such as sales forecasting, capital budgeting, cash flow analysis, cost volume profit analysis, variable budgets, time and motion study, standard cost accounting, strategic planning, man power planning etc.

Nepal is predominantly an agricultural country but the concept of industrialization has also been given the importance here to overall development of the country. After launching first five-year plan in 1956, Industrial policy was formally announced in 1957. In 1992, the new policy was declared which invite mainly the foreign investments.

UNL is an enterprise established under foreign investment as the subsidiary company of HLL (India). It was establish with an objective of establishing a factory to manufacture soaps, detergents, cosmetics, toiletries, oleaginous, saponaceous, unguents and other chemical products.

This study has tried to analyses and examines the current practice of PP and its effectiveness in UNL.UNL covers about 35% of the Nepalese market compared with other brands of similar products. For the purpose of the total study has been made under five different chapters which are (i) Introduction (ii) Review of Literature (iii) Research Methodology (iv) Presentation and Analysis and (v) Summery, Conclusion and

Recommendations. This study covered only five years period i.e. from 2060-61 to 2064–65.The data has been analyzed with the help of various statistical and financial tools like arithmetic mean , standard deviation, correlation coefficient , regression analysis, financial ratios etc.

5.2 Conclusion

After analyzing the over all PP of UNL in this study, here are the conclusion of this study:

1. UNL has no satisfactory achievement of specific goals.
2. UNL is not practicing complete and comprehensive budgeting system. UNL doesn't prepare long-term strategic budget, but prepare short-term plan with the demand of market only in term of budget for each year.
3. The plans are prepared from top level and later it is communicated to the lower level.
3. Company has no in dept analyze of company's strengths and weakness.
4. Fixed costs and non manufacturing cost growing high, planner or financial department are not thinking to reduce fixed cost and non manufacturing cost.
5. There is no planning for purchasing materials and sales of goods.
6. Budgets are prepared just to fulfill the formalities but these are not used effectively for the planning process.
7. Lack of skilled planner & budgeting experts, budget is prepared on traditional basis.

8. Basically, Company prepares sales budget based on previous sales trends. No analyzed about external and internal environment.
9. Company has no practice to invest in research and development work in rational manner for improving factory productivity, cost control and capacity utilization.
10. The correlation between sales and production is highly significant and positive. It indicates that increased in sales will also increase production.
11. Costs are not classified into fix and variable. These costs are also not designed as controllable and uncontrollable costs. The company has not made any effort to reduce controllable cost.
12. UNL has no sales forecasting. Sales budget is prepared according to production budget.
13. UNL company has no depth analysis of its strength/opportunity and weakness/Threats. The following SWOT analysis has been presented after analyzing the operation UNL.

Strength / Opportunity

- ❖ One of the big manufacturing industries in Nepal producing quality Cosmetics and household product.
- ❖ High Quality product containing different varieties in different packs and quantity.
- ❖ Competitive Market Price
- ❖ Good Distribution Channel spread to local as well as international market
- ❖ Uses Agro products available form local market.
- ❖ Employed Experience and academically sound Staff

- ❖ Able to enhance the Corporate Social Responsibility
- ❖ Service providing to differentiate market having the practice of production differentiation that automatically affects its sales plan.
- ❖ Applying market penetration strategy.

Weakness / Threats

- ❖ Intense Competition available in the existing market.
- ❖ High production and selling cost.
- ❖ Highly dependent on imported raw material especially from Indian market.
- ❖ Obligation to pay huge amount of its profit to Government revenue.
- ❖ Current political stagnation and instability
- ❖ Use of old plant having the chances of accident.
- ❖ Low capacity utilization due to unavailability of material in time at the right time.
- ❖ Lack of performance evaluation system to the employees.

5.3 Recommendations

On the basis of above findings of the study following applicable recommendations for the overall improvement of profit planning are forwarded to the responsible persons of the UNL. It is hoped that these recommendations will be useful to the management of UNL.

1. UNL should start to prepare proper sales and production plans in accordance with the norms of Budgeting.
2. There should be the proper system of segregating the different cost as variable, semi-variable and fixed cost.

3. UNL should focus its attention to increase its production and sales volume for the full utilization of installed capacity.
4. UNL should prepare sales budget systematically and must indicate its future prospects for forecasting considering all the variables that directly and indirectly affect the market of the company.
5. UNL should have in depth analysis of the company's strengths and weakness. It should try to overcome its weakness by using the strengths. It should also consider its opportunity and threats.
6. Academically sound and trained manpower should place for effective budgeting and planning and employees trained programmed should immediately start in order to raise their capacity level.
7. Profit planning manuals should be communicated from top to lower levels. Decentralization system should immediately follow up.
8. UNL should define the roles, duties and responsibility of every departmental head and delegate the full authority and should make them fully accountable to decide and create new ideas for formulating various policies.
9. Volume of finished goods inventories and raw material inventories should be reduced to optimum level.
10. The company should fix a target of sales and production unit on the basis of territory as well as regions.
11. UNL should control fixed cost and non manufacturing cost which are growing very high.

12. The company should make sales promotion by different Medias for domestic and foreign market.
13. The company should improve its capacity utilization by increasing the production or by introducing new product.
14. The company should maintain proper co-ordination between production & market demand.
15. The company should be developed alternative supply sources of raw materials.
16. UNL should be considered cost volume profit relationship while pricing the products.
17. UNL should adopt new marketing concept for sales and production of the products.
18. UNL should start for preparing the departmental budget delegating to the authority to concern department head.
19. Performance evaluation system should be changed so as to enhance employee loyalty.
20. The company should initiate master budget in order to analyze its overall performance applying different variances arising different point of time.

BIBLIOGRAPHY

Books

Agrawal, A.N. Kunda Lal (1989). *Economics of Development and Planning.* New Delhi: Vikash Publishing House Pvt. Ltd.

Agrawal, G.R. (2002). *Dynamics of Business Environment in Nepal***.** Kathmandu: MK Publisher and Distributor.

American Accounting Association, *Reading in Cost accounting Budgeting and control.*

Andrew Robertson, *Corporate Planning*, Publishing Division British Institute of Management.

Bajarachaya, B.C. (1998). *Business Statistic and Management Accounting***.** Kathmandu: Khanal Prakhshan.

Choratos, N Dimitries, (1990). *A Hand book for scientific and technical personnel.*

Dangol, R.M. and Prajapati K. (2001). *Accounting for financial Analysis and Planning*. Kathmandu: Taleju Prakashan

David, W.Ewing (1964). *Long Range Planning for Management*. New York: Harper and Row Publisher.

Dean, Joel (1971). *Managerial Economics (1st Edition)*. New Delhi: Prentice Hall of India Pvt. Ltd.

Dearden, Jhon and Bhattacharya, S.K. (1982). *Accounting for Management Text and Cases*. New Delhi: Vikash Publishing House.

Drucker, Peter F. (Vol.5, April 1959).*Long Range Planning Management Science.*

Fago, G. (2003). *Profit Planning and Control*. Kathmandu: Buddha Academic Enterprises Pvt. Ltd.

Fleshor, Data La and Fleshor Tonyak (1960). *Accounting for Mid Managemen***t**. New York: Denmark Publishing Company.

Foregmen, J.M. (1973). *Accounting of Managerial Analysis*. Homewood Ill: Rechard D. Irwan Increase.

Foregmen, J.M. (1976). *Accounting of Management Analysis*. Illinois: Rechard D.Irloin Homewood.

Garrison, R.H. (1985). *Managerial Accounting*. Texas: Business Publication Increase .Plan.

Glen, A, Welsch Ronald W. Hilton & PauL N.Gordon (1992). *Budgeting for Profit Planning and Control (5th Edition)*. New Delhi: Prentice Hall of India.

Goet, Joginder, Bhattarai, Ishwor, and Gautam, Akshay (2063).Profit Planning and Control .Kathmandu: Asmita Books Publishers & Distributors.

Goyal, S.N. and Mohan, Market (1997). *Management Accounting*. Agra: Sahitya Bhawan Publication.

Gupta S.C. (1996). *Foundations of Statistics (5th Edition)*.Indian: Himalaya Publishing House.

Gupta, S.C. (1997). *Advanced Accounts*. New Delhi: S. Chand and Company.

Hilton, R.W. (1997). Managerial Accounting. USA: MC Graw-Hill Inc.

Homes, Arthur, W.Meir, Robert A and Dahald, F.Pabst (1970).*Accounting for control and Decision*. Texas: Austin Business Publishing.

Hongreen, C.T.Foster, George and Dator, S.M. (1990).*Cost accounting a Managerial Approach*. New Delhi: Prentice Hall of India Pvt. Ltd.

Jacker, Ronald J. and Ellis, Louidell (1981). *Management Accounting Concept and Application* .Virginia: Reston Publishing Company.

Jain, S.P. and Narang, K.L. (1992). *Cost Accounting Principles and Practice*. New Delhi: Kalyani Publisher.

Jain, S.P. and Narang, K.L. (1993). *Advanced Accounting*. New Delhi: Tata Mc Graw Hill Publishing Company Limited.

Joshi, Shayam (1990). *Managerial Economics*. Kathmandu: Taleju Prakashan.

K.C., Jit Bahadur .*Tax Law and Planning* .Kathmandu: Khanel Books & Stationary , Min Bhawan.

Khan, M Y and Jain, P.K. (1993).*Management Accounting* .New Delhi: Tata Mc-Graw Hill Publishing Company.

Kothari, C.R. (2000). *Research Methodology and Technology*. New Delhi: Vishwa Prakashan.

Lynch, R.M. and Williamson, R.W. (1990). *Accounting for Management*. New Delhi: Tata Mc-Graw Hill Publishing Company Limited.

Lynch, R.M. and Williamson, R.W. (1993). *Accounting for Management Planning and Control*. New Delhi: Tata Mc-Graw Hill Publishing Company Limited.

Maheshwari, S.N. (2000) .*Management Accounting and Financial Control*. New Delhi: Sultan Chand and sons Educational Publishers.

Man Mohan and Goyal, S. N. (1995). *Principal of Management Accounting.* Agra: Sahitya Bhawan Publication.

Meigs, W.B. (1972).Accounting: *The basis for Business Decision. New York*: Mc Graw Hill.

Munakrni, Shiva Prasad (20030. *Management Accounting*. Kathmandu: Buddha Academic Publisher and Distributor Pvt. Ltd.

Narain, Laxmi (1972). *Principal and Practice of Public Enterprises Management*. New Delhi: S.Chand and Company Ltd.

Pandey, I.M. (1994). *Management Accounting*: A planning and Control Approach. New Delhi: Vikash Pubishing House Pvt.Ltd.

Pandey, I.M. (1999). *Financial Accounting: A planning and control Approach*. New Delhi: Vikash Publishing House Pvt.Ltd.

Peterson, H. Graij and Lewis, W. Iris (1995). *Managerial Economics*. New Delhi: Pretance Hall of India.

Regineld, L.Jones and George H. Frention (1982). Budgeting Key to planning and Control. (1st Edition).

Sharma & Gupta, R.K. Sahi K. (1982).*Management Accounting* .New Delhi: Kalyani Publisher.

Shrestha, Sunity and Silwal, Dhrub Prasad (1990).Statistical Methods in Management.Kathmandu: Taleju Prakashan.

Sthapit, Azaya B., Gautam, H., Joshi, P.R., Dangol, P.M. (2006). *Statistical Methods*. Kathmandu: Buddha Academic Enterprises Pvt.Ltd.

T.S. Mc Alpine (1976). *The Books Arts of budgeting (1st Edition)* .London: Business Book Ltd.

Welsch, Glen A, Hilton, Ronald W., Gordon, Poul N. (1999). *Budgeting: Profit Planning and Control (5th Edition)*. New Delhi: Practice Hall of India Pvt. Ltd.

Welsh, Glen A. (1986). *Budgeting: Profit Planning and Control*. New Delhi: Practice Hall of India Pvt.Ltd.

Wolf, Howard Know and Panta Prem R. (2005). *Social Science Research and Thesis Writing*. Kathmandu: Buddha Academic Publishers and Distributions Pvt.Ltd.

Journals, Reports, Articles and Govt. Publications.

Daily National and International Newspapers

Economic Survey 2006-07.

Financial Statement of UNL from FY 2060-61 To FY 2064-65

International Forum (Various Issues)

World Bank Report 2007

Thesis

Acharya, Mina Kumari (2054-55). *"Profit Planning and Control in Manufacturing Public Enterprises of Nepal, A study of Himal Cement Co".* Ltd. An Unpublished Master Degree Dissertations Submitted to Central Department of Management. TU. Kritipur, Kathmandu, Nepal.

Acharya, Prem Prasad (2006). *"Profit Planning in Public Enterprises in Nepal (A case Study of HPPCL)".* An Unpublished Master Degree Dissertations Submitted to Central Department of Management. TU. Kritipur, Kathmandu, Nepal.

Badu, Madan Bahadur (1995-96). *"Profit Planning in Manufacturing PEs, A case study of Diary Development Corporation".* An Unpublished Master Degree Dissertations Submitted to Central Department of Management. TU. Kritipur, Kathmandu, Nepal.

Bhattarai, Tara Nath (2006), *"Sales Budget in Manufacturing Enterprises"*. An Unpublished Master Degree Dissertations Submitted to Central Department of Management. TU. Kritipur, Kathmandu, Nepal.

Chalise, Ishwor Raj (2001), "Profit Planning in Nepal ". An Unpublished Master Degree Dissertations Submitted to Central Department of Management. TU. Kritipur, Kathmandu, Nepal.

Baral, Manoj (2007).*"A Study of Profit Planning and Control of Gorkhali Rubber Udhyod Limited."*. An Unpublished Master Degree Dissertations Submitted to Central Department of Management. TU. Kritipur, Kathmandu, Nepal.

Poudel, Laxman Sharma (2052-53), *"Profit planning in manufacturing PEs, A case study of Gorakh Lali Rubber Industry Ltd."* An Unpublished Master Degree Dissertations Submitted to Central Department of Management. TU. Kritipur, Kathmandu, Nepal.

Shrestha, Shyam (2008).*" Sales planning in manufacturing enterprises: A case study of Nepal Lever Limited"*. An Unpublished Master Degree Dissertations Submitted to Central Department of Management. TU. Kritipur, Kathmandu, Nepal.

Ojha, Khagendra Prasad (1995) "Profit planning in manufacturing PEs, A case study of Royal drugs Ltd and Herbal Production and processing Co. Ltd". An Unpublished Master Degree Dissertations Submitted to Central Department of Management. TU. Kritipur, Kathmandu, Nepal.

Websites

www.unilever.com
www.unilevernepal.com
www.mf.gov.com

APPENDIX - I

Dear sir/ Madam,

This questionnaire is concerned with the research on " Profit Planning and Controlling System in Manufacturing companies: A case Study of Unilever Nepal Ltd." .I'll very grateful if you spare some of your valuable time for filling the following questionnaire.

Researcher
Bidya Sagar Dulal
Roll No. 430 /062
Shankar Dev Campus

Name of Respondent:
Designation:
Address:

Research Questionnaire

Which level of management is the key responsible for the effective budgetary system?

Low Level Management ( )

Medium Level Management ( )

High Level Management ( )

What sort of sales forecasting and sales planning methods are used to enhance reliable projected sales?

Sales force composite ( )
Sales Division Manager Composite
Judgment of Chief executive (Rule of Thumb) ( )
Statistical Method ( )
Market Studies & Experiment ( )

On what basis sales budget is projected?

Territorial Sales Basis ( )
Product basis ( )
Time period basis ( )

Among the executive level, whose responsibility is more in preparation of sales budget?

Marketing Representative	( )
Account Representative	( )
Sales Representative	( )
Production Representative	( )

What Kind of Inventory Policy is adopted for effective production policies?

Stable Inventory Policy	( )
Fluctuating Inventory Policy	( )
Inventory-production Coordination Policy	( )
Just-in-Time Inventory Policy	( )

Who is the top most responsible for preparing production plan?

Chief Executive	( )
Sales Manager	( )
Production Manager	( )
Administrative Manager	( )
Financial Manager	( )

What approach has been adopted in planning direct labour cost in your organization?

Time and Motion Studies	( )
Standard Costs	( )
Direct Estimate by Supervisor	( )
Statistical estimate by a staff group	( )

For selling and distribution of product, what kind of promotional tools has been applied more?

Consumer Oriented Strategy	( )
Sales Force Oriented Strategy	( )
Trade Oriented Strategy	( )

For competitive product market policy, which level of competition has to be enhanced?

Local rivals	( )
National rivals	( )
International rivals	( )
All of Above	( )

Thank You