

# **CHAPTER- I**

## **INTRODUCTION**

### **1.1 General Introduction**

Public Enterprises (PEs) have also been given many other names such as public sector undertaking, socialized industries, state-owned enterprises, state enterprises, Government concerns etc. Many experts and scholars have given their own definitions about Public Enterprises. According to World Bank Report 1988, "State-owned enterprises are financially autonomous and legally distinct entities wholly or partly owned by central or sub-national governments."( World Bank Report, 1988)

Some characteristics are implicit in Public Enterprises organization. The ownership with the Government should be 51% or more to make an entity Public Enterprise. Government control and management, public accountability, service objective, wide coverage of activities, autonomous functioning, financing by Government, burden of bureaucracy, benevolent management, constituent of political and administrative structure etc. are characteristics of Public Enterprises.

Public Enterprises have many crucial objectives like accelerating the rate of economic growth, development of infrastructures, provision of public utilities, balanced regional development, supply of essential commodities, generating employment opportunities, model entrepreneur, contributing to national fund, increasing foreign exchange reserve, initiating research and development activities, development of big industries import substitution etc.

To fulfill the above objectives many Public Enterprises have been gradually established. Among them, Nepal Aushadhi Limited(NAL) is the most important Public Enterprise of Nepal. NAL is established in Kathmandu, the capital city of Nepal. NAL is the first National medicine Industry with the full investment of Government, which was established under the company act 2021 B.S. in 2029-06-01 B.S. during the fifth plan period with the help of technical collaboration of the British Government in the form of expertise and equipment, and become a milestone in the pharmaceutical industry of the nation. After a successful trial period of four years in the manufacture and marketing of

pharmaceuticals, the production unit was converted into a company in accordance with company act. NAL had started its own

transaction in Thapathali, Department of Forestry in a tiny building. After completion of three years successful trial period, NAL has been operating its own works in Babarmahal, own possessed buildings in the plot of 45 Ropani in 2032-11-28. It had an authorized capital of Rs.15.00 million, Paid up capital of Rs.6.342 million when it was established. At present, the authorized capital of NAL is NRs.10 crore & 50 lakh and the paid up capital is Rs.7 crore and 55 lakh. Out of total paid up capital of NRs.7.55 crore, about 90% is financed by Nepal Industrial Development Corporation and remaining part of paid up capital is financed by the Nepal Government.

In Nepal, although major medicine producer is NAL, other around 28 private medicines producers (industries) also have been existed in market, some main private medicines producers are: Manoj Pharmaceutical Works (P) Ltd., Nilam Medicine Industry (P) Ltd., Asian Pharmaceutical (P) Ltd.etc. These medicine industries's production is very low. As the medicines produced from Nepal cannot meet the total demand of the country, it is imported from other countries as well especially from India.

At present, NAL's production has been fulfilling 40% to 45% of the national demand of medicines. NAL aims to meet 50% of national demand of essential drugs. To achieve this goal, NAL has formulated expansion plans in the Jeevan Jal production, small volume injectables, MCH drugs etc. As fully owned enterprise of Nepal Government, the aims and objectives of the NAL are: (a) Production of safe, efficacious and quality medicines in a way that will lead the country towards self-sufficiency in essential drugs, (b) Distribution and sale of products at prices that are reasonable and fair, (c) Better utilization of herbs and other resources of the country. But this company has not been able to meet the demand for medicines that is growing every year.

**Productions of NAL for F/Y 064/65 are as follows:**

**Table No. 1.1**

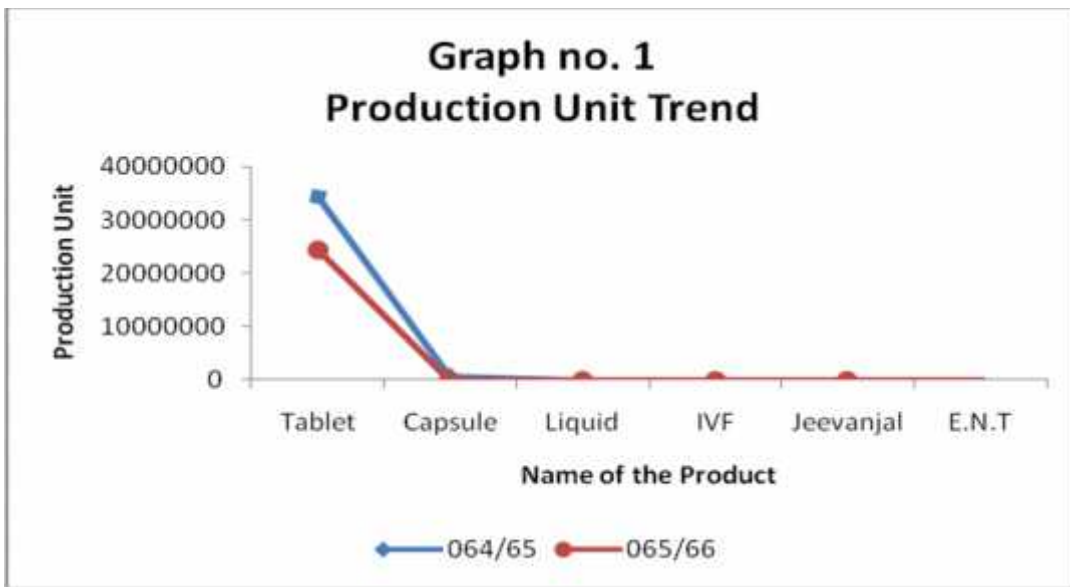
<b>Name of Products</b>	<b>Production (Units)</b>
1. Tablet(Tab)	3,44,45,000
2. Capsule(Cap)	5,74,800
3. Liquid(Bottle)	61,535
4. IVF(Bottle)	89,689
5. Jeevanjal(Packet)	2,00,000
6. E.N.T.(Bottle)	1,69,644
<b>Total</b>	<b>3,55,40,668</b>

**Productions of NAL for F/Y 065/66 are as follows:**

**Table No.1.2**

<b>Name of Products</b>	<b>Production (Units)</b>
1. Tablet(Tab)	2,45,00,000
2. Capsule(Cap)	3,58,000
3. Liquid(Bottle)	35,800
4. IVF(Bottle)	37,800
5. Jeevanjal(Packet)	1,60,000
6. E.N.T.(Bottle)	41,516
<b>Total</b>	<b>2,51,33,116</b>

Source: NAL Field Visit, Babarmahal, Ktm



The above production trend of two fiscal years shows that the NAL is producing each medicine with some remarkable range which indicates the company is not following the stable production policy. Tablet is the highest production unit of NAL which means the demand of tablet is also high.

The medicines market in Nepal is substantial compared to its current production capacity and installed capacity. It is generally a seller's market. Again this industry is located within the largest Nepalese market. But due to various constraints, the company is not in a position to produce up to its capacity. Major problems faced by the company are low capacity utilization resulting from the frequent breakdowns of main and ancillary lines, lack of proper maintenance and adequate inventory. Other major cause of poor performance are inefficient management, unmotivated work force, over staffing, high cost of production and overhead cost, poor work culture, lack of enough working capital, weak accounting systems, etc.

NAL has given direct employment around to 300 persons which include permanent, contract and daily wages basis employees. Technical staff are counted to the number of 254 whereas non technical are in the number of 35. Among the permanent personnel, about 31 numbers are working in officer levels and other remaining are in assistant levels. NAL has given opportunity of training to all levels' staffs equally to make them

efficiency in works. They are also sent in foreign countries to take such kinds of training and education. Among all the staff, about 60-70% of the employees are women.

NAL produces and markets 31 clinical groups of medicines that consist of 80 preparations in 134 varieties in the form of six categories: tablet, capsule, liquid, IVF, Suspension ENT (ointment) and Intravenous (injectable) fluids. The company's raw materials are collected from various parts of Nepal and also imported from other countries.

The company's selling, distribution, administrative and production expenses have incurred large amount of money. The targeted market of the company is Kathmandu Valley and other parts of the kingdom. The NAL has appointed more than 60 stockiest (dealers) which are spread all over the country. These stockiest supplies medicines to retailers (Various Health Center) of their respective areas covering all 14 zones. Similarly, NAL has its own Sales Depo in Nepalganj with modern storage facilities. Besides these, NAL supplies medicines directly to various hospitals, health posts, institutions and foreign agencies. The demand for NAL's medicines is more than its supply in the market. Now, it has tough competition with private medical industries and imported medicines from other countries.

The company's sales, production and capacity utilization have been highly fluctuated in the past years, which is known by the analysis of table number two and four. Also the company's profit has been highly fluctuated in the past years. Normally the company is running huge losses since past years.

The demand of medicines is ever increasing and to meet the growing demand of the market we are importing medicines from other countries. But it is unpleasant to note that due to the fluctuation of the company's production, sales and capacity utilization the company suffered from huge amount of losses since past years in the past years production period, which is a bad symptom. It indicated that the company's management could not operate the company in an effective and efficient manner. There must be serious problems of internal and external variables. The company seems to be following

only some parts of PPC like production plan, sales plan to achieve organizational goal. So, to overcome the problems, the management should properly apply 'Comprehensive Profit Plan and Control' system in practice.

Comprehensive Profit Planning and Control (CPPC) can be used in the same context in which such terms as comprehensive budgeting or managerial budgeting or business budgeting or budgeting are used. Profit Plan and Control (PPC) is a new term used in business organizations. 'Usually profits do not just happen. Profits are managed'. So profit planning and control is managed for profit making. It means comprehensive profit planning and control helps in effective management for achieving organization goals. In modern age profit plan and control is a very important tool of management and decision making for any business organization. It would very appropriate definition of PPC, A profit plan or budget is the formal expression of the enterprise's plans and objectives, stated in financial terms for a specified future period of time.

PPC is an important approach which has been developed for facilitating effective performance of management system. PPC has wide application. It can be applied both in profit making or non-profit making organizations and both in manufacturing and non-manufacturing organizations.

Profit planning is an overall plan of operation. It can be separated into 3 main budgets:

1. Operating budget which covers revenues and expense.
2. Financial budget which contains the budget, balance sheet and supporting schedule.
3. Appropriation budget which covers expenditure on advertising and research.

The PPC has some basic elements, which are:

1. Comparative and co-ordinated plans:  
The budgets prepared by different departments inside the organization have to be compiled or co-ordinated and it is done by profit planning.
2. Express in Financial Terms:

- The budget has to be expressed in money units i.e. in Rupee, Dollar or Pound etc.
3. Operating and resources plan:  
The budget must plan for quantity revenue and expenses related to a specific operation. The plan should be made for carrying out the operations. The planning for resource will include planning for assets and sources of funds.
  4. Budget should be a future plan for specific period to be relevant.  
The PPC has adopted all the fundamental aspect of scientific management.

## 1.2 THE STATEMENT OF PROBLEMS

The economic prosperity of nation depends up on the development of industries and commerce of the country. The public Es play a vital role in the development of the industrial and commerce Any Es need profit to survive and compete in the market. The success or the failure of Es is measured in the unit of profit or surplus. "But the financial performance of manufacturing Es in Nepal is quite dismal and has not been able to contribute towards the generations of surplus." (Pathak J.K.2004: 155-158).

There are lots of causes for such poor performance. "The main problems of public enterprises are ignorance of objectives of the enterprise even among the managers, defective objectives setting procedure, obscurity or goals and objectives, limited participation of lower level management in developing goals and objectives of the enterprises, a big communication gap between top and lower level employees; lower number of competent planners with limited skills, a little analysis of internal and external environment of the enterprise, excessive interference of the board in major decisions, unsound financial position of the enterprises, frequent change of the chief executives, limited use of modern technology, etc" (Koirala, 2045)

The company's management has not been using the comprehensive profit planning and control (CPPC) in a systematic way. So the management should be encouraged to build up a sound comprehensive budgetary system. Many Public Enterprises have not prepared both long range and short range plans regularly and also the objectives of short range plans have no relation with the long range planning.

Lack of motivation program for workers, unnecessary intervention of Government, excessive or insufficient inventories, under-utilization of capacity, lack of skill labour, lower level of overall managerial efficiency, etc. are problems of Nepalese Public Enterprises. Many enterprises have failed to achieve their pre-established objectives and goals due to the lack of delegation of authority and communication. Besides in all levels of management there is lacking in maintaining responsibilities and co-ordination between various departments and responsibility center. All these problems are responsible for low productivity in Enterprises. NAL has also low productivity. So the company is suffering from losses in the past few years.

### **1.3 OBJECTIVE OF THE STUDY**

This study is conducted in order to accomplish the output on the following terms:

1. To highlight the degree of application of profit planning concept in NAL.
2. To examine the degree of sales realization in respect to budget figure.
3. To highlight the planned production and actual production trends.
4. To examine the cost structure.
5. To provide recommendations and suggestions for improving the present condition of NAL.
6. To develop good strategy and techniques in regard to the profit and wealth maximization.

### **1.4 SCOPE AND LIMITATIONS OF THE STUDY**

This study has the following limitations:

1. It is concerned only with profit planning of the NAL.
2. All the data and information are collected from company's financial and planning documents. Some information are taken from the company's executive officials or related office like the finance ministry.
3. Since the staff of NAL is suffering from their busy schedule, so it is very hard for us to extract the required information.



4. Due to the lack of proper information regarding to the change of company name RDL to NAL we are misguided during information extract.
5. Only secondary data could be obtained whereas primary data is the limitation.
6. There is lack of proper and updated site of Public Enterprises (i.e, NAL), due to which we found very hard to browse the specific site in link to the purpose of the study of thesis.

In relation to the scope, it is quite clear that, NAL is an manufacturing enterprise which uses to manufacture constructive output i.e. cement, which is accepted as the essential of construction. Besides it is helping Government with sufficient excise duty and sales tax which is Government revenue. It has been providing involuntary service to the locals people by providing good employment opportunity and leading to the Quality of Work life . The study simply assesses the statement sales, production and expenses.

## **1.5 RESEARCH METHODOLOGY**

### **1. Nature and Sources of Data:**

In this study, secondary data will be used to achieve the research objectives. The data sources are the company's published, unpublished and planned documents, other parties, Government etc. To some extent primary information relating to management (every level) will be collected. Various questionnaires will be included receive responses to connected to objectives of the study.

### **2. Statistical Tools and Techniques:**

Any appropriate statistical tools and techniques will be applied like percentage, average, graph indices, BEP etc.

## **1.6 SIGNIFICANCE OF THE STUDY**

This study is concerned with the profit planning in manufacturing Public Enterprise Company. This study explains theoretical concept and makes analysis of practical application of profit planning in the manufacturing Public Enterprise Company. The study will highlight and analyze the problems and prospects in budget application and

implementation. The study will also examine and review the present and historical literature.

This research study is more useful for those who want or need to know the profit planning and control about the manufacturing Public Enterprise Company. NAL's management, especially Government and MBA students will find the study insightful.

## **1.7 DESIGN OF THE STUDY**

This study has been divided into five chapters, they are:

### **I. Introduction:**

Under this chapter, the dealing with the background of the study can be found. Side by side, statement of problems, objectives of the study, scope and limitation of the study, research methodology and significance of the study are dealt as far as possible.

### **II. Literature review:**

This chapter includes introduction, development of industrialization in Nepal, Evaluation of Public Enterprises in Five Year Plans Privatization, Budgeting : PPC, The comprehensive PPC, Budgets & Budgeting, Budget Development in Nepal, The concept integrated with PPC, The fundamentals of PPC, PPC process, Merits & Demerits of PPC, PPC in Nepalese Public Enterprises etc.

Lastly, review from various previous research works and research gaps have been dealt with.

### **III. Research Methodology:**

This chapter includes introduction, research design, period covered, nature and source of data and sta

### **IV. Presentation and Analysis of Data:**

This fourth chapter includes all data and tables, graphs etc. In this chapter, the data collected through

### **V. Summary, Conclusion and Recommendation:**

This chapter is the gist of the study and it represents all the opinion of the research as far as possible.

## CHAPTER- II

### CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

#### 2.1 Introduction

Nepal is a land locked, agricultural country sandwiched between two great nations China and India. More than 70% Nepalese people are involved in agriculture sector. On the one hand there has been a decrease in productivity of agriculture and on the other hand the population of the country is on rise. "The development and expansion of productive industries are essential for the all rounds development of the country. However, the share of industry in Nepal's GDP consists of more than 10 percent and limited production of labor force is involved in industry, consequently more than 70% percent of the total population depends on agriculture for their livelihood."(Economic Survey 2064/65, P.45) Agriculture is not still sufficient to feed the growing population. So, for economic development manpower must be shifted from agriculture to another sector. Industrial sectors have contributed to the national economy less than 56 percent of the GDP. Industrial Development is the most important for stable economic development. Since the past 8-9 years non-agriculture income of the nation is leading to agriculture income. Non-agriculture income means industrial income, tourism income and other income sectors. "Industrialization is the most essence element of rapid economic development for the developing countries like Nepal; therefore these countries should be well informed about the need and significance of industrialization. So, for the rapid development of developing nations, like Nepal development in agriculture sectors alone is not sufficient; it is essential to develop industrial sector too. Thus industries have an important role to play in accelerating the rate of economic development. What are the ultimate objectives of economic development? Different Government may have different objectives in mind and still certainly disagree about the weight to be attached them. Generally however they will include faster growth of national income, alleviation of poverty reduction of incomes inequalities."(The World Bank Report, 2006) Industrialization should be systematic and carried out in a planned way. For this improvement of technologies, growth of skillful labors, adequate provision for capital etc. are required.

"Profit Planning and Control (PPC) is the life blood of the organization, which not only keeps it alive but also assures the future and creates the soundness on it." (Neupane, 2003,page 9). Public Enterprises are such organizations, which are owned by public authorities having 51% or more share. Public Enterprises are established for rapid socio-economic development of the country. Public Enterprises crucial objectives are to develop fast growth of national income, alleviation of poverty and reduction of income inequalities etc. Different Public Enterprises have different set of objectives. Public Enterprises should maintain proper balance between profit motive and service motive. Profit oriented and large-scale business public enterprises use comprehensive profit planning and control. Only service oriented Public Enterprises don't use PPC, and comprehensive profit planning may not be feasible for small business enterprises. For the stable economic development there must be the existence of some large-scale industries in the country. Private parties are interested in the small scale industries that are more profitable and that can provide immediate return. So Government should help establish large-scale industry. The government has brought out new acts for industrial development after the political change of 2046 B.S. Hence many joint- venture companies have been set up thanks to the government's policy.

According to the existing industrial business act the whole industry has been categorized into four groups on the basis of capital investment.

- i. **Cottage industries-** Any industry having fixed assets up to two lakh rupees and that which promotes the mobilization of local raw materials, skill and energy and that which is labor intensive and related to local and traditional methods comes under the heading of cottage industry.
- ii. **Small industries-** Any Industry having fixed assets upto 30 million is called small industry.
- iii. **Middle industries-** Any industry having fixed assets fro 30 million upto 100 million is called middle industry.
- iv. **Large industries-** Any industry having fixed assets of more than 100 million is called large industry.
- v.

## **2.2 DEVELOPMENT OF INDUSTRIALIZATION IN NEPAL**

"There have been handicraft and cottage industries in Nepal since ancient times, but the development of modern industries is of recent origin. Indeed, it was only after 1937 A.D. the establishment of a few medium scale industries."( Adhikari K.B., Vol.1, No 1, 1966)

The history of our industrial development is not long. Industries were non-existent during Rana regime. Towards the end of Rana regime Juddha Shamsheer launched the programs of industrialization and created necessary infrastructure for industrialization. For the first time Uhyog Parishad was established in 1936 and various laws were also formulated for promoting industries.

Nepal Bank Limited was established in 1934 and the government had a major holding in 1951 to create infrastructure for industrialization. Nepal Bank Limited is the first PE and financial institution of Nepal, which is still serving the nation. Insurance services were also provided since 1935 AD to support the trade and industry.

Only a few industries were established before the political change of 1951 AD or during Rana regime period. Nepal's first industry Biratnagar Jute Mills Ltd. was established in 1993 BS as a joint stock enterprise. Nepalese and Indian capital amounting to Rs.800,000/- was invested in the Jute Mill. Morang Hydro Electric Supply Company Ltd. was established in 1999 BS, Nepal Plywood Company and Juddha Match Factory Ltd. were established in 2000 and 2002 BS respectively. Raghupati Jute Mills Ltd., Morang Cotton Mills, Morang Sugar Mills were re-established which had been collapsed due to various factors like poor management, social unrest, unstable government, world war, unfavorable industrial policy etc. At that time other industries also met the same kind of fate.

The history of industrial establishment in Nepal can be said to have begun after the political change of 1951 AD (2007 BS). Nepal has adopted mixed economy where public and private sectors co-exist. Since 2013 BS, Nepal Government has been implementing five years plan as guidelines for the planned economic development of the country. Public Enterprises were gradually established to fulfill the five year plan's objectives. The Government has provided a lot of facilities for industrial development like foreign

exchange, tax concession and holiday, technical and economical assistance, loan provide & guarantee for loan, etc.

## **2.3 EVOLUTION OF PUBLIC ENTERPRISES IN FIVE YEAR PLANS**

The first five years plan has emphasized on the investment of both public and private sectors for industrial development. Right now we are running on ninth five years plan, since F/Y 1997 to F/L 2002. Some Public Enterprises have already been privatized and some are taking steps for privatization. Now 46 public enterprises are operating in the country. The following are the organizations established under different five year plan periods:-

### **2.3.1 First Five Year Plan (1956-61) & Interim Period (1961-62):-**

Some Public Enterprises were established in the gap period between first and second five year plan which is called Interim period. Enterprises established under difference plan periods are as follows:

1. National Trading Ltd.
2. Balaju Industrial Estate
3. Nepal Construction Company of Nepal
4. Asahaya Kalyan Kendra
5. RNAC
6. NIDC
7. Balaju Yantrashala (p) Ltd.
8. Raghupati Jute Mills Ltd.
9. Timber Corporation of Nepal
10. Ratna Recording Corporation.

### **2.3.2 Second five Year Plan (1962-65):-**

The duration of this plan was only for three years. Enterprises established:-

1. Nepal Electrical Corporation
2. Gorkhapatra Shasthan
3. Employee Provident Fund

4. Hetauda Industrial Estate
5. Nepalese Carpet (p) Ltd.
6. Patan Industrial Estate
7. Rastriya Banijya Bank
8. Birgunj Sugar Factory
9. Janakpur Cigarette Factory
10. Transportation Corporation and Fuel Corporation.

### **2.3.3 Third Five Year Plan (1965-70)**

Enterprises Established:-

1. Himal Cement Company Limited
2. Dairy Development corporation
3. Nepal Telecommunication Board
4. Chandeswori Textile Industry
5. Bansbari leather and shoe Factory
6. Agriculture Input Corporation
7. Cottage Industry and Handicraft Emporium
8. Nepal Tea Development Corporation
9. Agriculture Development Bank
10. Agriculture Tools Factory
11. National Insurance Corporation
12. Brick and Tile Factory.

### **2.3.4 Fourth Five Year Plan (1970-75):-**

Enterprises Established:-

1. Nepal Drugs Ltd.
2. Royal Nepal Film Corporation
3. Cultural Corporation
4. Nepal Oil Corporation
5. Balaju Textile Industries Ltd.
6. Tastriya Chamal Karkhana
7. Tobacco Development Corporation

8. Jute Development Corporation
9. Trading Corporation
10. Nepal Transit and Ware Housing (p) Ltd.
11. Nepal Livestock Company
12. Drinking Water and Sewerage Board
13. Agro Lime Industry Ltd.
14. Vegetable Ghee Industry (p) Ltd.
15. Nepal Food Corporation
16. Hetauda Tetile Industries Ltd.
- 17 Nepal Chaunry Ghee Industry
18. Electric Data Processing Center
19. Estern Electrical Corporation
20. Sagarmatha Pur Rice and Paddy Export Company Ltd.
21. Lumbini Pur Rice and Paddy Export Company Ltd.
22. Janakpur Rice and Paddy Export Company Ltd.
23. Far Western Pur Rice and Paddy Export Company Ltd.
24. Koshi Pur Rice and Paddy Export Company Ltd.
25. Narayani Pur Rice and Paddy Export Company Ltd.

### **2.3.5 Fifth Five Year Plan (1975-80):-**

Enterprises Established:-

1. Hetauda Leather Co.
2. Brick and Tile Factory Bhaktapur.
3. Hetauda Cement Industries
4. Security Marketing Center
5. Janak Educational Material Center
6. Agriculture Project Service Center Ltd.
7. Nepal Metal Company.

### **2.3.6 Sixth Five Year Plan (1980-85):-**

Enterprises Established:-

1. Lumbini Sugar Factory
2. Butwal Spinning Factory



3. Nepalgunj Paper Factory
4. Bhrikuti Paper Factory
5. Herb Production and Processing Company
6. Rosin Tementine Company
7. Nepal Oriend Magnecite P. Ltd.
8. Nepal Re-settlement Company Ltd.
9. Nepal Arab Bank Ltd.

### **2.3.7 Seventh Five Year Plan (1985-90) & Interim Period (1990-91)**

Enterprises Established:-

1. Udayapur Cement
2. Nepal Coal Ltd.
3. Nepal Television

Nepal Timber Corporation and Fuel Corporation were amalgamated, Jute Trading and Development Company was converted to a Board and later liquidated and Provident Fund was excluded from the list of public enterprises.

The one year interim period (1990-91) is the gap period (no plan period) between seventh plan and eighth plan. In this interim period, Ratna Recording was assimilated in Nepal Television.

#### **2.3.7.1 The Seventh Five Year Plan Main Objectives:**

"Development goals of a nation are necessarily long-term. They cannot be achieved within a short span of time; therefore, it is not generally desirable to tamper with those objectives that the nation is striving for until they are fully achieved. Periodic plans are formulated in order to meet these long-term objectives. Looked at from the standpoint of our economic conditions and realities, the objectives laid down in the sixth plan are of equal relevance and significance even today. As the nation will still need a long time to reach these goals, they have been set forth as the objectives of the seventh plan also. The objectives are:

- a) To increase production at a higher rate

- b) To increase opportunities for productive employment; and
- c) To fulfill the minimum basic needs of the people

**a) To increase production at a higher rate:**

The main challenge facing the nation is how to increase production and purchasing power of the people. Unless production capacity of the nation and purchasing power of the people are improved the problems of existing poverty and unemployment cannot be solved. Also, without increasing production, the concept of social justice cannot be materialized. Such is the hard economic reality of ours today.

**b) To increase opportunities for productive employment**

The ultimate aim of economic development is to raise the standard of living of the general public. This aim can be realized soon only on condition that production and employment are enhanced considerably. Through employment generation, income distribution is possible to a large number of populations thus making it possible to raise the standard living of majority of the people. In the present circumstances, it is, therefore necessary to continue to include the employment-oriented development policy in the seventh plan also.

**c. To fulfill the minimum basic needs of the people**

Since the resources available for investment are limited, a decision has to be made as to where to invest and, for purpose of increasing the supply of which commodities and services. The target set by the sixth plan was to channel investment to meet the minimum basic needs of the people. During the seventh plan period also, it is necessary that the following commodities and services be regard as the minimum basic needs and that all attempts be centered towards meeting them.

- i) Food grains
- ii) Clothing
- iii) Drinking water
- iv) Primary health care and sanitation
- v) Primary and skill-oriented education, and

- vi) Minimum rural transport facilities."( *The Seventh Plan, 1985-1990,*)

### **2.3.7.2 The Seventh Five Year Plan Basic Development Strategies**

"To achieve the development objectives of the seventh plan, investment and efforts shall have to be devoted to two directions simultaneously. The first direction is to help fully utilize the infrastructures already created and to concentrate investment on programs of the kind that are likely to rapidly boost production within a short span of time. And, the second one is to strengthen the foundations of the economy and to increase the level of investment in the creation of essential basic prerequisites in order to further speed up the tempo of development in the years to come. Owing to resource constraint, if simultaneous advancement on both of these fronts is not possible, it will be necessary to accord priority to the first line of action. Subject to this fundamental investment policy, the following basic development strategies will be followed in order to achieve the objectives of the seventh plan.

- a) To accord overall priority to the development of agricultural sector.
- b) To put stress on the development of forest resources and socio conservation
- c) To put emphasis on the development of water resources
- d) To emphasis the development of industries
- e) To emphasis the promotion of export trade
- f) To emphasis tourism development
- g) To curb the population growth rate
- h) To consolidate the foundations of national economic integration
- i) To decentralize economic management and invest the economy with greater capability and competence

To strengthen and consolidate development administration”

### **2.3.8 Eighth Five Year Plan (1992-97)**

Nagarik Lagani Kosh (Citizen Investment Fund) was established and APROSC was enlisted as public enterprise. Tobacco Dev Company and Nepal Coal Company went on liquidation.

### **2.3.8.1 The Eighth Plan Main Objectives:**

"The Principle objectives that the eighth plan seeks to achieve are:

#### **a. Sustainable Economic Growth:**

Since economic prosperity and its continuity are not possible without achieving a high and sustainable rate of economic growth, one of the principal objectives of this plan is to achieve a higher rate of sustainable economic growth. This will require increased production in all areas.

Sustainable economic growth also implies the management of bio-physical resources available in the country in the most productive manner without damaging or depleting these resources. The demand for such bio-physical resources should not exceed their sustainable supply capacity. The present population of the country is already placing excessive demands on existing bio-physical resources. Therefore, a reduction in the ratio of population growth is highly essential to achieve the objectives of sustainable economic growth.

#### **b. Poverty Alleviation:**

Another principal objective of the plan is to alleviate poverty as the population living below the poverty line has been increasing constantly despite the previous development efforts.

Although poverty is the result of interacting factors, in Nepal the basic causes contributing to poverty are the dependence of the growing Population on scarce economic resources and the slow rate of economic growth. As part of the planning and implementation process, the eighth plan aims to implement special programs targeted to uplift the people living below the poverty line.

### **c. Reduction of Regional Imbalances**

Poverty in Nepal has acquired a spatial dimension. Despite policy pronouncements and efforts made in previous plans, disparities between rural and urban areas and among various development regions have increased. The rural-to-urban migration has accelerated in recent years. Hill-to-tarai migration continues. Therefore, another principal objective of the plan will be the economic enhancement of undeveloped areas and villages in order to achieve self-sustaining development through the increased provision of social, economic and market services, and increased access to facilities like drinking water and alternative forms of energy."( Eighth Plan, 1992-97)

#### **2.3.8.2 The Eighth Plan Priorities:**

"Given the limited financial, human and institutional resources of the country, it will not be possible to provide adequate resources to all activities at the same time. Therefore, programs which receive special priority in the plan are:

- a. Agricultural Intensification and Diversification
- b. Energy Development
- c. Development of Rural Infrastructure
- d. Employment Generation and Human Resource Development
- e. Reduction in Population Growth
- f. Industry and Tourism Development
- g. Export Promotion and Diversification
- h. Macro-Economic Stabilization
- i. Administrative Reform
- j. Monitoring and Evaluation

#### **2.3.8.3 The Eighth Plan's Basic Objectives for Industry:**

The basic objectives of eighth plan for industry and mines are:

1. Create additional income and employment opportunities by enhancing the inter-relationship between the production oriented industrial sector and other economic activities of the nation.

2. Develop the export sector as an important source to earn foreign exchange by enhancing production, productivity and quality of exportable items.
3. Establish import substitution by promoting cottage and small scale industries as well as other industries to meet domestic demands.
4. Create necessary infrastructure for the use of mineral resources of the country which have the potential for commercial exploitation.
5. Increase national production through the development of industries based on existing mineral deposits.

#### **2.3.8.4 The Eighth Plan Policies for Industry:**

The Eighth Plan's policies for industry and mines are:

1. Competitive industries, which can contribute to import substitution and export promotion, will be developed in order to exploit the comparative advantages of the country.
2. High priority will be accorded to increase the participation of the private sector, foreign investment and joint collaborations.
3. Foreign investment will be encouraged in order to promote foreign capital, modern technologies, management and technical skills in the domestic industries.
4. Arrangements will be made in the selection, evaluation and adoption of appropriate technologies suitable to the country and to help small industries in research and development.
5. Necessary policies and guidelines will be formulated for the privatization of public enterprises and to raise the efficiency of other enterprises.
6. A "one window" system providing all government facilities and services from a single institution will be implemented for both domestic and foreign investors.
7. Industries of national importance will be developed, according high priority and providing suitable incentives. Furthermore; the establishment of industries will be encouraged through incentives in areas where they have not been set up, with a view to ensure balanced development of the country.

8. Institutional arrangements will be made to provide technical assistance and incentives, raw materials and market access for outputs produced by small scale and cottage industries.

Domestic and foreign investment and technologies will be attracted to carry out the exploration and development of mines and geological activities in a well organized and planned way.”

### **2.3.9 Ninth Five Year Plan (1997-002)**

There has not been establishment of any new Public Enterprises till ninth plan. Most of the Public Enterprises so far established are running in losses and are in the process of privatization. Following this policy, many Public Enterprises are listed for privatization.

#### **2.3.9.1 The Ninth Plan Objectives:**

"Although some achievements have been made in the front of development infrastructures and social sector during the last four decades of development efforts a desirable level of achievement has not been made in finding out solution to the problems of poverty and unemployment in the country. Therefore, the main objectives of the Ninth Plan shall be to alleviate poverty in order to empower people economically and socially by integrating the common people in the mainstream of development process.” (Ninth Plan 1997)

#### **2.3.9.2 The Ninth Plan Strategy:**

1. To attain high, sustainable and poverty alleviation oriented economic growth rate.
2. To intensity the process of industrialization by developing various sectors such as agriculture, water resources, industry, tourism and transport in the form of industrial enterprises based on comparative advantage and competitive capability.
3. To reduce the existing economic and social disparities amongst various regions and communities.
4. To minimize dependency on foreign assistance by means of extensive mobilization and utilization of available natural, human an economic resource of the country.

5. To embrace co-operatives as powerful means for development and expansion of economic sectors such as agriculture industry, trade and the like.
6. To activate state participation with a view to develop and expand the modern sector by means of liberal market-oriented economic policy guidelines, and to accelerate the pace of rural development and construction of the rural sectors since a uniform policy package can not address the basic problems facing the country having varied economic structure of the organized and modern sector on the one hand and the unorganized rural and depressed areas on the other”

### **2.3.9.3 The Ninth Plan Policies and Working Policies**

1. Economic growth rate shall be enhanced by further strengthening the process of economic reform.
2. Agricultural sector shall be developed by implementing Agricultural Perspective Plan as the majority of people are dependent on agriculture sector.
3. Poverty shall be alleviated by increasing economic growth and creating employment opportunities by effectively implementing to the land reform program with a view to minimizing inequality in land ownership, increasing agricultural productivity and promoting the established development and expansion of agro-based industries.
4. The depressed and oppressed community comprising of various castes and ethnic groups shall be empowered economically and socially by means of decentralization, local development and human resource development. Such an approach shall be extensively based on the people's participation.
5. The increasing work force shall be made capable to become entrepreneurs, self-employable and employed by extending the entrepreneurs, self-employed and employable by extending the entrepreneurship development and skill-oriented training programs as well as by developing of human resource. Such programs shall be taken up as the main instrument for alleviating poverty. To this end, services like technical assistance, guidance and credit facilities shall be extensively launched out in the villages.



6. Income and employment generating opportunities shall be expanded through the extension of agriculture, cottage and small-scale industries and tourism development in the rural areas.
7. Income disparity and poverty shall be minimized by increasing the investments in agriculture, cottage and small-scale industries, tourism and construction activities in consideration of the limited resources, and quick yielding employment-oriented and supportive to equitable distribution approach.
8. Employment generating programs to be launched out by government, private local bodies, banking sector and non-government sector shall be implemented in an integrated manner.
9. Exports shall be expanded extensively through diversification of foreign trade on the basis of comparative advantage and competitiveness.
10. The socio-economic infrastructural base shall be developed and expanded in order to enhance production and productiveness of the economy.”

#### **2.3.9.4 The Ninth Plan Priority:**

"The sectoral priority of the Ninth Plan shall be accorded as follows in accordance with the long-term development target and geographical visibility.

##### **1. Agriculture**

To develop agricultural sector in accordance with the Agricultural Perspective Plan since a majority of people depend on agriculture; It is also the basis for the development of non-agricultural sector; and it has a great development potential.

##### **2. Water Resources, Power and Energy**

To strengthen the overall economic and social development base and fulfill the need of various sectors through multi-dimensional utilization of water resources, since the present utilization of water resources is meager as compared to its abundant development potentials.

##### **3. Human Resources and Social Development**

To develop human resource in order to make proper use of resources, national heritage and various opportunities available in the country and empower the people in the economic and social front.

#### **4. Industrialization and Development of Tourism**

To develop industry and tourism sectors in order to promote non-agricultural employment opportunities and, in addition to the development of agriculture sector, accelerate the pace of economic and social development.

#### **5. Physical Infrastructure**

To develop physical infrastructures such as road, bridges, air-transport, communications and the like which are pre-requisites for overall economic and social development”

#### **2.3.9.5 The Ninth Plan Objective, Policies and Strategies for Industry:**

##### **Objectives:**

It will be the objective of Ninth Plan to increase the production of industrial goods to meet domestic needs by enhancing the competitive capacity of the industrial sector and to support the country's aggregate economic development by preparing its industrial base for export trade.

##### **Policies and Strategies:**

1. The industrial production will be expanded and diversified by commercializing the other economic sectors like agriculture, forest and by increasing their co-ordination with the industrial sector.
2. Employment promotion and poverty alleviation process will be supported by encouraging the development of industries based on indigenous raw materials and labour.
3. Priority will be given to accelerating the rate of industrial growth by providing electricity, roads and telecommunication services which are so essential for industrial development.
4. Necessary protection will be provided to enhance the competitive industrial capacity. In addition, the administration system as well as tax system will be reviewed to remove the hindrances by taking corrective measures.
5. Emphasis will be laid on the development of skills and technical and vocational education for industrial development. Manpower will be classified according to the demand for this purpose technical skills will be produced as per prioritized

- needs. For this purpose, necessary support and facilities will be provided to the private sector training institutes.
6. Priority will be given to basic industries for establishing internal competitive market of necessary goods.
  7. Production and marketing will be diversified on the basis of improvement in quality, comparative advantage and competitive capacity to increase the goodwill for Nepali goods in the foreign market.
  8. The committee established under the one window policy will be made active, strong and simple. Effective implementation of the one window policy will be emphasized and responsibility for the promotion of priority industries will be given to the committee.
  9. Integrated program relating to manpower production loan and technical services required for cottage and small scale industries will be developed and expanded.
  10. Some of the areas of the country, where physical infrastructures are already in place, will be declared as Special Industrial Zones. Additional infrastructures facility will be added with the help of the private sector to encourage the development of the industrial zone.
  11. Foreign investment and technology transfer will be encouraged for industrial development.
  12. Capital base will be broadened and investment from national and foreign financial companies well be increased for industrial development.
  13. High quality exportable goods will be produced by means of policy thrust for commodity-based industrial village, technology park and export processing zone.
  14. Appropriate technology and productivity will be chanced as important means of building competitive capacity.
  15. Weaknesses in existing policies and laws will be removed and to protect the interest of national industries, consumers and small-scale industries, laws relating to Anti-dumping. Anti-trust/monopoly and restrictive trade practices will be introduced and implemented.
  16. The industries, which are important from national view point or are supportive to regional balance will be accorded priority and facility. Increase in investment to under-developed regions will be encouraged to maintain regional balance.

17. Special emphasis will be laid on export promotion and foreign investment in Nepal by establishing Foreign Investment Promotion & Export Market Management Center in an appropriate place of overseas in collaboration with private sector.
18. Rural industrialization campaign will be pushed forward. As least one village in a zone will be encouraged to develop as a model industrial village during the Ninth Plan period.
19. Special emphasis will be laid on establishment of small scale and cottage industries in every Village Development Committee on the basis of feasibility studies.
20. Institutional set up will be strengthened and expanded to mobilize financial resources for developing rural industries.
21. The government will play the vital role to promote industries of national importance.
22. A centre for investment promotion and export trade management will be established to increase foreign investment in export industries and to promote investment and export in an integrated manner.
23. An export complex will be established in order to support the process of trade of industrial goods from the stage of production to distribution in an integrated way.
24. A policy of giving a proper incentive to the large-scale national and multinational industries will be adopted if these industries involve small and cottage industries in their production process.
25. The laboratory and logistic service required for the development of feasible mining industries will gradually be systematized.
26. Exploration, excavation and commercialization of petroleum and underground gas stores will be conducted in collaboration with foreign investors.
27. Survey of the mineral deposits at different parts of Nepal will be conducted. High priority will be given to establishment of industries based on mineral deposits on the basis of feasibility study.
28. Necessary arrangements will be made for determination and implementation of the norms relating to maintenance of the quality standards of exportable food and other items that can affect public health.

29. Clean production technology will be encouraged by minimizing the negative effect of industrialization on environment.
30. In consideration of the density of population and the problem of available facilities in Kathmandu the industrialization process will be encouraged outside the Kathmandu Valley.”

### **2.3.10 Tenth Year Plan (2002-2007)**

The **Tenth Plan**, the tenth stepping stone in the process of planned development of the country, is not only the first plan of the twenty-first century and the New Millennium, but it is also a strategic document of poverty alleviation. This plan has been formulated with the sole objective of poverty alleviation. It has incorporated the directives and suggestions provided by National Development Council, the development aspirations of the people reflected during the deliberations and interactions carried out at different levels and has considered the impediments encountered in the implementation of past plans. It has also embraced the suggestions of development partners who have supported the economic and social development endeavour of Nepal and Nepalese people, realized the sensitiveness for the progress and upliftment of all sectors, class and communities of the society, the prevailing economic and social situation and the challenges emerged from it at the implementation level and has come up as a pragmatic, realistic and implementable plan. As the third periodic plan formulated after the reinstatement of democracy it has aimed at expanding economic activities with the active involvement of private sector in line with the market economy and the role of the government in these sectors has been limited as facilitator and promoter of the private sector. Policies are designed in a way that the government can play a leading role in an effective way in order to mainstreaming the deprived, suppressed, dalit and backward class and areas and to eradicate poverty. The envisaged objective and the sectoral targets could not be achieved and the overall development process hindered due to the deteriorating condition of peace and security within the country in the last two years of the Ninth Plan. In case, the peace and the security conditions are not improved, it is certain that there will be a negative impact in the investment of both the private and government sectors. Despite the critical situation, and taking into account the fact that without an clear cut framework of poverty reduction for overall national development, investment and development

programmes can not be effective, this plan has come into existence. Based on the realistic evaluation of the situation, resources mobilization, investment and economic growth rates have been projected. It is expected that under improved peace and security situation, estimated total capital investment will reach Rs. 640 billion and the average annual economic growth rate will stand at 6.2 percent. In case of unfavourable domestic and external situation investment will decline and the economic growth rate will contain at 4.3 percent Development expenditure and necessary resources have been adjusted in line with those economic growth rates. It is not possible to successfully implement the plan and attain expected outcomes without the real identification of the people's aspirations and the necessities. Keeping in view this reality in mind various discussion programmes were organized expecting the participation of all the classes of society in the process of formulation of this tenth plan. Discussion programmes were organized at regional level involving representatives of the village development committees, district development committee and municipalities to determine the framework of the plan. At the national level, wide consultations were held with Parliamentary Committees, parliamentarians, academia and sectoral experts. Suggestions received from such deliberations are taken as guidelines. Through this type of participation, it is believed that the role of different sectors and classes of the society can be maintained even during implementation of the Plan. While formulating the plan, inter relationship between sectors and coordination during implementation need to be ensured, only then the predetermined objective and targets of the periodic plan may be attained. Thus, in order to coordinate the plan formulation process, a coordination committee under the chairmanship of vice-chairman of National Planning Commission and guideline committee under the chairmanship of concerned member of the Commission were set up and the sectoral ministries were actively involved The draft Approach Paper of the Tenth Plan approved by the National Development Council under the chairmanship of the Rt. Honourable Prime Minister and the additional guidelines and the suggestions of the donor communities have been incorporated while formulating the plan. This document has attempted to incorporate the guidelines of the Third United Nation Conference on the Least Developed Countries held in Brussels in 2001. In view of high, sustainable and broad based economic growth, social sector development and rural infrastructure development, targeted programme and good governance, as the strategic pillars of the

Tenth Plan, total development activities have been focused towards poverty alleviation. Resource will be mobilized for sectoral programmes in order to mainstream the socially deprived, suppressed and *dalits* by increasing their access to development outcomes, and for additional targeted programmes. After analysing the peace and security situation that hindered the development process, their causes and its impact in the economic and social development, basic services and income generating programmes with least cost and time have been ascertained in order to augment the development and security situation. In this context, the Tenth Plan has formulated important programmes to rehabilitate people affected by insurgency and reconstruction of damaged infrastructures. Arrangements have been made for coordinated development of and giving top priority to agriculture and rural infrastructures by recognizing the fact that agriculture is the main source of income of entire Nepalese people residing in rural areas. Therefore, its development is critical for overall economic development of the country. It is believed that the social and the economic development of the rural areas will help to eradicate the poverty of the people. To make this plan a result oriented and to make optimum use of scarce resource and means, programmes and projects have been prioritised and classified as first, second and third. Programmes and projects classified under the first priority have been ensured with adequate resources. The Policy and programme logframe formulated with overarching national goal, sectoral objectives, policy indicators, source of information, major programmes, external factor and risks has been taken as an effective tool for monitoring and evaluation during implementation of programmes and projects under the Tenth Plan. Arrangements have been made for monitoring of programe/projects implementation, impacts of various program/projects on poverty reduction and evaluation of policies on poverty alleviation. In view of the role of various agencies and inter sectoral strategy, the Tenth Plan has clearly specified the roles of the government, local agencies, private sectors and civil society. The role of government has been clearly defined to build physical and social infrastructure, and to implement targeted programmes for the upliftment of the backward and vulnerable groups and to create necessary environment for the private sector development. Lastly, it is hoped that the Tenth Plan will make a meaningful contribution in fulfilling the national commitment of the country's poverty alleviation by accelerating the pace of social and economic development of the country.

The active participation of all Nepalese people is expected in its implementation from their respective capacities. March, 2003 National Planning Commission.

## **2.4 PRIVATIZATION**

### **2.4.1 Introduction**

Privatization means the transfer of Public Enterprises to private sector. According to privatization Act, 2050 (1991), "Privatization means involving private sector in the management of the enterprise, or to sell or lease it, or to transfer government ownership into public ownership, or an act to infuse participation by any means either wholly or partly, or private sector or of the employees or workers, or of all desirous groups."

"The term 'Privatization' refers to any shift in activity from the public to the private sector. This could involve merely the introduction of private capital or management expertise into a public sector activity. But more typically, it involves the transfer of ownership of public enterprises to the private sector." Susan K.Jones

"Privatization is broadly defined as increased private sector participation in the management and ownership of activities and assets controlled and owned by the government." According to World Bank Definition (WDR-1988)

The main forms of privatization are privatization of management (management contract), partial privatization (joint ownership) and complete privatization (NEPAL GOVERNMENT's full ownership transferred to the private sector).

Privatization is essential to increase enterprises' efficiency. It helps reduce budget deficit and increase production. It also helps to increase competition, make efficient use and allocation of resources and attain social objectives. Here is presented a data of benefit of privatization. "According to the revised estimate, the world income which was increased by 3.7 percent in 1995, further increased by 4 percent in 1996 showing gradual improvement in the world economy. Private sector participation which was accelerated



by continuity in economic reforms, liberalization, privatization and deregulation process, was the main cause of such growth."(Economic Survey 1996/97)

#### **2.4.2 Privatization of Public Enterprises in Nepal**

In Nepal Most of the Public Enterprises are running in losses, and it has put strain on Govt.Budget. So, the Govt.'s attitude towards these Public Enterprises are not positive because they have not been able to give proper return as per the investment and their contribution in total domestic production is marginal, and they also have not been able to generate employment opportunities. "It is a proven fact that financial situation and fiscal efficiency of Nepali Public Enterprises are not satisfactory. The main reason for this being the lack of adoption of commercial culture in the fundamental structure and procedures of Public Enterprises. Therefore, the Public Enterprises will be handed over gradually on the basis of social and economic justification from public sector to private sector ownership or management after the completion of a study on their physical and financial conditions. Evaluation and follow-up work of the privatized Public Enterprises, as per the objective of privatization and in the interest of the nation, also falls within the duty of the government, necessary arrangement in this respect will be made and notified publicly soon. This will be implemented effectively from the coming fiscal year" (Budget Speech of F/Y 1998-99)

Since many years past, the Govt. has adopted the policy of making private sector active in economic activities and of transferring Public Enterprises to privatization. With the restoration of multiparty system in the country in 2046 BS the Govt. seems to have felt the need to give impetus to privatization and free enterprises according to the world trend. For this purpose, NEPAL GOVERNMENT has set up privatization unit in the ministry of finance, and an Act relating to Privatization was passed in the fifth parliamentary session of 2050 BS, so as to systematize privatization process and make it more transparent. In 2048 BS NEPAL GOVERNMENT brought out the policy relating to Public Enterprises and privatization. In the first phase 3 Public Enterprises were privatized in 2049 BS. The Govt.had also initiated the process of privatization of 14 Public Enterprises in 2050 BS. In 1997, the Govt. decided to implement the third phase of

privatization. The following Public Enterprises have already been privatized by the Govt. till now:

The process of privatization of other Public Enterprises running in losses has also been initiated. In this respect, in 1998, "Adam Smith Institute, a UK based consulting firm was appointed by DFID to assist government in implementing several of its privatization programs namely, Nepal Tea Development Corporation, Himal Cement Co., Butwal Power Co., Gorkhapatra Corporation, Nepal Resin and Turpentine Industry, Rastriya Beema Sansthan.

The Govt. has adopted the policy of liberalization for the success of privatization. Besides, in order to provide encouragement to private sector and to increase work efficiency of Public Enterprises other ways have also been pursued by NEPAL GOVERNMENT. "In co-ordination with concerned Ministry, Ministry of Finance, Ministry of Industry, Nepal Rastra Bank, Nepal Industrial Development Corporation and National Productivity Development Center, National Planning Commission will coordinate and mobilize concerned agencies to make necessary study and recommend as per the need of either to rehabilitate or liquidate by identifying those sick public enterprises that are not feasible for immediate privatization. In case of sick and problem stricken industries in private sector, study of some industries have been completed whereas study of some are in process. Based on the recommendation of the study, special arrangement will be made to rehabilitate those national industries that are found feasible for rehabilitation by providing additional capital, refinancing and customs duty facilities. In order to provide maximum credit facilities to industrialists, ownership of NEPAL GOVERNMENT/N and Nepal Rastra Bank in terms of share holding in Nepal Industrial Development Corporation will be increased by Rs.100 million and necessary arrangement will also be made as to allow general public to have access in share holding of NIDC "( Budget Speech 1998-99)

## **2.5 BUDGETING: PROFIT PLANNING AND CONTROL**

### **2.5.1 Origin & Components of Budgeting**

Towards the end of 1921, the USA prepared national budget for the F/Y 1922/23. During that time US businessmen were facing the problem of co-ordination between expenses for material, rent, labour etc. and receipt from sales. So USA businessmen started realizing the importance of making national budget. National budget includes the cost for future expenditure and the income to meet the expenses. In other words it maintains co-ordination between revenue and expenditure. This can be considered as origin of PPC.

The book "Business Budget and Budgetary Control" is the first book of business budget which was published in UK in 1932. The writer of this book is A.W. Willsmore. This book is a collection of six articles written by him which were published in "TheTimes" Engineering Supplement (Published between 5/12/1931 to 6/12/1932). But the philosophy propagated by it could not be popular in UK before 1936.

Mr R. Dunker Ley presented interesting review of budgeting of several industries of USA which was introduced and adopted at the sixth international congress for scientific management held in London in 1935.

However, the popularity of PPC was gained only after Marshall Plan.

The 'budgeting' components are the profit, planning and control. Profit is the difference between the inflow and outflow. The inflow means revenue and the outflow means expenses. Profit may be positive or negative depending upon the entrepreneur's decisions as to the directions.

Planning means setting goals for the firm, considering various ways of meeting those goals, and picking out what appears to be the best way to meet the goals.

Controlling means evaluating the firm's activities against the plan and deciding what should be done if the plan is not being followed.

Budgeting may be taken, as a controlling tool of overall management. Budgetary control is not possible by oneself by owner or other person of the enterprises. To control, there should be various personnel and the personnel should be of different levels.

## **2.5.2 Profit**

### **2.5.2.1 Meaning and Concept of Profit**

According to the Oxford Dictionary Profit means "Financial gain/Amount of money gained in business, esp the difference between the amount earned and the amount spent/Advantage or benefit gained from sth"

There is no any fully accepted definition about profit. Definitions as given by the economists and the accountants vary in the concept itself.

Economists' view of profit is vague and broad. They define profit as the revenue obtained after bearing the cost of production. For them profit is the reward for bearing risk of enterprises, the risk of venturing in business, the risk of owing same thing in hopes of selling it later. As R.M.Lynch & R.W. Williamson, "Usually, profits do not just happen. Profits are managed. Before we can make an intelligent approach to the managerial process of profit planning, it is important that we understand the management concept of profit. There are, after all, several different interpretations of the term "Profit". As economist will say that profit is the reward for entrepreneurship- for risk taking. A labor leader might say that it is a measure of how efficient labor has produced and that it provides a base for negotiating a wage increase. An investor will view it as a gauge of the return on his or her money. An internal revenue agent might regard it as the base for determining income taxes. The accountant will define it simply as the excess of a firm's revenue over the expense of producing revenue in a given fiscal period" ( *R.M.Lynch & R.W. Williamson, 3th Edition*)

Accountant view of profit is the excess of a firm's revenue over the expense of production in a particular period. "Using the accountant's measuring stick, management thinks of profit as:

A tangible expression of the goals it has set for the firm

A measure of the performance toward the achievement of its goals

A means of maintaining the health, growth, and continuity of the company

It is the ultimate objective of management to maximize profits over the long term, consistent with its social responsibility. To plan profits intelligently, management needs to know:

The economic characteristics of the firm's operations

The nature of the market for its products

The nature and severity of its competition

The costs of its factors of production: the material, the labor, the productive capacity, the capital

The relationship of the price it can get for its goods to the expense of producing and selling them "It should be noted that profits are residual income left after the payment of the contractual rewards to other factors of production. Profits are the excess of income over cost of production."( Joshi, 2002)

Profit making should be the main objectives in terms of which the general effectiveness of organization is measured.

#### **2.5.2.2 Long Range and Short Range Profit Planning:**

Long range and short range profit plans mean strategic and tactical profit plans respectively. The two type profit plans are developed in PPC.

"The strategic profit plan is broad, and it usually encompasses three or more years in the future. The tactical profit plan is detailed and encompasses a one-year time horizon- the upcoming year. The development of strategic and tactical profit plans each year is a process that involves managerial decisions and, ideally, a high level of managerial participation."( *Welsch 1999*)

Other some expressions about strategic & tactical profit plans are in the topic "Development and Approval of Strategic and Tactical Profit Plan" of this thesis.

## **2.5.3 Planning**

### **2.5.3.1 Meaning and Concept of Planning**

Planning is the specific process of setting goals and developing ways to reach them. Stated another way, planning represents the firm's efforts to predict future events and be prepared to deal with them.

Planning is an imagination, foresight, sound judgment etc. which is mental and intellectual process. The top level, medium level & lower level manager or all level managers participate in planning task, but planning differs as per the level. Planning is deciding in advance what is to be done.

According to Oxford Dictionary, Planning means:

1. Making plans (for something)
2. (To do something) arrangement for doing or using sth, considered or worked out in advance
3. Detailed, large scale diagram of part of a town, district, group of buildings, etc
4. (Esp pl) outline drawing (of a building or structure) showing the position and size of the various parts in relation to each other
5. Way of arranging sth, esp when shown on a drawing; scheme
6. (Idm) go according to plan (of events, etc) take place successfully

"Planning is the process of developing enterprise objectives and selecting a future course of action to accomplish them. It includes a) establishing enterprise objectives b) developing premises about the environment in which they are to be accomplished c) selection a course of action for accomplishing the objectives d) initiating activities necessary to translate plans into action, and e) current re-planning to correct current deficiencies." ( *Welsch & Gordon, 1999*)

"Planning is the feed forward process to reduce uncertainty about the future. The planning process is based on the conviction that management can plan its activities and condition the state of the enterprise that determines its destiny."( I.M.Pandey, P.554)

"All planning involves anticipation of future course of elements and therefore bears the elements undertaking in respects of its success" (*Bhusan, 1976, P.522*)

There is no single definition of planning, which has been universally accepted. On shortly defines, planning is deciding in advance what is to be done.

Planning is not for only planning. It should be for better application or utilization for goal achievement.

Planning is the means of achieving organizational goals within defined period.

We can point out the features of planning, after analyzing the planning concepts.

Following are some of the features of planning:

1. Planning is an goal oriented task
2. Planning is a primary function of management
3. Planning pervades all managerial activities
4. Planning is an intellectual process
5. Planning is the feed forward process to reduce uncertainty about future
6. Planning is directed towards efficiency

The successful planning requires some conditions on the organization like fair and efficient administration, effective information flow system, reliable statistical data, central planning authority, specific objectives, fixation of targets and priorities, strong and stable Government, balancing appropriate economic organization, flexibility in planning, economy in expenditure, sufficient physical element etc.

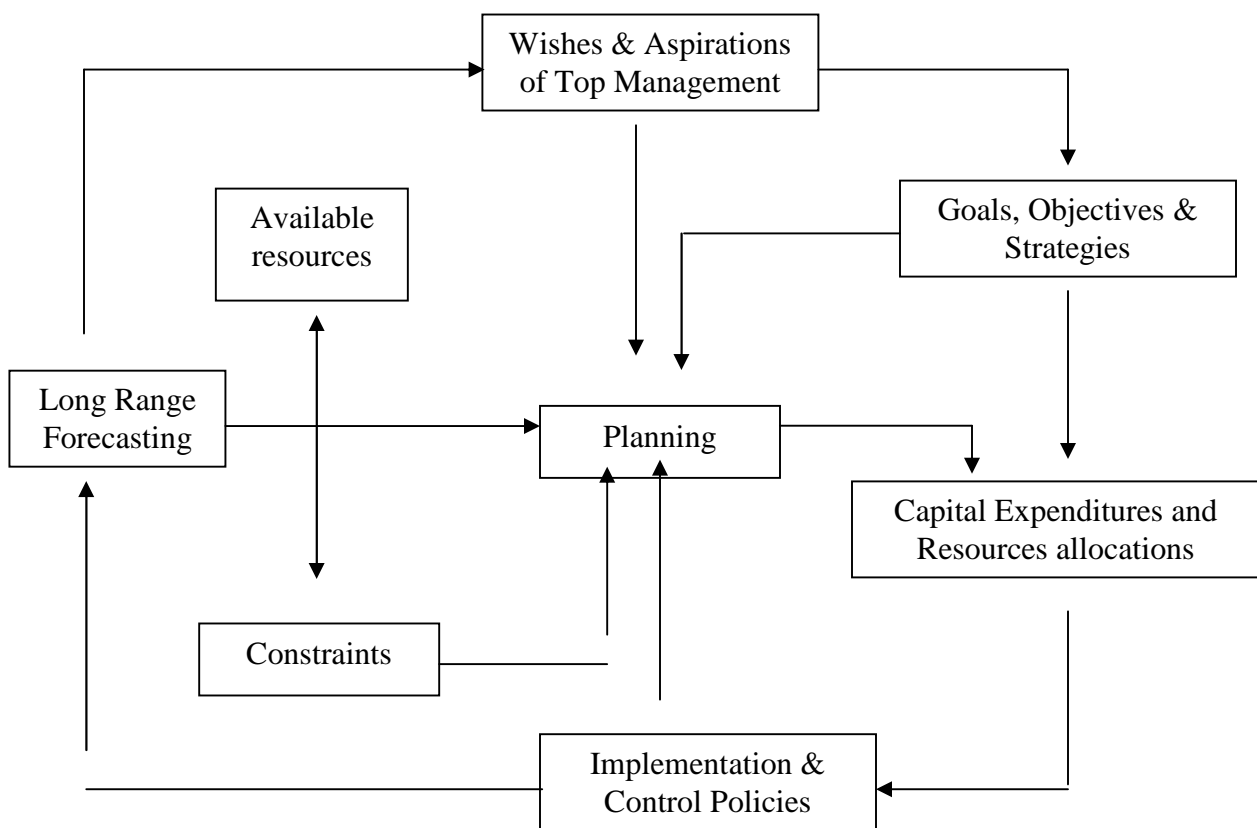
### **2.5.3.2 Strategic Long Range Planning:**

Strategic long range planning is more important for broad and long living enterprises. Long range planning is closely concerned with the concept of the corporation as a long living institution. Long range planning varying 5 to 10 years with the enterprise is sometimes extended to 10 years. Long range planning is one of the most difficult time span involved in planning as many problems in short range planning can be traced to the absence of a clear sense of direction and the practices, which a comprehensive long range

plan provides. This long-term planning is the continuous systematic organizational process of making present entrepreneurial (risk taking) decision. So it is a decision making process. Such decision may be related about

1. The accession of new source of funds
2. Determination of goals, objectives and strategies
3. Organization, design and structure
4. The level and direction of capital expenditure, etc.

### A LONG RANGE PLANNING MODEL



#### 2.5.3.3 Short Term Planning:

The short term planning is a limited time dimensions. Usually it covers one year's time period. In other word, the short term planning is a budget of one year time period. The short range planning is made after a freeze is taken on the consideration of possible alternative course of action. Such courses are outlines for long range plans. The short



term planning is used by the management as a substantial part of long range and short range plans.

#### **2.5.3.4 Forecasting:**

Forecasting may be called by different names such as intuition, estimation, programming and strategy making, but it is all forecasting in one way or the other way.

Forecasting is not only guess or imagination matter but it is related within certain assumption. The forecasting is future decision at present from the analysis of relevant factors of past and present. It's main aim is to reduce uncertainty and risk in future and attain conformity to achieve desired goals or objectives as possible.

According to S.C.Gupta, "When estimates of future condition are made on the systematic basis the process is referred to as forecasting and the figure or statement obtain is known forecast. The forecasting aims at reducing the area of uncertainty that surround management decision making with respect to cost, capital investment and so forth."

( *S.C.Gupta 1990, P.A 8.2*)

"It should be realized that budgeting is not merely forecasting although forecasting is from the basis of budgeting. Forecasting is the estimate of the future environment within which the company will operate. Budgeting or planning on the other hand involves the determination of what should be done, how the goals may be reached and what individual units are to be assumed responsibility and be held accountable. Budget provides an orderly way to attain goals and also provide a time schedule for future actions to produce measurable results." (*I.M.Pandey, New Delhi, P.559*)

Planning and forecasting are not same. They are slidely different. "Forecasting is an attempt to find the most probable course of events or at best a range of probabilities while planning is deciding what one will do about it" ( *Kuchhal, 1976 P.67*)

C.B. Memoria says, "The two most important features of planning are research and forecasting." (*Memora, 1990, P.36*)

Forecasting is concerned with forecasting for planning purposes, scope and shape of things to come. Forecasting aims to foretell such future event for corporate planning and policy formulation. It means forecasting plays vital role in planning. So we can say that the good planning depends on good forecasting.

More about the forecasting is dealt with in the topic "Sales Plan & forecasting" of this thesis.

#### **2.5.3.5 Corporate Planning:**

Corporate planning's (or business planning) one part is profit plan. Corporate planning was first started in the United States in 1950s and it is now being used in one form or another in several hundred companies there.

According to S.A. Sherlackar, "Business or corporate planning is reasoning out how a business will get it wants to go. It is already a mental process of thinking before doing (look before you leap). The essence of corporate planning is to see opportunities and threats or risk in the future and exploit the opportunities, combat the threats or force the risk as the case may be" (*Sherlachar, 1983*)

J.C. Higgin defines corporate planning as "The systematic process of setting corporate objectives and making the strategies decisions and developing the plans necessary to achieve these objectives." (*Higgin, 1980 P.4*)

Andrew Robertson states premises of the corporate planning as, "To determine the long term goals of a company as a whole and then to generate plans designated to achieve these goals bearing in mind probable change in its environment."

The four premises of the corporate planning are:

1. Before drawing up a plan which is designed to do something decide what you want it to do.

2. In these days of rapid change it is necessary to look ahead as far as possible to anticipate these changes.
3. In stated of treating a company as a collection of departments treat it as a corporate whole.

Take full accounts of the company's environment before drawing up any plan."  
(Robertson, 1968P.11-13)

In the corporate planning, is included long-term planning. Very often corporate planning is considered synonymous with long-term planning.

The main objectives of corporate planning are:

1. Achieving of objectives
2. Embodiment of goals and objectives in the enterprise
3. To formulate realistic and attainable objectives
4. Clarity and adequacy of goal and objectives
5. Communication of goals and objectives
6. Involvement of personnel in developing the goal of the enterprise etc.

### **2.5.3.6 Planning in Nepalese Prospect**

National Economy has been influenced by planning. So planning is very important to draw the picture of national economy.

Planning is essential to achieve enterprise goals. It provides direction to the employees by determining the course of actions in advance. Planning is the only way to ensure survival in the business environment make objectives clear. Management control is not possible without planning.

The following 5 types planning are generally used in Nepalese context.

**1. Master Plan:**

This plan provides full guide line to the Nepalese economy. It is generally of 20 years.

**2. Periodical Plan:**

This planning is for certain time period. After completion of one indicated period planning, another planning is prepared and implemented.

**3. Sectorial Plan:**

This planning, considers the target area and the subject matter. It is a kind of regional plan.

**4. Regional Plan:**

Nepal has been divided into 5 development regions. In the regional plan, the planner takes into account of these five regions while preparing planning.

**5. District Wise Planning:**

Here, the planner makes plan to be achieved within certain period in a particular district. It is a micro level planning.

Some major budgets have been used as a planning prospect in Nepal. These budgets are Sales Budget, Production Budget, Material Purchase and Usage Budget, Labor Budget, Overhead Budget, Flexible Budget, Capital Budget, Cash Budget and Profit Budget.

If we make a study of planning structure in Nepalese national context, we can see the planning formulation from four different organs, which are:

**1. National Planning Commission:**

It prepares nationwide plan. Its chairman is Prime Minister. It is a most active autonomous organization in Nepal for planning.

**2. National Development Council:**

It is a government planning council. In this council, many educated persons are involved to help the council under the chairmanship of Prime Minister.

### **3. Line Ministers and Department Wise Planning:**

In this planning, every ministry and departments prepare the planning according to their own requirements.

### **4. District Development Committee:**

This committee prepares district level plan. It studies the requirements of a district and plans accordingly.

Although planning is very important, yet, many Nepalese organizations seem to have given only scant attention to right planning and for its proper implementation.

## **2.5.4 Control**

### **2.5.4.1 Meaning and Concept**

Budgeting deals with managerial task, which is for control. Control is management, guidance, restriction, verification and mobilization by using power or authority over some body or something.

The Oxford Dictionary (New, Page 257), meaning of 'Control' is:

1. (of/over sb/sth) power or authority to direct, order, or limit
2. management; guidance; restriction
3. (on sth) means of limiting or regulation
4. standard of comparison for checking the results of an experiment
5. switches, levers, etc. by which a machine is operated or regulated
6. place from which orders are issued or at which checks are made
7. (idm) be in control (of sth) direct, manage or rule (sth)

These dictionary meanings clearly state that the word control as a concept has various aspects to include.

"Controlling is the process of assuring efficient performance to attain the enterprise objectives. It involves (a) establishing goals and standards, (b) comparing measured

performance against the established goals and standards, and (c) reinforcing successes and correcting shortcoming” (*Welsch & Gordon Fifth Edition, P.3*)

Lynch and Williamson have expressed control through variance analysis in this way: "The major purpose of variance analysis is to enable management to measure performance against predetermined norms, to seek out the causes for off-standard results, and to institute corrective action.”(*Lynch & Williamson, Third Edition, P.201*)

The difference between standard and actual cost or task is variance. The actual performance can be above or below the standard performance. Variance can be favorable or unfavorable. Analysis of the variance and providing direction for doing something is control.

#### **2.5.4.2 Achievement Enterprises Objectives from Control**

Control is essential to achieve enterprise objectives. Enterprises should have control in every sector such as production, quality, maintenance, cost, management and productivity etc. For enterprise control, monitoring and supervising is done in the working time. To achieve satisfactory level of performance motivation is needed.

"The conditions favourable to the acceptance and successful functioning of a good budgetary control system should include:

1. Top Management's sharing with its subordinates the short, intermediate, and long term objectives of the company as they provide the direction for over all planning.
2. A climate of true delegation of authority and responsibility, beginning with top management itself.
3. With specific reference to cost control, subordinates shall be consulted about her/his expectations of cost.
4. The budget system shall not be used as basis for immediate reward or, punishment, but should be long term.
5. Supervisors shall not be held responsible for costs over which they have no control.

6. The controller and all staff members should serve only in a service capacity and shall never interpose themselves, directly or, by innuendo, between subordinate managers and their superiors.”( *Welsch & Gordon, 1999, P.243*)

All these conditions if fulfilled lead to motivation. It goes without saying that Enterprises objectives can be achieved through the good budgeting system that incorporates all these conditions.

Up to now we have presented the concept and meaning of the words Profit, Planning and Control separately. Now the discussion about 'Comprehensive Profit Planning & Control' will follow

## **2.6 THE COMPREHENSIVE PROFIT PLANNING & CONTROL**

### **2.6.1 Meaning & Concept**

Comprehensive Profit Planning & Control (CPPC) can be used in the same context in which such terms as comprehensive budgeting or managerial budgeting or business budgeting or budgeting are used. The term comprehensive means (1) the application of the broad concept of profit planning & control to all phases of operations in an enterprise and (2) the application of a total systems approach.

CPPC helps to enhance effective management for achieving organization goals. In modern age profit plan and control is a very important tool of management and decision making for any business organization. CPPC is a new term in the literature of business, it is not a new concept in the management. A profit plan or budget is the formal expression of the enterprise's plans and objectives, stated in financial terms for a specified future period of time.

Usually profits do not just happen. Profit are managed. When a management plans its profit performance, that is known as profit planning. PPC represents an overall plan of operations. It covers a definite period of time and formulate the planning decision of management. The process of preparing and using budget to achieve management objective is called comprehensive budgeting.

A CPPC is a systematic and formalized approach for stating and communicating the firm's expectation and accomplishing management in such a way as to maximize the use of a profit plan to achieve the maximum benefit from the resources available to an organization over a particular span of time.

"For our purposes, the term comprehensive profit planning & control is defined as a systematic and formalized approach for performing significant phases of the management planning and control functions. Specifically, it involves (1) the development and application of broad and long-range objectives for the enterprises; (2) the specification of enterprises goals; (3) a long-range profit plan developed in broad terms; (4) a short-range profit plan detailed by assigned responsibilities (divisions, products, projects); (5) a system of periodic performance reports detailed by assigned responsibilities; and (6) follow-up procedures"

PPC consists of 3 main budgets which are:

1. **Operating Budget:** It covers revenues and expenses. The main budgets under operating budget are sales budget, purchased budget, production budget, labour budget and other different expenses budgets.
2. **Financial Budget:** It contains the budgets, the Balance Sheet and supporting schedule.
3. **Appropriation Budget:** It covers expenditure on advertising and research.

Because of containing different budgets under profit planning and control, we can say it is a formal expression of the policies, plans, objective and goals established by management for the concern as a whole and for each sub-division.

Some basic elements of profit planning are as follows:

1. **Comparative and co-ordinated plans:** The budgets prepared by different departments inside the organization have to be complied or coordinated and it is done by Profit Planning.



2. **Express in financial terms:** The budget has to be expressed in monetary units i.e. in Rupee, Dollar or Pound etc.
3. **Operating and resources plan:** The budget must plan for quantity revenue and expenses related to a specific operation. The plan should be made for carrying out the operations. The planning for resources will include planning for assets and sources of funds.
4. **Budget should be a future plan for specific period to be relevant:**

PPC serves basically as a tool for management control. The maximum objective of PPC is to assist in systematic planning and in control the operations of the enterprise. Actually PPC is the best source of communication and an important tool in the hands of management.

In short, the Budgeting or PPC objectives are as follows:

1. To state the firm's expectation (goal) in clearly formal terms to avoid confusion and facilitate their attainability.
2. To communicate expectation to all concerned with the management of the firm so that they are understood, supported and implemented.
3. To provide a detailed plan of action for reducing uncertainty and for its proper direction of individual and group efforts to achieve goals.
4. To co-ordinate the activities and efforts in such a way that the use of resource is maximized.
5. To provide a means of measuring and controlling the performance of individuals and units and to supply information on the basis of which the corrective action can be taken.

### **2.6.2 Role & Relation of Management on PPC**

Budgeting deals with managerial task and management is an all in all. PPC provides guidance to management and it acts as signal light for the management, which enables the management to correct its policy. Profit planning is merely a tool of management. It

is not an end of management or substitute of management. Profit planning is strictly an internal affair, it should not be made public. It is based upon investigation, analysis of data, and systematic decision making process like scientific management.

Comprehensive budgeting or profit planning and control have been identified as a "way of management for the firm which requires high degree of management sophistication. Profit planning and control has focused on (1) management by objective and (2) realistic flexibility of management. PPC has been regarded as comprehensive technique, which realize the dominant role of manager. It has adopted all the fundamental aspects of scientific management such as:

1. Management by objective (Organizational adaptation)
2. Effective communication
3. Participatory management (managerial involvement and commitment)
4. Dynamic control and continuous feedback (follow up)
5. Responsibility accounting
6. Management by exception
7. Managerial Flexibility (Flexible application)
8. Realistic expectation
9. Timeliness
10. Individual and group recognition

In broad term profit planning and control concept integrates all the functional and operational aspects of an enterprise. Due to the reason for an effective management system, an integration and interrelationship between all the functions (departments) and sub-functions are needed.

Many experts have contributed to the development of management. F.W.Taylor, Elton Mayo, Henry Fayol, Koontz, O'Donnell, etc. are acclaimed world over as experts on management. Some experts emphasize on work division, some on human behavior and some others on planning and control function.

To quote Koontz & O'Donnell, "The most useful method of classifying managerial function is to group them around the activities of planning; organizing; staffing; directing

and control. It is not always possible in practice to slice all managerial function neatly into these categories, since the function tend to coalesce (to grow together); however, this classification is a helpful and realistic tool for analysis and understanding."

In favor of planning and control economist or the management expert opines "Planning means prosperity and unplanned means happenstance (haphazard). So, modern management experts have given more importance to profit planning and control. And profit planning and control has been regarded as a basis for perfect decision-making. Decision making on profit planning and control involves following activities:

1. Manipulation of inflows
2. Manipulation of outflows
3. Generation of profit

Inflow: People, capital, materials = cost factors

Outflow: Goods, Services, Social benefits = Revenue

Profit: = Outflow-Inflow

To attain long range objective of an organization (to maximize profit or return on investment), management has to take proper decision on manipulation of inflow and outflow through management process (planning coordinate, activating and control).

Management decision must be purposive (management by objective) and futuristic (long lasting in future).

## **2.7 BUDGETS AND BUDGETING**

Budgeting is an amalgamation of managerial techniques and approaches whereas the budget is a financial expression for a certain period for certain field. Budget is a formal statement of policy, plan, objective and goal established by the top management in respect of some future period. It is more numerical than theory. Budget provides media for self discipline and control throughout the length, breadth and depth of the organization.

We should consider the classification of budget. Today many types of budgets are in use. Mainly, we can segregate the budget in 4 types, which are (1) Expenditure Budget (2) Financial Budget (3) Profit Budget (4) Capital Budget.

All or a part of operating cost is expense budget. Financial budget is concerned with cash planning. To plan annual profit is profit budget. Capital budget covers the expenditures of fixed assets.

Nepalese Public Enterprises also prepare budgets according to their needs. The word 'plan' is being used in the same meaning of the word 'budget'. Some major budgets have been discussed below.

### **2.7.1 Sales Budget:**

Sales plan is the most important and most difficult task to prepare on profit planning and control. Sales plan provides basic management decisions about marketing. It is an organized approach for developing a comprehensive sales plan.

"A comprehensive sales plan includes two separate, but related, plans- the strategic and the tactical sales plans. A comprehensive sales plan incorporates such management decisions as objectives, goals, strategies, and promises. These are translated into planning decisions about planned volume (units or jobs) of goods and services, prices, promotion and selling efforts.

The primary purposes of a sales plan are (1) to reduce uncertainty about future revenues, (2) to incorporate management judgments and decisions into the planning process (e.g., in the marketing plans), (3) to provide necessary information for developing other elements of a comprehensive profit plan and (4) to facilitate management's control of sales activities."

Welsch has expressed the importance of sales plan on comprehensive budgeting. To quote him, "A plan of operations must necessarily be built around the activity or volume of business that can reasonably be expected during the specific period covered by the

profit plans. Unless there is a realistic sales plan, practically all other elements of a profit plan will be out of kilter with reality. The sales plan is the foundation for periodic planning in the firm, because practically 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 requirements, the production level, and other important operational aspects depend on the volume of sales” (Welsch,, 1999, P.139)

#### **2.7.1.1 Sales Plan and Forecasting:**

Generally, people think the sales planning and forecasting as same. But the sales planning and forecasting are quite different and it is very important to know the distinction. According to Welsch, "A forecast is not a plan; rather it is a statement and/or a quantified assessment of future conditions about a particular subject (e.g. sales revenue) based on one or more explicit assumptions. A forecast should always state the assumptions upon which it is based. A forecast should be viewed as only one input into the development of a sales plan. The management of a company may accept, modify, or reject the forecast. In contrast, a sales plan incorporates management decisions that are based on the forecast, other inputs, and management judgments about such related items as sales volume, prices, sales efforts, production and financing.

A sales forecast is converted to a sales plan when management has brought to bear management judgment, planned strategies, commitments of resources, and the managerial commitment to aggressive actions to attain the sale goals. In contrast, sales forecasting is a technical staff function." (Welsch, 1999 Fifth Edition, P.172)

#### **2.7.1.2 Strategic and Tactical Sales Plan:**

On perfect comprehensive profit plan, both strategic long-term and tactical short-term sales plans must be developed. Usually, strategic sales plan is a five or ten year plan and tactical sales plan is a one year plan.

"STRATEGIC SALES PLAN as a practical approach, a company may schedule completion of the strategic long term sales plan as one of the first steps in the overall planning process. For example, a company operating on a calendar year may complete a

long-term sales plan, at least in tentative form, by the end of July because this gives sufficient lead time for interim considerations essential to development of next year's comprehensive short-term profit plan during the latter part of the preceding calendar year. Long-term sales plan uses broad grouping of products/products lines with separate consideration of major and new products and services. Long-term sales plans usually involve in depth analysis of future market potentials, which may be built up from a basic foundation such as population change, state of the economy, industry projections and finally company objectives. Long-term managerial strategies would affect such areas as long-term pricing policy, development of new products and innovations of present products, new directions in marketing efforts, expansion or changes in distribution channels, and cost patterns. The influence of managerial strategy decisions is explicitly brought to bear on the long term sales plan primarily on a judgmental basis.

### 2.7.1.3 Components and Developing of Comprehensive Sales plan:

#### Components of a Comprehensive sales plan: -

Component	Strategic plan	Tactical Plan
1. Management policies and assumptions	Board and general	Detailed and specific for the year
2. Marketing plan (sales and services revenues)	Annual amounts; Major groups	Detailed; by product and responsibility
3. Advertising and promotion plan	General; by year	Detailed and specific for the year
4. Distribution (selling expense plan)	Total fixed and total variable expense; By year	Fixed and variable expenses; by month and by responsibility

The developing of a comprehensive sales plan is exhibited in the following sequential steps.

"Step 1. Develop management guidelines specific to sales planning including the sales planning process and planning responsibilities.

Step 2. Prepare one (or more) sales (market) forecasts consistent with specified forecasting guidelines including assumptions.

Step 3. Assemble all the other data that will be relevant in developing a comprehensive sales plan.

Step 4. Based on step 1, 2 and 3 above, apply management evaluation and judgment to develop a comprehensive sales plan.

We emphasize that these steps must be revised and implemented in various ways depending on the characteristics of the business and the expertise of the management”

#### **2.7.1.4. Merchandise Budget:**

Non manufacturing companies (or enterprises) use the 'merchandise budget'. The manufacturing enterprises are wholesale, retail etc. A non manufacturing enterprise purchases and sells a number of dissimilar products that vary in major ways, such as usage, size, weight, price, style and service required (think of a large department or grocery store). The merchandise budget usually includes planning of sales, inventory, markdowns, employee discounts, stock shortages, purchases and gross margins. The sales plan is the first merchandise budget in a merchandising company. The two different approaches unit price approach and sales-dollar approach are used to plan sales, depending on the characteristics of the company.

#### **2.7.2. Production Budget: -**

The production plan has a very important role in planning, coordination and control on comprehensive profit plan and control.

In the marketing plan, each product or groups of similar products should be well identified for each time period. Production and inventory quantities should also be specified. Then only the manufacturing enterprise should develop a production plan. Production plan develops the policies about efficient production levels, use of productive facilities and inventory levels.

The production budget can be represented in this formula:

$$\text{Production requirements} = \text{Sales volume} \pm \text{Finished goods inventory change}$$

The planning production of manufacturing operation is in graph:-

### Planning production

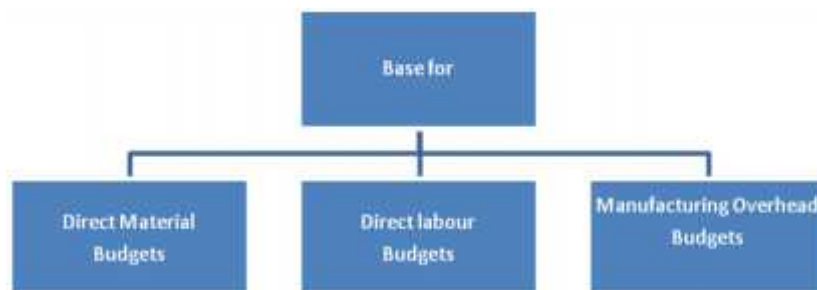
Sales Plan

±

Finished Goods  
Inventory Change

=

Production Plan



While developing the production budget, the inventory policy should be fixed first and then the total quantity of each product to be manufactured during the budget period should be planned. After that, the plan production schedule is made for interim periods.

"The production budget is the initial step in budgeting manufacturing operation. In addition to the production budget, three other principal budget are relevant to



manufacturing: (1) the direct material and purchased components budgets, which specifies the planned material and components requirement; (2) the labor budget, which shows the planned quantity and cost of direct labor; and (3) the manufacturing expense of factory overhead budget, which includes the plans for all factory costs other than direct material and direct labor.

To plan production effectively, the manufacturing manager must develop information about the manufacturing operations necessary for each product. The manager should develop information about the uses and product capacities of each manufacturing department. The managers must provide historical data about production quantities, cost, and the availability of resources. The director of profit planning and control should provide staff assistance when needed”

Production planning responsibility rests directly upon the production managers, top management policies must be considered in such matters as inventory levels, stability of production, and capital additions (plant capacity). With respect to production planning, the managers must plan an optimum coordination between sales; inventory, and production levels. An efficient and coordinated production plan is necessary for economical manufacturing.

The recent development in production and inventory scheduling systems are material requirements planning (MRP) systems and just-in-time (JIT) manufacturing systems.

"MATERIAL REQUIREMENTS PLANNING (MRP) In modern production operation, production is usually coordinated throughout the various production stages. Material requirements planning or MRP is a technique for coordinating production in multistage production environments with many parts, materials, Subassemblies, components, and finished products. An MRP system begins with a master schedule for the end products needed. It then backs up through the production process to determine when and how much of each material, part, or subassembly will be required. Because the requirements for parts and materials are determined from the production schedule of the finished product, these inputs have interdependent demands."(*John Mc. Clain and L. Joseph*1985)

"JUST IN-TIME (JIT) PRODUCTION. The just –in-time (JIT) approach to production planning is a recent trend in manufacturing. The main characteristics of modern production environments on which JIT is based are as follows:-

1. It is inefficient and costly to hold large inventories of safety stock for raw materials, subassemblies, or finished products. Therefore, these safety stocks should be minimized.
2. Setup times for production can be minimized through the use of robotics and process improvement studies. Therefore, frequent production setups may not be inefficient.
3. Very high quality of subassemblies and final products must be achieved in order to reduce the need for safety stocks, as mentioned in item 1 above."(Welsch, & Gordon Fifth edition, P. 227)

### **2.7.3. Material Purchase and Usage budget:**

A comprehensive profit planning and control program includes planning and controlling the raw materials and component parts used in the production process. Material budget is prepared after the planned production. Material budget is a coordination of the required raw material and parts, inventory level of raw material and parts. Parts that must be purchased. The cost of raw materials and parts is also considered in material budget.

Material budget has many objectives such as:

1. To establish effective inventory policy
2. To provide quantity data for purchases
3. To provide quantity data to compute marginal cost per unit
4. To prepare effective cash budget
5. To introduce effective planning and controlling system on material use.
6. To select cheap and smooth supplier of required raw materials etc.

"THE RAW MATERIALS AND COMPONENT PARTS BUDGET To ensure that the appropriate amounts of raw materials and components parts will be on hand at the time required and to plan for the costs of such materials and parts, the tactical short-term profit

plan should include (1) a detailed budget that specified the quantity and cost of such materials and parts, and (2) a related budget of materials and parts purchases. Planning raw materials and parts usually requires the following four subbudgets:

1. Materials and Parts Budget
2. Materials and Parts Purchases Budget
3. Material and Parts Inventory Budget
4. Cost of Material and Parts Used Budget

The four separate subbudgets listed above are directly related. Collectively, they can be viewed as the materials and purchases budget”

#### **2.7.4. Labor Budget**

Effective planning and control of labor costs are essential in an overall program of profit planning and control. Planning and controlling labor costs involve major a complex problem is as: (1) personnel needs (2) recruitment (3) training (4) job description and evaluation, (5) performance measurement, (6) union negotiations, and (7) wage and salary administration.

To plan and control labor costs effectively, the different types of labor costs must be separately considered. Direct labor costs include the wages paid to employees, who work directly on the company's product, whole indirect labor costs of other employee who do not work directly on the product. Here only one type of labor cost (direct labor) is discussed.

Labor costs include all expenditures for employees, from top executives down to unskilled laborers. Chief executive, personnel manager, production manager and financial manager have main responsibility for planning and controlling direct labor.

The objectives of direct budget are assessing labor requirement, prepare manpower planning, estimate per unit labor cost, estimate cash requirement, give information for cash budget, control the labor budget etc.

"The approach used to develop the direct labor budget depends primarily on the (1) method of wage payment, (2) type of production process involved (3) availability of standard labor times, and (4) adequacy of the cost accounting records relating to direct labor costs.

Basically, there approaches are used to develop the direct labor budget:

1. Estimate the standard direct labor hours required for each unit of each product; then estimate the average wage rates by department, cost center, or operation. Multiply the standard time per unit of product by the average hourly wage rat, giving the direct labor cost per unit of output for the department, cost center or operation. Multiply the units of output planned for the department, cost center, or operation by the unit direct labor cost rate to obtain the total direct labor cost by product.
2. Estimate ratios of direct labor cost to some measure of output that can be planned realistically.
3. Develop personnel tables by enumerating personnel requirements (including costs) for direct labor in each responsibility center. " Direct labor cost control depends on competent supervision, direct observation, and performance reports. However, there is a definite need for standards by which the supervisor may gauge performance. Planning the work flow and arrangement of supplies and equipment has definite effects on direct labor costs. The two primary elements of control of direct labor costs are (1) day-to-day attention to such costs and (2) performance reporting and evaluation of results.

A company's advantages of effective planning of direct labor hours and costs are:

1. The personnel function can be more efficiently performed because a basis is provided for effective planning recruitment, training and use of personnel.
2. The finance function can be more effectively performed because labor is often one of the largest demands on cash during the year.

3. The budget cost of manufacturing each product (unit costs and total cost) may be an important factor in several areas of decision making, such as pricing policy and union negotiations.
4. The control of direct labor costs is significantly enhanced.

### **2.7.5 Overhead Budget**

In other words, overhead budget is "planning and controlling Expenses: manufacturing Overhead, Product Quality Cost and Distribution and Administrative Expenses.' Expenses planning and controlling is not self (or automatic) 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. Expenses Planning and Controlling is necessary to obtain enterprises goals, to identify organizational responsibility and to plan operations.

Reduction of costs without considering its effect on benefits cause higher costs because of breakdowns, inefficient machines, frustrated employees etc. The 'overhead budget' planning controlling is for cost control.

In this 'overhead budget' discussion will be made on the problems of planning and controlling the three broad categories of expense: manufacturing overhead; distribution expenses; and general administrative expenses.

For simplicity, cost and expenses are often used in the same sense although there is a slight difference in the meaning of cost and expenses. Expenses are subdivided here as follows:-

1. Manufacturing expense (Factory overhead)
2. Product quality expenses
3. Distribution or selling expenses
4. General administrative expenses
5. Financial and other expenses

When expenses (or cost) are viewed in relation to changes in output, three distinct expenses categories emerge:-

1. **Fixed expenses:** Those expenses that are constant in total, from month to month, regardless of fluctuations in output or volume of work done.
2. **Variable expenses:** Those expenses that change in total, directly in relation to change in output or volume of work done.
3. **Semi-variable expenses:** Those expenses those are neither fixed nor variable because they possess some characteristics of both.

Cost is to be planned by organizational responsibility centers because control is exercised through responsibility.

**Planning Expenses:** All level management participation is necessary to developing realistic expenses budget. We have to develop a separate expenses budget for each responsibilities center to develop tactical short run profit plan. The following budget sequence is typical:

1. Direct material and labor cost budget
2. Manufacturing or factory overhead budgets
3. Distribution expenses budgets
4. Administrative expenses budgets

Detail expenses budget for each responsibility center should be included in the short term profit plan. The reasons are:

- (i) The effects of various planned revenue and related expenses can be aggregated in a planned income statement.
- (ii) The cash outflow required for costs and expenses can be realistically planned.
- (iii) An initial objective can be provided for each responsibility center.
- (iv) A standard can be provided and used during the budget period.

The overhead budget planning and controlling expenses is divided and defined as the following:

**1. Planning manufacturing or Factory Overhead:**

Manufacturing overhead is that part of total production cost which is not directly identifiable with (traceable to ) specific products or jobs, Manufacturing overhead consists (1) indirect material 92) indirect labor (including salaries), and (3) all other miscellaneous factory expenses, such as taxes, insurance, depreciation, supplies, utilities, and repairs.

**2. Product Quality expenses:**

This expenditure is for the improvement of quality of the products. The best quality of raw material and just-in-time (JIT) approach of material are essential to the improvement of the quality product. The importance of maintaining high quality in manufactured products is to compete with foreign goods and new product.

**3. Planning distribution (Selling) Expenses:**

Distributions expenses include all costs related to selling, distribution and delivery of products of customers. Distribution expenses affect the potential profit of the firm. Distribution expenses include home office expenses and field expenses. For planning and controlling purpose, they must be planned by responsible center. In many companies, this distribution cost is the certain percentage of total expenses.

The two primary aspects of planning distribution expenses are (1) Planning and co-ordinations (2) Control of distribution expenses.

Top marketing executives have the direct responsibility for planning the optimum economic balance between (1) the distribution expenses budget. Sales, advertisement and distribution expenses are three separate problems in profit planning and control.

**4. Planning Administrative Expenses:**

All those expenses other than manufacturing overhead and distribution expenses are administrative expenses. They are incurred in the responsibility centers that provide supervision of and service to all functions of the enterprise, rather than in the performance of any one. It includes large portion of fixed cost rather than variable cost.

### 2.7.6 Flexible Budget

Flexible budgets are only related to expenses or costs. Flexible expenses budgets are also called variable, dynamic, activity and output-adjusted expense budgets.

Flexible budget is complementary to tactical profit plan. Flexible expenses budgets help to provide expense plans for the tactical profit plan and to provide expense plans adjusted to actual output, for comparison with actual expenses in periodic performance reports.

The concept of flexible expenses budget is that all expenses are incurred because of the passage of time, output or productive activity, or a combination of time and output or activity. If this premise is reasonable in a business (or any other entity), the expenses can be computed for planning and control.

Following are some flexible budgeting characteristics:

1. Expenses or costs must be identified into fixed and variable expenses or costs.
2. Expenses must be related to output or activity.
3. Output or activity must be measurable
4. Flexible expenses budget for each expense must be for specified time period and relevant range of output.
5. For planning and controlling purposes, flexible budget formula must be developed for each expense in each responsibility center.

Expenses or cost are classified into three categories:

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

1. **Fixed Expenses:** Fixed expenses are also called time cost or capacity cost. Fixed expenses remain constant in amount for a given short-term period within a relevant range of activity.



Fixed expenses such as depreciation, tax, insurance etc. are caused by management decision and salary, advertising and research expenditure are advertising and research expenditure are set by management discretion on a short term basis.

2. **Variable Expenses:** Variable expenses vary in direct proportion to change in output or activity in a responsibility center. It means the variable costs should be zero at zero activity. Variable expenses are activity based because they are incurred as a direct result of output, productive activity, or work done.
3. **Semi-variable Expenses:** Semi-variable or semi-fixed expenses and costs increase or decrease as output or activity increases or decreases, but not in proportion to change in the activity base. Under this definition, semi-variable costs. The variability of semi-variable expenses is caused by the combined effect of passage of time, activity or output and discretionary management decisions.

The primary purpose of flexible budgets is to enhance expense control. Therefore, we can identify three specific uses of flexible budgets:

1. To facilitate preparation of the expense budgets for the responsibility centers for inclusion in the tactical profit plan.
2. To provide expenses goals for the managers of responsibility centers during the period covered by profit plan.
3. To provide expenses amounts adjusted to actual activity for comparison purposes (against actual expenses) in the monthly performance reports.

Three analytical methods are often used for determining cost variability, which are 1) Direct estimate method 2) Budgeted high and low point method 3) Correlation method.

We are using the three types of format in flexible budget, they are 1) Table format 2) formula format, and 3) Graphic format.

### **2.7.7 Capital Budget**

The 'capital budget' is an important part of a comprehensive profit plan. The 'capital budgeting' of the firm is generally known as the capital expenditures decision or investment decision. "A capital budgeting decision may be defined as the firm's decision to invest its current funds most efficiently in the long-term assets in anticipation of an expected flow of benefits over a series of years." ( *Pandey, Revised Edition, P. 391*) Capital budgeting is the process of planning and controlling the strategic (long-term) and tactical (Short-term) expenditures for expansions and contraction of investments in operating (fixed) assets. Capital budgeting is useful to earn future revenues and to reduce future costs, capital expenditures include such fixed (i.e. operational) assets as property, plant, land equipment, cash, major renovations, and patents. Capital expenditures involve two planning and controlling phases: (1) Investment and (2) Expenses.

In capital expenditure budget, major project are separately analyzed, planned, approved or rejected, completed and controlled. So, capital expenditure budget is primarily composed of a series of identified projects related to specific time dimension. The capital expenditures budget includes a strategic plan and a tactical plan for the major capital expenditures projects and a blanked appropriation for the minor or small expenditures.

The main responsibility of capital budgeting lies on top executive or executive management and departmental managers.

The organization's capital budgeting decisions include addition, disposition, modification and replacement of fixed assets or long term.

The importance of capital budgeting for planning and controlling purpose can be underlined as follows: (1) to avoid excess capacity (2) to avoid idle operating capacity (3) to avoid investment in capacity that will earn less than an adequate return on the invested amount (4) to help evaluate alternative capital expenditure etc.

The methods of measuring the economic value of capital expenditure are:

- (1) Discounted cash flow method: (a) Net present value (b) Internal rate of return (c) Profitability Index
- (2) Simple method/Traditional method: (a) Payback period (b) Accounting rate of return.

### **2.7.8. Cash Budget**

Cash budgeting is an effective way to plan and control the cash flows, assess cash needs, and effectively use excess cash needs, and effectively use excess cash. The planning and controlling cash flows focuses on cash in flows, cash outflow and the related financing. Cash budgeting is an attractive way to plan and control the cash flows, assess cash needs and effectively use excess cash. Therefore, cash management is important in both large and small enterprises. Planning and controlling of cash includes right quantity of money, right source of money, right time to solve money, right quality for liquidity and right costs of capital.

"A cash budget shows the planned cash inflows, outflows, and ending position by interim periods for a specific time span. Most companies should develop both long-term plans about their cash flows. The short term cash budget is included in the annual profit plan. A cash budget basically includes two parts:

- (1) the planned cash receipts (inflow) and
- (2) the planned cash disbursements (outflows).

Planning cash inflow and outflows gives the planned beginning and ending cash position for the budget period. Planning the cash inflows and outflows will indicate (1) the need for financing probable cash deficits or (2) the need for investment planning to put excess cash to profitable use. The cash budget is directly related to other plans, such as the sales plan, accounts receivable and the expense budgets, and the capital expenditure budget. Nevertheless, planning and control of these activities do not automatically take care of the cash position. This statement suggests an essential distinction between the cash budget and the other budgets. The cash budget focuses exclusively on the amount and timing of cash inflows and outflows. In contrast, the other budgets focus on the timing of all transactions – both cash and non-cash (this is called the accrual basis).

The primary purposes of the cash budget are 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 time 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.

Preparation of the cash budget should be the responsibility of the company treasurer"  
( *Welsch,1999, P.433-434*)

The cash planning and control should usually involve three different time horizons-long-term and immediate-term. The long-term cash horizon should be consistent with the time dimensions of the strategic long-term profit plan and capital expenditures projects. The short-term cash horizon should be consistent with the tactical short-term profit plan. The immediate time horizon is used in many enterprises primarily to assess, control and manage cash inflows and outflows, often on a continuing daily basis. It prevents from having cash shortages or excessive cash balance.

There are two approaches used to develop the cash budget:

1. Cash receipts and disbursement approach:- It is also called cash account or direct method. The cash receipts and disbursements approach is usually for the tactical short-term plan because it provides more details.
2. Financial accounting approach:- It is sometimes referred to as the indirect a income statement approach. The financial statement method is usually used for broad analyses of the cash position and for strategic long-range planning.

## **Profit Budget**

The ' profit budget' is decided by subtracting the budgeted costs from the budgeted revenue. The amount of investment is forecasted and a budget rate of return is developed for the annual management of profit plan.

"The development of an annual profit plan needs ends with the planned income statement, the planned balance sheet, and the planned statement of cash flows. These three statements summarize and integrate the detailed plans developed by management for the planning period. They also report the primary impacts of the detailed plans on the financial characteristics of the company.

At this point in profit planning, the budget director has an important responsibility. Besides from designing and improving the overall system, the budget director has been described as an adviser to the various managers to help develop plans for each responsibility center. Now the parts must be assembled into a complete profit plan. This is the responsibility of the budget director." The profit budget is used for planning and coordinating the company's whole activities.

The planning process involves tactical or a short profit plan and strategic or long-term profit plan. In developing these plans, many budget schedules are prepared to each phase of a company's operations.

Although some retail firms budget only sales, Stock levels, and purchases, a comprehensive profit planning and control program extending to all phases of operations is desirable. In such case, the several sub-budget (sales, stock, purchases, expenses, capital expenditure, cash and so on) are summarized in the budgeted income statement, budgeted balance sheet, and cash flow budget.

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## **2.8. BUDGET DEVELOPMENT OF NEPAL.**

Before the dawn of democracy budgeting system in Nepal was negligible. Besides these, there was no difference as such between government budget and administrative budget.

At the policy was to keep people in ignorance about the country's revenue and expenditure, no effort was made towards budget formulation.

The revolution of 2007 B.S. threw the autocratic Rana regime and established new democratic system. After the dawn of democracy Nepal Interim Administration Constitution was published on 29<sup>th</sup> Chaitra 2007 B.S. This constitution systematized the Govt. expenditure and tax policy for the first time in Nepal. Now government revenue had to be expended and the tax raised according to the provision made in the Act Besides the constitution made it mandatory from the Govt. to prepare a fiscal budget every year consisting of yearly expected revenue and expenditure. This budget was to be presented before the Advisory Council for discussion or for voting. Following this constitution a national fiscal budget was presented on 21<sup>st</sup> Magh 2008 B.S. for the first time in Nepal. Though, the annual fiscal budget can be said to have been initiated with the introduction of Nepal Kingdom constitution in 2015 B.S. All the budgetary policies and schemes were taken into account while preparing the fiscal budget giving no room for arbitration. 'The Constitution of the Kingdom of Nepal 2047' which came into existence after the historical People's Movement in 2046 B.S. also made provisions for all these budgetary planning and schemes. About the budget the clause 77 of the constitution has mentioned the following.

- 1) Finance Ministry will ask the Govt. to present its annual budget consisting of the following points before the joint meeting of both Houses.
  - a) Revenue estimate
  - b) Necessary amounts to be Burdened on saving funds and
  - c) Necessary amount to be released through Biniyojan Act.

Thus there has been a tradition to present annual fiscal budget since 2008 B.S. as provided by the constitution. Complementary budget can also be presented if needed according to the provision made by the constitution.

So as to make the budget system more useful and scientific the budget is now classified according to its objectives, functional and organizational approaches. There has also been

effort to classify the budget according to capital allocation and current annual expenditure.

All these facts have been mentioned in the book entitled 'Shree Panch Ko Sarkarko Sresta pranali' by Maniklal Pradhan and Shiva Prasad Munkarmi.

## **2.9. THE CONCEPTS INTEGRATED WITH PPC**

The following concepts are usually integrated with Profit Planning and Control.

### **2.9.1 Cost –Volume-Profit and Contribution Analysis**

The analytical technique used to study the behavior of profit in response to the change in volume, costs and prices is called the cost-volume-profit (CVT) analysis. CVT analysis helps to determine the minimum sales volume to avoid losses and the sales volume at which the profit goal of the firm will be achieved. It helps management in seeking the most profitable combination of cost and volume. A dynamic management uses CVP analysis to predict and evaluate the implications of its short-run decisions about fixed costs, variable costs, volume and selling price for its profit plans on a continuous basis.

Contribution analysis focuses on contribution margin, which is sales revenue minus total variable costs. The income statement is based on a contribution margin approach and contribution margin is equivalent to revenue minus variable cost. The contribution margin will change if any one of the following variables changes

1. Volume (Unit Sold),
2. Sales Profit or
3. Variable Cost Ratio.

### **Break-Even Analysis**

"Cost-Volume-Profit analysis includes both contribution analysis and break even analysis. Break even analysis. Break even analysis uses the same concepts as contribution analysis; however, it emphasizes the level of output or productive activity at which sales

revenue exactly totals costs; that is, there is no profit or loss. Breakeven analysis rests upon the foundation of cost variability-separate identification and measurement of the fixed and variable components of cost. Breakeven analysis is usually applied to on a "total company" basis”(Welsch 1999, P. 500-501)

Two approaches can be used to compute the break-even point:

1. Algebraic or formula approach and
2. 2. Graphic or chart approach.

Some economic characteristic of Break-Even Analysis are:

1. Fixed expenses, variable expenses and total expenses vary with changes in volume.
  2. Potential profit and loss before and after income tax vary with changes in volume.
  3. Margin of safety is a relationship between budgeted sales and break-even sales.
  4. Break even sales is in amount of units.
  5. The preferred dividend or danger point (the point below which preferred dividends are not earned)
  6. The dead point (sales amount at which the company earns only the going rate on the investment)
  7. The common dividend or unhealthy point (sales amount below which earning are insufficient to pay the preferred dividends and the expected dividend on the common stock)
- 

### **2.9.2. Performance Evaluation and Management Control**

Performance reporting is an important part of a comprehensive PPC system. The performance reporting phase of a comprehensive PPC program significantly influences the extent to which the organization's planned goals and objectives are attained. Performance reports deal with control aspect of PPC or management. The objective of control is to guarantee the achievement of the planned objectives of the management by introducing periodic systematic correction measure. A separate performance reports should be prepared periodically generally, on a monthly basis and occasionally on weekly



or daily basis for each responsibility center, starting with those at the lowest level, which in turn are compiled into summary report for each higher level. Performance reports should clearly distinguish between controllable and non-controllable items. Classification of performance (financial) reports has been described below:

1. **Special External Report** – These are reports to government agencies, regulatory commissions, creditors, investigative agencies, and other groups external to the active management.
2. **Report to Owners** – This is the traditional annual report to the owners (to stockholders in the case of a corporation) and other special reports prepared for the owners. These reports, by and large, are based on "generally accepted accounting principles."
3. **Internal Reports** – These confidential reports are prepared within the company for internal use only. They do not have to meet the needs of external groups, nor the test of "generally accepted accounting principles", but rather the test internal management needs. For purposes of discussion, this category of reports is subdivided into three different sub - classification:
  - a) **Statistical Report** – These are accounting reports that show the historical statistics about all phases of operations. The data included in these reports constitute the detailed financial and operating history of the firm. The continual accumulation of these data is essential for both contemplated and unforeseen uses in the future.
  - b) **Special Reports** – These internal reports are not prepared according to any predetermined schedule. Each one relates to a specific management problem. Their design, scope and comprehensiveness depend on the particular problem at hand.

- c) **Performance Reports** – These reports are usually prepared on a monthly basis and follow a standardized format from period to period (but are not standardized among companies or industries). Such reports are designed to facilitate internal control by the management. They should be composed of carefully selected series of data related to each responsibility center. Fundamentally, they report actual results compared with goals and budget plans. Frequently, they identify problems that require special reports, since these reports are designed to pinpoint both efficient and inefficient performance.”

Preparation reports as suggested above depend on the size of the company and need of situation. Performance report is an important tool to provide necessary information as it reports the performance of every responsibility center.

#### **2.9.2.1. Feature of Performance Report**

The main objective of performance reports is the communication of performance measurement, actual results and the related variances. Performance reports offer management essential insights into all the facets of operational efficiencies. Besides, performance reports pinpoint and reports critical behavioral problems which provides management a basis for the certain follow-up action to find our causes of variations and take necessary corrective action if needed. So, certain criteria must be developed in designing performance reports i.e. performance reports should be:

1. Tailored to the organizational structure
2. Designed to implement the management-by-exception principle
3. Repetitive and related to short time periods
4. Adapted to the requirement of the primary users.
5. Simple, understandable, and report only essential information.
6. Accurate and designed to pinpoint significant distinctions.
7. prepared and presented promptly
8. Constructive in tone.

### **2.9.3. Adapt Performance Reports to Requirement of Users**

The various managers uses their performance reports depends on many factors, some behavioral and some technical. One important factor is the extent to which the performance reports serve the measurement and decision-making needs of the users.

Top management needs reports that give a complete and readily comprehensive summary of the overall aspects of operations and an identification of major events. Middle management needs summary data as well as detailed data on day to day operation. Similarly, lowered level management needs reports that must be detailed, dimple, understandable, and limited to items having a direct bearing on the supervisors, operational responsibilities.

Communication Ways Performances Reports:

The communication of accounting information and performance information of each responsibility center should reach to management in time. "The ways of communicating financial information can be broadly classified as follows:

#### **1. Written:**

- (a) formal financial statements
- (b) Tabulated statistics
- (c) Narration and written expositions
- (d) Ratios and other performance indicators

#### **2. Graphical**

- (a) Charts
- (b) Diagrams and pictures

#### **3. Oral:**

- (a) Group meetings
- (b) Conferences with individuals

A company should use a variety of ways for communicating information to management. In most companies, all the ways listed above should be used from time to time. Select ion of the appropriate way should depend on such factors as the type of report, data involved,

level of management using the report, purpose of the report, background of the principal users, and nature of the operations

### **2.9.3.1. Designing and preparing of Performance Reports**

While preparing and designing the performance report following factors should be kept in mind:

1. Reports are prepared for the use of decision making and control. So it should be able enough to serve the needs of users.
2. Technical jargon may create ambiguity, which should be avoided. Clear descriptions of headings, column headings, side caption, and data should be made.
3. Only actual results and deviations should be presented.
4. Standard format, design, and words should be used in preparing reports.
5. Only those data relevant to users should be included.

### **2.9.3.2. Time Gap Between Decision and Reporting**

Decision making is the key to success of an enterprise. Decision made on the basis of wrong information or delayed information can have adverse impact on the health of the enterprise. It should be remembered that a delayed decision is a denied decision. But it does not mean that reporting should be made at proper time and decision should be made timely. Time gap between reporting and decision making should be minimized for the following reasons.

1. Unfavorable situations and problems are most significant to the supervisors at the time they occur, as the time passes the supervisors become more concerned with new events and less with past.
2. The longer an unfavorable situation continues before correction, the greater the financial losses to the company.
3. With the passage of time, a tendency to regard inefficiency as normal may emerge.

A control system in all but the very small companies should be based on a performance reporting system that provides a continuing evaluation of actual results compared with plans. Planned goals are used to assess actual performance as the business moves through the planning period.

## **2.10. THE FUNDAMENTALS OF PPC**

The fundamentals of profit planning and control need to be established as a sound foundation of managerial commitment. The fundamentals concern with effective implementation of the management, process, responsibility considerable management, organization, activities and approaches necessary for proficient and sophisticated application of comprehensive profit planning. Some of the important fundamentals of profit planning and control are the following:-

- a) Managerial involvement and commitment
- b) Organizational adaptation
- c) Responsibility accounting
- d) Full communication
- e) Realistic expectation
- f) Timeliness
- g) Flexible application
- h) Individual and group recognition
- i) Follow-up
- j) Principle of Exception

### **2.10.1. Managerial Involvement and Commitment**

Comprehensive profit planning control program has emphasized on managerial involvement. Managerial support, confidence, participation and performance orientation includes managerial involvement. All levels of management should involve comprehensive profit planning and control. Specially top level management must be involved in budgeting.

The three most relevant aspects of the PPC concept are "(a) PPC requires major planning decisions by management, (b) PPC entails pervasive management control activities, and

(c) PPC recognizes many of the critical behavioral implications throughout the organization. Viewed comprehensively, PPC is one of the more important approaches that has been developed to facilitate effective performance of the management process”

The direction should come from top level management and the implementation level should follow lower level worker.

**Managerial Time Devoted to Planning Versus Control**

Position	Proportion of Time Spent on
Chairman of the Board President Executive Vice-President Division Head Department Head Assistant Department Head Supervisor Foreman Assistant Foreman Worker	<div style="text-align: center;"> </div>

A comprehensive profit planning program will be successful, if full support of each member of management starting with the president can be ensured. The impetus and direction must come from the top.

Managerial involvement means to decide, to select, to understand, to devote ourselves, to support all its departments and to evaluate the performance of the profit planning and control.

**2.10.2. Organizational Adaptation**

A profit planning and control program must rest upon a sound organizational structure for the enterprise and clear-cut lines of authority and responsibility. The purpose of organizational structure and the assignment of authority is to establish a framework within which enterprise objectives may be attained in a coordinated and effective way on a continuing basis. The scope and interrelationship of the responsibilities of each individual manager are specified. For easy and effective control the organizational structures are sometimes divided into different functional sub-units, and each sub-units

chiefs are assigned with specific responsibilities. These sub-units are known as decision centers or responsibility centers. Some times these responsibility centers are used as a division or department or sales district of the company.

### **2.10.3. Responsibility Accounting:**

The accounting system of any enterprise should be built around the responsibility structure of organization or around functional sub-units. This is called responsibility accounting.

“Profit planning and control requires a responsibility accounting system, that is, one tailored to organizational responsibilities. Within this primary accounting structure, secondary classifications of costs, revenues, and other relevant financial data may be used to meet the needs of the enterprise. A responsibility accounting system can be designed and implemented reason Less of the other features of the accounting system”

### **2.10.4 Full Communication**

According to Glenn A. Welsch “Communication can be broadly defined as an interchange of thought or information to bring about a mutual understanding between two or more parties.” Communication can be by message, dialogue, symbol, a combination of words, understanding that comes from working together etc.( *Welsch 1999*)

Modern world has much emphasized on communication it is said that ‘Communication is Development.’ Most of the management gives least importance to communication but lots of problem persists in an organization due to bad communication system. Communication is needed for observation, control decision making, supervision, evaluation etc. It is needed in organization for both the feed forward and feedback.

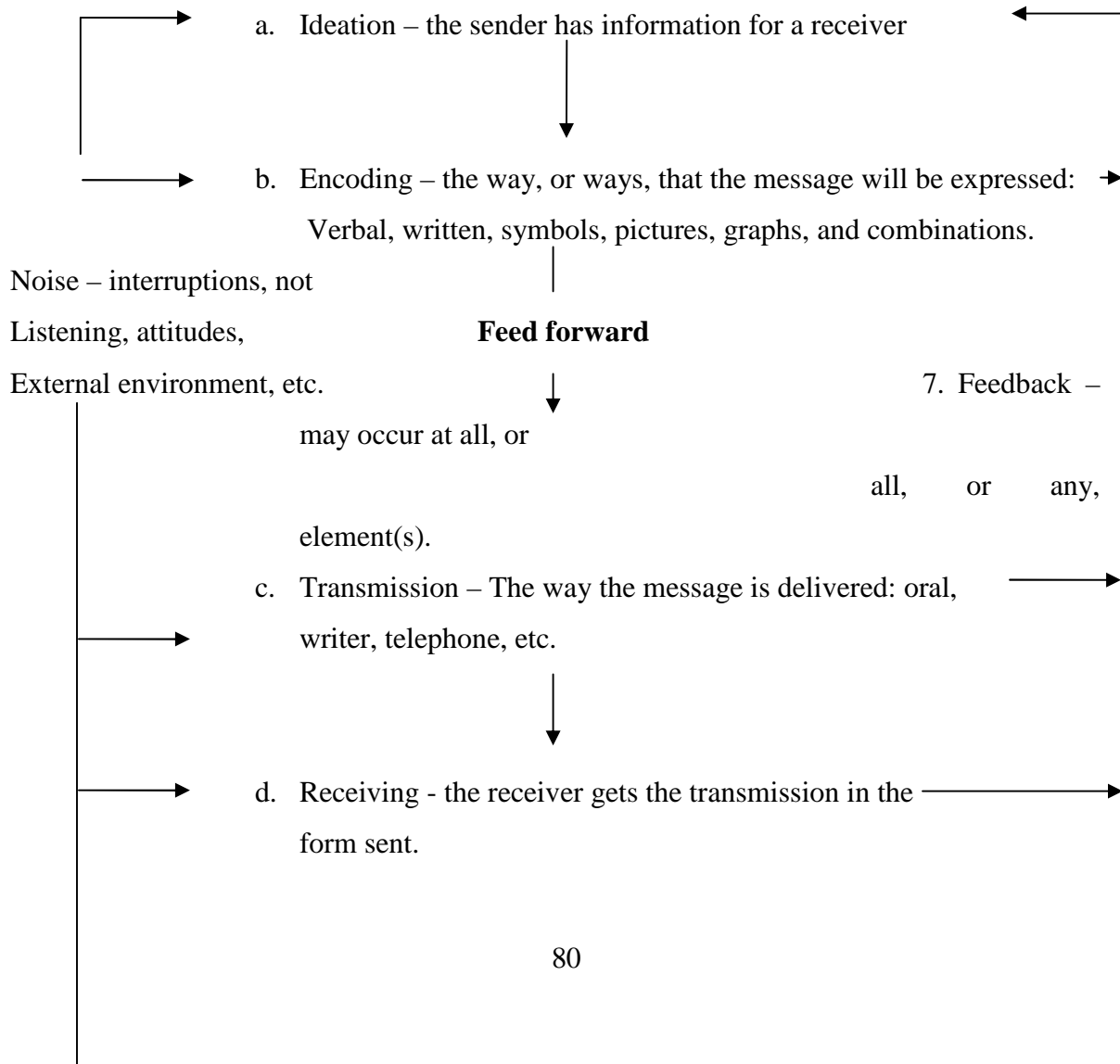
The barriers to effective communication, to quote Koortz and O’Donnel, are the following:

- a) Badly expressed messages
- b) Faulty translation

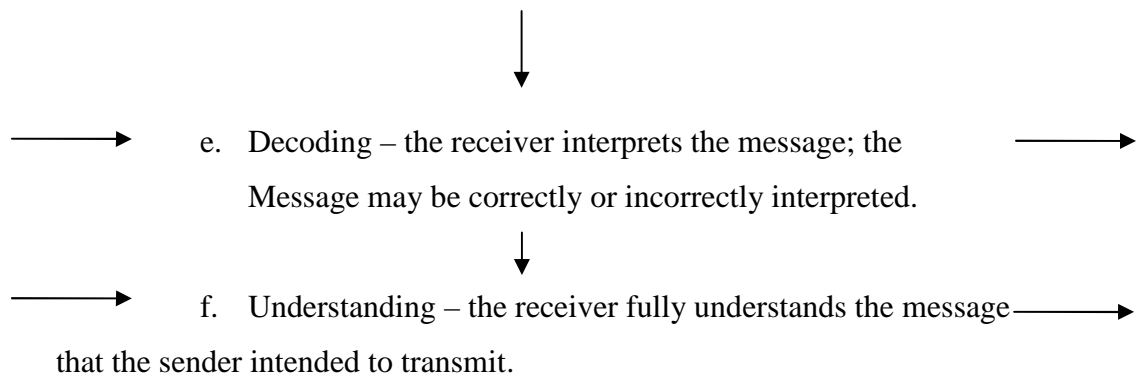
- c) Loss by transmission and poor retention
- d) Inattention
- e) Unclarified assumption Insufficient adjustment
- f) Insufficient adjustment period
- g) District of the communicator
- h) Premature evaluation
- i) Fear
- j) Failure to communicate

On 'Comprehensive profit planning and control' effective communication means development of well defined objective, specification of goals, development of profit plans and reporting and follow up activities related to performance evaluation for each responsibility center.

**“Elements of the Communication Process**







### **Realistic expectation**

Profit planning and control must use realistic assumption or estimation. In profit planning and control, management must not take either irrational optimism or unnecessary conservatism. Perfection on setting goal or objectives of the future sales, production levels, costs capital Expenditures, cash flow and so on determines the success of profit planning and control program. So, for profit planning and control purpose, a realistic approach reared with time dimension and external internal environment that will prevail during the time span should be considered. This is called realistic expectation.

The goal or objective should neither be too humble not too high but should be attainable with high level of efficiency. Because goals set very low will destroy motivation as it does not require efforts and goal set high will discourage the implement as it would not be attained with existing capacity of the units.

For budgeting purpose and objective also realistic expectation is needed. Because both over or under estimation of budget have negative effect which destroy whole planning of the enterprises.

### **2.10.6. Timeliness**

For budgeting purpose planning activities and implementation must be carefully related to time. Phasing of the planning are of two types:

- a) Timing of planning horizons and
- b) Timing of planning activities.

Planning horizons is the time for which the planning is done or we can call it life span of the plan. For any enterprise there should be many planning horizons to maintain the continuity of planning activities. On timing of planning horizons, managerial decision which reflects planning activities always affects future activities. It does not have any effects on present or past.

Effective implementation of planning, management of an Enterprise and other functional activities establish a definite time dimension for certain types of activities. This is called timeliness of planning activities.

A manager should maintain distinction between historical and futuristic considerations. Futuristic determinations plan can be of two types: periodic and project plan. Periodic plan denotes the plan for the activities to be accomplished within a certain given time. Some times periodic plan includes many project plans and vice versa. Periodic plans are of two categories: tactical or short range and strategic or long range. Project planning meets the specific requirements for an enterprise within certain time limits. Evaluation of the project plan is done on the basis of degree of activities, whereas the periodic plan needs evaluation on the basis of calendar-yearly, monthly and daily. “Effective implementation of the profit planning and control concept requires that the management of the enterprise establish a definite time dimension for certain types of decisions.” (Welsch, 1999)

#### **2.10.7. Flexible Application**

“A profit planning and control program must not dominate a business. When implementing plan, there must be a forthright management “override” policy so that “straitjackets” are not imposed and all favorable opportunities are seized even though “they are not covered by the budget.” (Welsch, Hilton & Gordon 1999, P.51)

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

into the decision-making process when plans are developed. The PPC approach anticipates exceptions, adjustments, and preplanning as situation evolves. The prior profit plan provides a basis for evaluating the broader impact of the unanticipated events on the overall financial picture for the enterprise.

"Similarly, in the area of control, flexibility is especially important. Expenses and cost budgets must not be used and interpreted rigidly. The budget must not constrain rational decisions that should be made with respect to expenses merely because expenditure was not anticipated. Also, variable expense budgets are frequently used to meet one of the problems of cost control arising from a change in circumstances."

#### **2.10.8 Individual and Group Recognition (Behavioral Viewpoint)**

CPPC has considered the approach and focus to resolve the behavioral problems. Behavioral aspects of human beings are of the field of study of the psychologist, educators and business man, and finding was that there can be so many unknown misconception and speculations which have to be considered for an efficient management. A good and dynamic leadership can resolve these problems by integrating all the groups' efforts for betterment of the organization.

'An ounce of behavior is better than a kilo of theorem.' So, human behavior has to be improved. Motivation of human resources by effective has to be improved. Motivation of human resources by effective management can be had through dynamic leadership. To motivate men there should be a good harmony between their personal interest and organizational interest, and goals have to be identified accordingly.

The CPPC concept provides a means to resolve largely the goal orientation problems in an enterprise. Effective participation of all levels of management has to be ensured in the development of these goals, related policies, and their modes of implementation.

Management is mainly based upon the recognition of group and individual to tackle problems and to divert the attention of the workers in positive way.

### **2.10.9 Follow Up**

Organization performance should be checked by planning and controlling process monitoring, supervision and evaluation. Poor performance should be corrected. Outstanding performance should be recognized and the responsible person should be rewarded or motivated for excellent performance. "This fundamental holds that both good and substandard performance should be carefully investigated, the purpose being threefold:

- (1) in the case of substandard performance, to lead in a constructive manner to immediate corrective action;
- (2) in the case of outstanding performance
- (3) to recognize it and perhaps provide for a transfer of knowledge to similar operations;  
and
- (4) to provide a basis for better planning and control in the future."(*Glenn A. Welsch, 1999, P.49*)

### **2.10.10 Principle of Exception**

"A comprehensive profit planning and control program facilitates control in many ways; underlying these is the measurement of actual performance against planned objectives, goals, and standards and the reporting of that measurement in performance reports. This measurement and reporting extends to all areas of operations and to all areas of operations and to all responsibility centers in the enterprise. It involves reporting

- (1) actual results,
- (2) budgeted or planned results, and
- (3) the differences (performance verification) between the two.

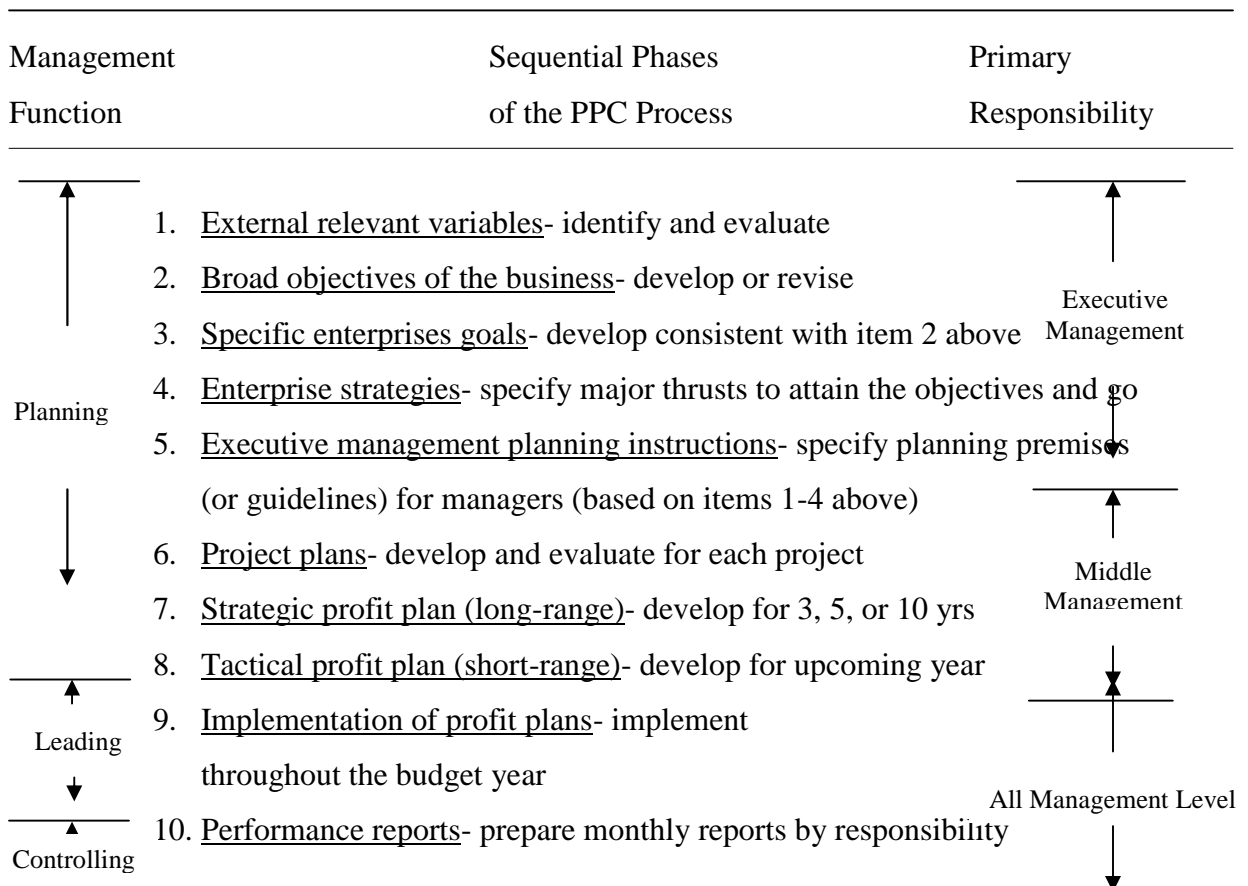
This type of reporting represents an effective application of the well-recognized management exception principle. The exception principle holds that the manager should concentrate primarily on the exceptional or unusual items that appear in daily, weekly, and monthly reports, thereby leaving sufficient managerial time for overall policy and planning considerations. It is the "out-of-line" items that need immediate managerial attention to determine the causes and to take corrective action. The items that are not out of line need not utilize extensive management time; however, they should trigger "rewards" in appropriate ways to implement the exception principle, techniques and

procedures must be adopted to call the manager's attention to the "out-of-control" items. Conventional accounting reports tend to present a mass of figures with no basis for calling attention to the unusual or exceptional items. Alternatively, performance reports, because they include a comparison of actual results with plans by areas of responsibility, emphasize in a relevant way performance variations. The out-of-line items stand out. It is with respect to these items that the busy executive should investigate, determine the causes, and take corrective action." (*Coated in Welsch, 1999, 5<sup>th</sup> Edition P.45*)

## 2.11 THE PROFIT PLANNING AND CONTROL PROCESS

A PPC process encompasses the application of a number of related management concepts through a variety of approaches, techniques and sequential steps. It necessarily integrates the planning, leading and control functions of management. A PPC program includes more than the traditional idea of a periodic or master budget. Welsch, Hilton & Gordon's "Budgeting: PPC" book exhibits an overview of a typical PPC process, which is presented below.

### Overview of the PPC Process



The above formal PPC process is repeated on an annual basis. Thus, all the basic steps in the planning phase would be reviewed and evaluated annually. These above 'PPC Process' steps are outlined in the following study.

### **1) Identification and Evaluation of External Variables**

Firstly, we have to segregate the variables in external and internal and then evaluate the external variable. The external variables are population, GNP, Industry sales, competitive activities, industry (in which to compete), product lines etc. And internal variables are employees, capital, research, advertising, productivity, pricing product, sales methods, production methods, operating fixed and variable costs, etc.

"The variable-identification phase of the PPC Process focuses on (1) identifying and (2) evaluating the effects of the external variables. Identification also involves separate consideration of variables that are non-controllable and those that are controllable. By relevant variables we mean those that will have a direct and significant impact on the enterprise. Analysis and evaluation of the environment variables must be a continuing concern of management. A particular significant phase of the analysis includes an evaluation of the present strength and weakness of the enterprises."(Welsch 1999, P.74-75)

### **2) Development of the Broad Objectives of the Enterprises**

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

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

- 1) To define the purpose of the company
- 2) To clarify the philosophy-character of the company
- 3) To create a particular “climate” within the business
- 4) To set down a guide for managers so that the decisions they make will reflect the best interests of the business with fairness and justice to those concerned.”

### 3) **Development of Specific Goals for the Enterprise**

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

### 4) **Development and Evaluation of Company Strategies**

Company strategies may be short term or long term. Strategies are the basic thrusts, ways, and tactics that will be used to attain planned objectives and goals. Some examples of basic strategies are:

- 1) Increase long-term market penetration by using technology to develop new products and improve current products.
- 2) Emphasize product quality and price for the ‘top’ of the market.
- 3) Expand market to all the sectors. The company will not enter foreign markets in the foreseeable future.
- 4) Market with low price to expand volume.
- 5) Use both institutional and local advertising programs to build market share.

- 6) Improve employees morale and productivity by initiating a behavior management program.

The best alternative should be chosen among the probable alternatives for attaining the planned broad objectives and specific goals. Strategies focus on 'how' so that, they outline a plan of action for the enterprise.

#### 5) **Executive Management Planning Instructions**

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

The executive planning instructions, issued by top management, communicate the planning foundation that is necessary for the participation of all levels of management in the development of the strategic and tactful profit plans for the upcoming budget year." *(Welsch 1999)*

#### 6) **Preparation and Evaluation of Project Plan**

Periodic plans and project plans are different in feature and function. "It will be recalled that project plans encompass variable time horizons since each project has a unique time dimension. Also, recall that project plans encompass such items as plans for improvement of present products, new and expanded physical facilities, entrance into new industries, exit from products and industries, new technology utilization, and other major activities that can be separately identified for specific planning purposes. The nature of projects is such that they must be planned as separate units. In planning for a project the time span to be considered normally must be the anticipated life span of the project." *(Glenn A. Welsch, 1999)*

The preparation and evaluation of current and future project plans are essential on a formal basis as a part of the profit planning activities.



### 7) **Development and Approval of Strategic and Tactical Profit Plan**

“When the managers of the various responsibility centers in the enterprise receive the Executive Management Planning Instructions and the Project Plans, they can begin intensive activities to develop their respective strategic and tactical profit plans. The strategic long-range plan and the tactical short-range profit plan are usually developed concurrently. It is possible (and not infrequent) that executive management or the chief financial executive will develop the strategic and tactical profit plans. This approach is seldom advisable because it denies full participation in the planning process by middle managers. Lack of participation can cause unfavorable behavioral effects.

Assuming participatory planning and receipt of the Executive Management Instructions, the manager of each responsibility center will immediately initiate activities within his or her responsibility, center to develop a strategic long-range profit plan (say, five years) and in harmony with the five-year plan, a tactical short-range profit plan (one year).”(*Welsch, Hilton & Gorden 1999, P.80*)

### 8) **Implementation of Profit Plans**

That profit plan strategies should be implemented by every level management is an accepted norm. “Implementation of management plans that have been developed and approved in the planning process involves the management function of leading subordinates in subordinates in attaining enterprise objectives and goals. Thus, effective management at all levels requires that enterprise objectives, goals, strategies, and policies be communicated and understood by subordinates. There are many facets involved in management leadership. However, a comprehensive profit planning and control program may aid substantially in performing this function. Plans, strategies, and policies developed through significant participation establish the foundation for effective communication. The plans should have been developed with the managerial conviction that they are going to be met or exceeded in all major respects. If these principles are effective in the development process, the various executives and supervisors will have a

clear understanding of their responsibilities and the expected level of performance."  
(*Welsch 1999P.84*)

#### 9) **Use of Periodic Performance Reports**

Performance report shows whether the implemented strategies have been used appropriately or not and the specific objectives fulfilled or not. Profit plans are being implemented during the period of time specified in the tactical plan. The periodic performance reports are very important, which are prepared by the accounting department on a monthly basis.

Also some special performance reports are prepared more often on an 'as needed' basis. These performance reports compare actual performance with planned performance and show each difference as a favorable or unfavorable performance variation.

In an organization there must be made external and internal financial reports. Internal reports can be further classified as 1) statistical reports that give the basic quantitative internal statistics about the operations of the enterprise; 2) special managerial reports about nonrecurring and special problems and 3) periodic performance reports. The latter reports focus on dynamic and continuous control tailored to the assigned managerial responsibilities. These reports are primarily repetitive, short-term reports developed for each of the responsibility centers.

#### 10) **Use of Flexible Expense Budgets**

The flexible expense budget is also referred to as the variable budget, sliding scale budget, expense control budget, and formula budget. The flexible budget concept applies only to expenses. It is completely separate from the profit plan, but it is used to complement it. Flexible budgets give realistic information about expenses that make it possible to compute budget amounts for various output volumes or rates of activity in each responsibility center. To do this, the flexible budget provides a formula for each expense in each responsibility center. The formula gives the relationship of each expense to output in the center. Each formula includes a constant expense factor and a variable expense rate.

Classification of expenses and others have expressed in "Flexible Budget" topic of this thesis.

#### 11) **Implementation of Follow-up**

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

Finally, there should be a special “follow-up of the prior follow-up actions. This step should be designed to (1) determine the effectiveness of prior corrective actions and (2) provide a basis for improving future planning and control procedures.

Other some have expressed about follow-up in "follow-up procedure" topic of this thesis.

#### **2.12. MERITS AND DEMERITS OF PPC**

PPC has both merits and demerits. In other words, there can be arguments for or against it. The following main arguments are usually given against profit planning and control:

1. It is difficult, if not impossible, to estimate revenues and expenses in our company realistically.
2. Our management has no interest in all the estimates and schedules. Our strictly informal system is better and works well.
3. It is not realistic to write out and distribute our goals, policies, and guidelines to all the supervisors.
4. Budgeting places too great a demand on management time, especially to revise budgets constantly. Too much paper work is required.
5. It takes away management flexibility.

6. It creates all kinds of behavioral problems.
7. It places the management in a straitjacket.
8. It adds a level of complexity that is not needed.
9. It is too costly, aside from management time.
10. The managers, supervisors, and other employees hate budgets.” (*Welsch 1999, P.60*)

The following main arguments are usually given for profit planning and control:

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

13. It promotes understanding among members of management of their co-worker's problems.
  14. It forces management to give adequate attention to the effect of general business conditions.
  15. It forces a periodic self-analysis of the company.
  16. It aids in obtaining bank credit; banks commonly require a projection of future operations and cash flows to support large loans.
  17. It checks progress or lack of progress toward the objectives of the enterprise.
  18. It forces recognition and corrective action (including rewards).
  19. It rewards high performance and seeks to correct unfavorable performance.
  20. It forces management to consider expected future trends and conditions.”
- (Welsch 1999,P.60-61)*

“Aside from the arguments cited for and against PPC (some of them have little merit), the following critical features are always present:

1. The Profit Plan is Based on Estimates.
2. A Profit Planning and Control Program must be Continually Adapted to Fit Changing Circumstances.
3. Execution of a Profit Plan Will Not Occur Automatically.
4. The Profit Plan is not a Substitute for Management.

### **2.13 PPC IN NEPALESE PUBLIC ENTERPRISES**

The report of auditor general of Nepal has mentioned that most of the corporation do not perform their profit planning and control program. It is to be seen in many corporations that, annual targets were not fixed on the basis of investment and achievement and by virtue of which there is no relationship between target and achievement. In these corporations annual budget have become just formalities. Nepalese Public Enterprise are running without well determined strategies and programs, or, without any sound plan of actions.

There are many problems in the formulations of planning programs in Nepalese Public Enterprises. In many Public Enterprises, planning is formulated by the top level management, being unknown of Enterprises situations. There is no system of describing business situation formally and properly. And many Nepalese Public Enterprises management do not develop a long term perspective development plan. All division chiefs/managers show their dominating tendency and prevail upon the minors or juniors even in executing their normal duties. 'Nepalese Public Enterprises' are not properly using PPC system. All these sorts of problems are responsible for incurring losses to most of the Public Enterprises. So, to give thrust to Nepalese Public Enterprises, these problems need to be corrected by bringing into effect the PPC system.

## **2.14 REVIEW FROM RESEARCH WORKS**

Some researches have been made in the areas of profit planning and control in Nepalese context. It should not be accepted as the topic to be studied in an easy way/manner. All these researches are for the partial fulfillment as required of master's level. Except a few most of them are not found. An attempt is made here to review some of the research works submitted on profit planning and control in the context of Nepal.

### **2.14.1**

Mr. Khagendra Prasad Ojha (2004) has submitted a dissertation on the topic, "Profit Planning in Manufacturing Public Enterprises. A case study of Nepal Aushadhi Limited and Herbal Production and Processing Company Limited". Mr. Ojha's present basic research objective is to highlight the current practice of profit planning and its effectiveness in Nepalese public enterprises. This broad objective is to highlight the current practice of profit planning and its effectiveness in Nepalese public enterprises. This broad objective has specified in following main sub objectives:-

- a) To examine the practice and effectiveness of profit planning in NAL and HPPC
- b) To analyze the various functional budgets adopted in these enterprises.
- c) To evaluate the variance between targets and actual of the enterprises.
- d) To draw a picture of profit planning process adopted in these two enterprises with theoretical prescriptions.

The period covered by Mr. Ojha's study was six years i.e. from the fiscal year 056/57 to fiscal year 061/62. Necessary data were collected both from the primary and secondary sources.

Some major findings of this study as pointed out by Mr. Ojha are as follows:

Major findings about NAL:-

- a) Lack in co-ordination among departments
- b) Inadequate planning of profits due to lack of skilled planners.
- c) Inadequate authority and responsibility to planning department.
- d) Failure in achievements due to inadequate evaluation of internal and external variables.
- e) Failure due to inadequate forecasting system.
- f) Red-tapism in implementation phase of profit plans.
- g) Lack of entrepreneurship and commercial concepts in overall operation of the enterprise.

Major findings about HPPC:-

- a) Inadequate evaluation of relevant internal and external market variables.
- b) An unrealistic sale forecasts.
- c) Excessive foxed costs.
- d) Inadequate planning due to lack of planning experts.

Mr. Ojha has recommended some measures on the basis of his study. His Main recommendations are:-

- a) Nepalese public enterprises should be operated on commercial basis.
- b) Price-Cost-Volume relationships should be taken into consideration while developing sales plan and pricing strategies.
- c) System of periodical performance reports should be strictly followed.
- d) HPPC should try to reduce the investments in current assets to avoid idle working capital.
- e) It seems necessary to develop, implement and improve the process of profit planning from the very beginning to the end.

At last, Mr.Ojha has recommended that a systematic approach to comprehensive profit planning is essential to adopt in the public enterprises in Nepal.

### **2.14.2**

Mr. Laxman Sharma Poudel (2009) has conducted a research in the topic, “Profit Planning and Control” (A case study of Gorakhkali Rubber Industry Limited) Mr. Poudel’s main objective for conducting this research is to examine how far the different functional budgets are being applied as tools for profit planning in business enterprises. The other main objectives of research are:-

- a) To sketch the trend of profit/loss.
- b) To see Gorakhkali Rubber Industry’s profit planning on the basis of overall managerial budgeting.
- c) To evaluate the variance between targets and actual of the enterprises,
- d) To examine the practice and effectiveness of profit planning.

The time period covered by this research was four years from fiscal year 062/63 to fiscal year 065/66. The data and other necessary informations were collected by using secondary as well as primary sources of data. Mr. Poudel has pointed out various findings and recommendations. Among them the remarkable findings and recommendations are as follows.

#### **Findings:-**

- a) Inadequate evaluation of relevant internal and external market variables.
- b) Unrealistic or over ambiguous sales forecasts.
- c) Excessive fixed costs.
- d) Inadequate planning of profits due to lack of skilled planners.
- e) Inadequate knowledge of technical knowhow.
- f) Low productivity of manpower
- g) Excessive inventory.



**Recommendations:-**

- a) Industry should develop the long-term strategic plans for every aspects of its operation.
- b) The objective of the industry should be clearly stated and should have in-depth analysis of the Industry's strengths and weaknesses to find out the way to overcome its weaknesses.
- c) The pricing policy of the industry should be revised and cost volume profit relationship should be considered while pricing the products.
- d) Cost reduction is the only way to increase the industry's profitability.
- e) To increase the export sales of the industry, effective sales promotion activities should be made.

**2.14.3**

Mr. Gunakar Bhatta (2003) has conducted a research on "Profit Planning in Nepal Electricity Authority". In this research he has tried to point out the application of comprehensive profit planning system in Nepal Electricity Authority. The chief objectives of Mr. Bhatta's research work are:-

- 1) To examine the present profit planning premises adopted by Nepal Electricity Authority.
- 2) To observe the Nepal Electricity Authority's profit planning on the basis of overall managerial budgeting.
- 3) To analysis the variance between budgets and actual achievement of the authority.

Mr. Bhatta's research covers the time period of five years from fiscal year 1998/99 to fiscal year 2002/03. Primary as well as secondary data have been used in this research report. Mr. Bhatta has depicted various findings. Some major findings are as Follows:-

- 1) The Authority fails to maintain its periodic performance report systematically.
- 2) Specific goals and objective are not conveyed to lower level staffs.
- 3) The top level executive are only involved in planning and decision making and lower level participation is not encouraged.

- 4) The Authority is suffering from high fixed costs and it is also suffering from the high rate of power loss.

Mr. Bhatta has recommended some measures on the basis of his study. His main recommendations are:-

- 1) Leakage of the electricity should be controlled and installed capacity of NEA should be utilized fully.
- 2) NEA must follow the immediate measure to control staff cost and adm.cost.
- 3) It should try to increase the volume of industrial sale.
- 4) The NEA should try to avoid loan shedding.

#### **2.14.4.**

Mr. Sunil Prasad Dhital (2009) has submitted a dissertation on the topic, "PPC in Manufacturing Public Enterprise of Nepal: A case study of Himal Cement Company Limited". His research study is conducted:

- 1) To interpret the trend of profit of Himal Cement Company Limited (HCCL).
- 2) To see how far the HCCL is participating on contributing the national development.
- 3) To see the practical problem on application of PPC in Nepalese Es.
- 4) To know how far profit making objectives are defined and formulated in short and long term of the HCCL.

This study covers the period of 10 years starting from fiscal 056/57 For the sake of long run planning he has used the period of 10 years. Very few data for sales and production estimation have been used. Data were taken from both sources: Primary & Secondary.

Some major finding pointed out by Mr.Dhital are as follows:-

- 1) Lack of co-ordination and co-operation among the personned.
- 2) Inadequate planning of profits, due to lack of expert planners.
- 3) NEPAL GOVERNMENT intervention through rules, regulation and circular.
- 4) Failing to supply right product in a right quality and right time.
- 5) Lack of entrepreneurship and commercial concept in the operation.

- 6) Lack of expressed and well-defined rules, responsibilities and authorities.

Mr.Dhital has recommended various recommendations. Among them the major recommendations are:-

- 1) The company should prepare a clear profit plans: short-range as well as long range.
- 2) The company should concentrate on preparing financial plan very clearly and the company should strictly follow and implement the standard costing approach.
- 3) The proper inventory system regarding raw materials as well as work-in-process should be maintained.
- 4) The company should follow the modern management system with modern equipments and the information system: down ward and upward, should be accepted by the management of the HCCL and then participation of lower level in setting goals.

## **2.15 RESEARCH GAPS**

All the research studies mentioned above about profit planning system are basically related to the planning system of profit of Nepalese Public Enterprises. The findings of all these studies are more or less the same. All have pointed out that there is no proper profit planning and control system, and, hence, have recommended for the effective implementation of profit planning system.

This study paper is a bit different form them. All the studies have not been able to present the budget's role in planning the profit and control the performance. So this study is designed to highlight the budget's role in the profit planning system. For this purpose specially the major parts of budget-sales budget and production budget and their cost have been analyzed in depth. This is the only one thesis which gives knowledge of all the aspects of PPC. Finally the research concludes with various findings and recommendations for immediate and long-term improvements and corrections.

## **CHAPTER- III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Industrial development is a fundamental base for the national development, and the manufacturing public enterprises are the back bone of industrial development. The Government has invested huge amount of money for Public Enterprises for the national development. The return from such Public Enterprises are not, however, satisfactory or the achievement from such Public Enterprises is very poor. In this situation, the application of profit planning may be panacea for such Public Enterprises.

The basic objective of this study is to highlight the degree of application of profit planning concept in NAL. The study makes an analysis the degree of sales realization in respect to budget figure, planned production and actual production, and examines the cost structure for this purpose the following methodology has been used.

#### **3.2 RESEARCH DESIGN**

A well set research design is necessary to conduct any type of research and realize the research objective. The research design implies procedures, techniques and tasks which serve as guide both evaluation of objectives of the study and propound way for research viability.

The study proposes to deliberate on the applicability of profit planning & control to the NAL with an analysis of sales and production targets and achievement trend, seasonal sales and production trend, capacity utilization, cost structure, BEP trend, NAL's inventory etc. For this purpose the study is designed under descriptive and quantitative methods.

#### **3.3 PERIOD COVERED**

This study covers the period of 10 years starting from F/Y 2056/57 to F/Y 2065/66. For the cost structure, the average of past six years from F/Y 2056/56 to 2061/62 is used for

last four years from 2062/63 to 2065/066. In the chapter trends of seasonal sales and production 2065/66 data of 12 months have been used starting from Srawan 2065 to Ashad last 2066.

### **3.4 NATURE AND SOURCE OF DATA**

Primary as well as secondary data have been used in this research report. The secondary sources of data are:

1. Published and unpublished relevant documents. Unpublished documents are kept into account by the A/C Department of NAL
2. Magazines publications
3. Report of Auditor General Office
4. Booklets published by NEPAL GOVERNMENT on the relevant matters

Primary data are based on a questionnaire as well as unstructured dialogues and discussions with the executives and other staffs of NAL. The questionnaires are shown in the appendix at the end of this study.

### **3.5 STATISTICAL TOOLS USED**

Mostly percentage method has been used though average method has also been taken into account. Side by side graph and tabulation have been given for clear presentation. Other necessary tools and techniques of analyzing like break-even point etc. have also been used.

## **CHAPTER- IV**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Introduction**

It is necessary for the Es to formulate the goals and objectives for operational purpose. Profit planning is the formal expression of the enterprises plan, goals and objectives stated in financial term for its destination. Profit planning is a systematic approach for attaining effective managerial performance. Profit planning is a managerial tool which is applied by every business, either manufacturing or non-manufacturing enterprises. "Comprehensive profit planning and control is viewed as a process designed to help management effectively perform significant phases of the planning and control functions." (*Welsch 1999, P.30*)

Public enterprises in the country are established for the development and strengthening the industrial infrastructure. Public Enterprises are providing essential goods and services to the nation. Moreover Public Enterprises help in generating Government revenues and to get control over the price. Thus the Public Enterprises are directly and indirectly contributing to the development of nation.

Profit is a must for business for continuity in development and fulfillment of social expectation. Generally the effectiveness of business organization is measured from their earning power. Although the concept of profit is changing time to time, the objective of profit has been taken as a traditional view. At present, profits approach is accepted which is possible through reduction of cost. Besides, the enterprises should take into consideration of preserving environment and supplying goods and services in time at reasonable price. In other words, the enterprises should consider social responsibility and its contribution to Government revenue before attainment of its profit goal. The enterprises plan should be formulated within a framework of four major elements 1) Economic, 2) Technical, 3) Social and 4) Political. It has been suggested by business logic to meet the expectations of the public. The Public Enterprises should able to utilize the limited and scarce resources in a better way. It means that it has to utilize the limited

resources economically. The Public Enterprises should make effort to curtail its spending in unproductive sector.

In this 'Data Presentation and Analysis' chapter data are presented in a systematic way in tabular forms and graphs charts. On the basis of various data and techniques an effort is made here to analyze sales and production aspects of profit planning of NAL.

## **4.2 SALES PLANNING**

Sales plan provides basic management decisions for marketing strategies. On the basis of these decisions and strategies the enterprises can develop a comprehensive sales plan.

The sales plan is that step which opens the door of financial plan. It is an estimation of sales for a period of time for future. The 'sales planning' is already described under previous chapter 'Sales Budget'.

According to senior executive of NAL, while determining the sales price, NAL either uses cost oriented pricing method or competition oriented pricing method as per the needs of time. In the cost oriented pricing method, price determines on the basis of production cost incurred on goods or services. If the price is determined keeping in view the competitive market price it is called competition oriented pricing method.

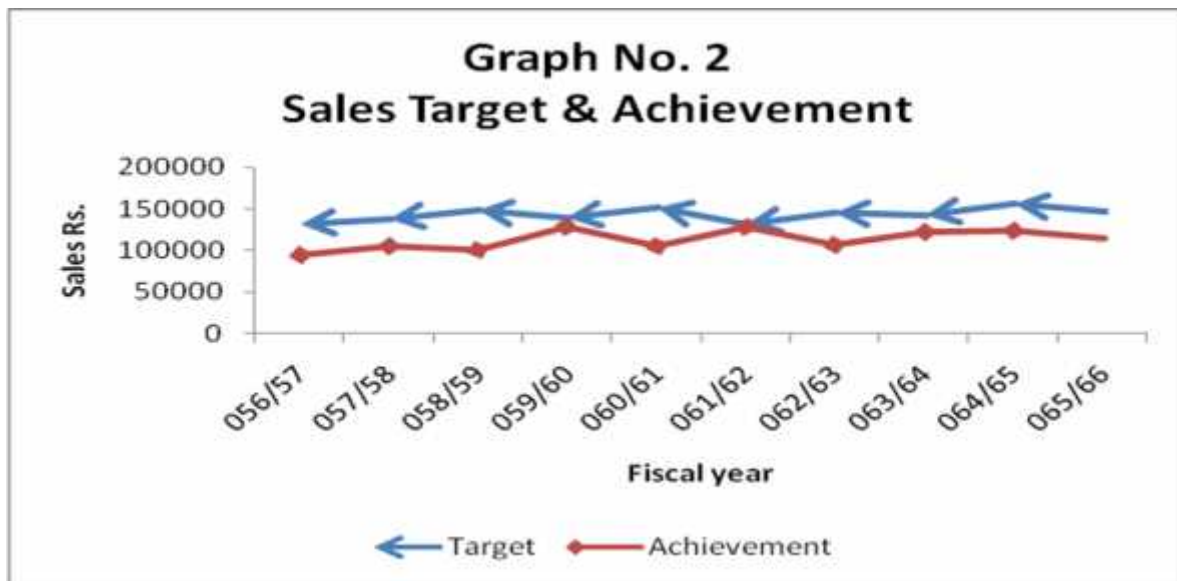
### **4.2.1 Long Term Sales Plan of NAL**

**Table No.2**  
**Sales plan and Achievement in Rs (000)**

<b>F/Y</b>	<b>Target</b>	<b>Achievement</b>	<b>% Achievement of Target</b>
056/57	132385	95623	79.45
057/58	137566	105245	84.15
058/59	148940	100642	74.32
059/60	140250	128431	100.73
060/61	152900	105682	76.03
061/62	135300	129632	105.39
062/63	146577.2	106541	79.95
063/64	143253	122586	94.13
064/65	157591.5	123542	86.23
065/66	147631	114562	85.36

Source: Auditor's Report of NAL 2056/57 to 2065/66 and other unpublished document of the company.

In above table, there is over achievement of targeted sales in 2059/60 and 2061/62 I think this budget was not make in trend of past or without analyzing the previous comparison of actual and budgeted sales, but budget should be trend-wise. Here in 2059/60 budgeted sales is less than in previous budgeted sales. In my view the NAL has not been applying proper PPC theory.



The amounts in the given table are in factory price. The table presents the sales target, achievement and percentage achievement of target. In comparison between target and achievement, substantial gaps can be observed. The figures in the table show the fluctuating trend of sales target and achievement, which is also shown in graph No.2. Only few fiscal year's figures show high fluctuation. So management is facing difficulties in estimation of future sales. The deviation between target and achievement indicates the deficiency in planning.

The fiscal year 059/60 and 060/61 recorded a remarkable sales achievement of 100.73 & 105.39 percent of target respectively. It is due to increase in production as well as sales. It also attributed to the import of good quality of raw materials.



The lowest sales achievement is 74.32 percent of targeted sales in fiscal year 058/59. It is remarkable among the year's figure under the study.

In the fiscal year 060/61 and 062/63, the sale achievements are 76.03 and 79.95 respectively, which show the production and sale of medicines is low.

Under the study period of two years' sales achievements exceeded more than hundred percent of the sales target and other years' sales achievements were fifty percent more than sales targets.

There is substantial gap between sales target and achievement trend of each year of the company. The political instability, mismanagement, unnecessary personnel appointment, irregular electricity supply, defect in production process, frequent breakdown of plant etc. might be taken as the responsible factors.

There is a greater demand for the production of NAL compared to other medicines productions in the Nepalese Market. As such, it is imperative to increase production capacity of the NAL. Most of the problems relating to the sale will come to an end if the problem of production could be solved.

The following graph shows the fluctuating trends of sales target and achievements.

#### 4.2.2 The Trend of Seasonal Sales Analysis of 065/66

**Table No. 3**

##### **Seasonal Trend Sales of 065/66**

<b>Details</b>	<b>Achievement Rs.(000)</b>	<b>Seasonal Sales Trend %</b>
Shrawan	9971.5	8.7043
Bhadra	9533.7	8.3215
Aswin	10583.1	9.2378
<b>Total of the 1<sup>st</sup> Quarter</b>	<b>30088.3</b>	<b>26.2636</b>
Kartik	10441.2	9.1135
Mangsir	10353.2	9.0376
Poush	9785.6	8.5415
<b>Total of the 2<sup>nd</sup> Quarter</b>	<b>30580</b>	<b>26.6926</b>
Magh	10653.5	9.2994
Falgun	11695.2	10.2091
Chaitra	10367.5	9.0497
<b>Total of the 3<sup>rd</sup> Quarter</b>	<b>32716.2</b>	<b>28.5571</b>
Baisakh	10844.9	9.4666
Zestha	11069.3	9.6624
Ashad	10719.5	9.3566
<b>Total of 4<sup>th</sup> Quarter</b>	<b>32633.7</b>	<b>28.4856</b>
<b>Grand Total of the year</b>	<b>126018.2</b>	<b>100</b>

Source: NAL sales department record

The company has no practice of preparing short-term sales and production target. It prepares only long-term sales and production scheme. So here is presented the trends of seasonal sales (quarterly) for the fiscal year 065/66.

There is decrease in sale in the months of Srawan and Bhadra ,065it is due to rainy season and general maintenance time. The sales recorded are only 8.7 and 8.3 percent in

the month of Srawan and Bhadra 065 respectively. Similarly, the sales percentage for the month of Poush 065 seems low i.e. 8.5.

The maximum seasonal sales trend percentage of the fiscal year is 10.20 in the month of Falgun 2065 and the second highest seasonal sales trend percentage is 9.6 in the month of Zesth 2066. The trends of sales for the rest months are normal.

The observation of quarterly seasonal variation of sales, the third quarter seasonal sales trend percent have 28.5571 which is the highest sales trend percent and the months included are Magh, Falgun and Chaitra. The first quarter seasonal sales trend percent have 26.26 which is the lowest seasonal sales trend percent of the fiscal year of 065/66 and months included Srawan, Bhadra and Aswin.

### **4.3 SELLING, DISTRIBUTION AND ADMINISTRATIVE EXPENSES**

NAL is incurring various selling and distribution expenses to sell medicines in the market. The main distributor of the company is Sajha Swasya Sewa. Sales agents are also appointed for selling medicine; they are receiving commissions from the company. Other selling expenses of the company are traveling, custom duty and transportation, communication, advertisement etc. Administrative expenses includes stationary & printing, books and periodicals, bank charges, public relation, donation and prize, meeting allowances and expenses, salary, provident funds etc. Some expenses are included under the selling, distribution and administrative expenses. In the table No. 4, the percentage of fixed, variable and semi-variable cost of selling, distribution and administrative expenses has been shown clearly.

**Table No.4**  
**Cost Structure of Selling, Distribution & Administrative Expenses**

<b>Particular</b>	<b>056/5</b>	<b>057/5</b>	<b>058/5</b>	<b>059/6</b>	<b>060/61</b>	<b>061/6</b>	<b>062/6</b>	<b>063/6</b>	<b>064/6</b>	<b>065/66</b>
	<b>7</b>	<b>8</b>	<b>9</b>	<b>0</b>		<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	
<b><u>Variable Cost</u></b>										
Travelling Expenses	6.82	7.53	3.20	3.60	12.01	13.63	6.13	6.13	6.13	6.13
Fuel Expenses	10.82	15.86	9.94	11.86	15.65	14.11	19.71	19.71	19.71	19.71
Printing & Stationary	3.76	5.67	15.99	2.55	2.51	8.81	8.05	8.05	8.05	8.05
Books & Periodicals	0.46	0.70	0.24	0.20	0.17	1.01	0.46	0.46	0.46	0.46
Bank Charges	1.98	1.07	1.02	5.11	0.83	2.99	5.33	5.33	5.33	5.33
Public Relation	2.65	2.12	4.36	5.48	0.80	2.63	1.51	1.51	1.51	1.51
Custom Duty & Transportation	11.74	2.28	3.50	3.64	0.01	0.00	2.98	2.98	2.98	2.98
Director Meeting Fee & Exp.	2.37	4.98	5.77	7.30	7.09	3.69	2.71	2.71	2.71	2.71
Sales Commission	59.67	59.79	54.98	60.16	60.93	53.13	53.12	53.12	53.12	53.12
<b>Total Variable Cost</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b><u>Semi-Variable Cost</u></b>										
Communication Expenses	7.51	13.60	9.68	11.56	11.08	17.47	11.82	11.82	11.82	11.82
Repairs, Maint. & Insurance	49.42	32.85	58.68	54.12	47.13	52.11	49.05	49.05	49.05	49.05
Other Expenses	43.07	53.55	31.64	34.33	41.79	30.42	39.13	39.13	39.13	39.13
<b>Total Semi-Variable Cost</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b><u>Fixed Cost</u></b>										

Salary	49.53	47.51	55.64	56.02	56.26	50.88	52.66	52.66	52.66	52.66
Provident Funds	2.00	2.30	2.01	2.13	2.43	2.11	2.16	2.16	2.16	2.16
Employees Welfare Expenses	29.72	38.42	34.33	34.51	32.97	37.93	34.66	34.66	34.66	34.66
Advertisement Expenses	7.55	0.91	0.82	0.95	1.08	1.11	2.07	2.07	2.07	2.07
Business Fee & Expense	1.03	0.47	0.12	0.08	0.10	0.18	0.30	0.30	0.30	0.30
Audit Fee	0.25	0.27	0.19	0.24	0.21	0.19	0.23	0.23	0.23	0.23
Security Expenses	1.03	1.06	1.07	1.19	1.38	1.82	1.26	1.26	1.26	1.26
Depreciation	8.79	9.06	5.82	4.88	5.57	5.78	6.66	6.66	6.66	6.66
<b>Total Fixed Cost</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Note: Average of past six years from F/Y 056/57 to 061/62 data is used for last four years F/Y 062/63 to 065/66 data. So that, we should be understood in this study, the sales expenses have been analyzed only past six fiscal years about fluctuation.

Selling, distribution and administrative expenses of the company are broadly categorized in variable, semi-variable and fixed cost.

The NAL's variable cost includes traveling, fuel, printing and stationary, books and periodicals, bank charges, public relation, custom duty and transportation, director meeting fee and expenses, sales commission etc. The above table shows that the percentage of each expense is varied in different ten fiscal years. In an average of ten fiscal years, sales commission of the company has occupied the highest percentage of the total variable cost. These expenses have occupied 59.67%, 59.79%, 54.98%, 60.16%, 60.93% and 53.13% of total variable cost from the fiscal year F/Y 055/56 to 060/61 respectively. These data show the fluctuation rate in sales commission. The fuel expense of the company is another important part of the total variable cost. This expense, the highest percentage is 19.71 in the fiscal year 062/63 and lowest percentage is 9.94 in the fiscal year 057/58 of the total percentages of the variable cost. It shows the fluctuation rate is high in fuel expense. The traveling expense of the NAL is also fluctuated. The

expense lies between 3.20 percent to 12.01 percent of total variable cost among the ten fiscal years period. In average of the ten fiscal years period, the lowest percentage of total variable cost is occupied by books and periodicals which are between 0.17 to 1.01 percent of total variable cost. The public relation expense of the NAL is occupied between 2.65 percent to 0.36 percent of the total variable cost. The percentage rate is fluctuated. The director's meeting allowances are also incurred every year whose percentages are between 2 to 7.

The NAL's semi variable cost includes communication, repairs, maintenance and insurance and other expenses. In the total amount of such expenses about 40 percent is fixed cost in communication, about 80 percent in repairs, maintenance and insurance and 45 percent in other expenses. The NAL's communication expenses have varied between 17 percent and 7 percent of total semi-variable cost in 10 different fiscal years. The highest percent of repairs, maintenance and insurance is 58 and the lowest percent is 33 percent in total semi-variable cost. The 10 year's average percent is 49 in the total semi-variable cost. It has occupied the highest percent of semi-variable cost structure in the ten years period. In the ten fiscal years, the other expenses vary between 53 percent to 30 percent of total semi-variable cost. The all semi-variable expenses are fluctuated.

The NAL's fixed cost are salary, provident funds, employees welfare expenses, advertisement expenses, business fee and expenses, audit fee, security expenses and depreciation. Salary occupies 49.53%, 47.51%, 55.64%, 56.02%, 56.26%, 50.88%, 52.66%, 52.66%, 52.66% and 52.66 of total fixed cost from the fiscal year 056/57 to 065/66 respectively. It has occupied the highest percent of total fixed cost structure. It means that the company has incurred huge amount of expenses for salary. Employees a welfare expense varies between 29 % to 38% of total fixed cost in the ten different fiscal years. It has occupied the second position of total fixed cost structure. The highest percentage of the depreciation is 9% and lowest percentage is 5% in total fixed cost. Provident funds is varied between 2% to 3%, advertisement expenses is varied between 7% to 2%, audit fee is varied between 0.27 % to 0.19% and security expenses is varied between 1.82% to 1.03% of total fixed cost. Fixed costs are fluctuating over the period under study.

The analysis of selling, distribution and administrative expenses, will make clear that the sales commission plays dominant role on variable cost structure among the other variable expenses. The fuel expenses are also appearing as an important part of the total variable cost structure. Other variable expenses are playing minor role in total variable cost structure. The repair, maintenance and insurance occupies higher portion on the total semi-variable cost. The other expense is second higher portion of total semi-variable cost. The communication expenses occupy a least important role. Generally the fluctuating trend in percentage is minor of all expenses of semi-variable cost. Salary is highly related to fixed cost. It has the higher portion of total fixed cost. Other fixed expenses are playing minor role in total fixed cost structure. The fluctuating rate of fixed expenses is normal. Here, all expenses variable, semi-variable & fixed expenses are not exactly in decreasing or increasing trend.

#### **4.4 PRODUCTION PLANNING**

The theory behind the production plan is that the quantities to be produced should be ascertained as

Production = Sales units + desired ending inventory of finished goods - opening inventory of finished goods. It means the production plan should be based on sales plan and inventory policy of the enterprises. The production plan should be examine by analyzing targeted sales of future and actual production of past period. Such difference between actual and budgeted can be minimized by the application of long range and short range of production plan in practice. "Production Planning" has already been described in the previous chapter under "Production Budget". Production planning is an estimation of quantitative production for a given period of time, NAL usually prepares the production plan of one year. The production division of NAL is fully responsible for production and production plan. Traditional method is applied by NAL for planning the production, it takes into consideration last year's production evaluation and other factors while preparing the production plan.

#### 4.4.1 Long-Term Production Plans

**Table No.5**

**Production Target, Achievement & Capacity Utilization**

Capacity 108000 Unit

(capacity in

%)

<b>F.Y</b>	<b>Target (Unit)</b>	<b>Budgeted Capacity (%)</b>	<b>Achievement (Unit)</b>	<b>Capacity Utilization(%)</b>	<b>Achievement % of Target</b>
056/57	84000	77.78	41673	38.58	49.61071
057/58	76000	70.37	73520	68.07	96.73684
058/59	60000	55.56	45832	42.44	76.38667
059/60	72000	66.67	80329	74.38	111.56806
060/61	60000	55.56	63162	58.48	105.27000
061/62	60000	55.56	55887	51.75	93.14500
062/63	60000	55.56	44522	41.22	74.20333
063/64	70000	64.81	49415	45.75	70.59286
064/65	70000	64.81	33172	30.71	47.38857
065/66	60000	55.56	47976	44.42	79.96000
10 Years Average		62.224		49.580	80.48620

Source:- Auditor's Reports of NAL and other unpublished documents of the same company.

The company can produce 108,000 units of medicines (the forms: Tablet, Liquid, Capsule, Suspension, Emulsion) per year at full capacity utilization. The table shows the production target and its percentage of capacity utilization, production achievement and its percentage of capacity and achievement % of target.



#### **4.4.1.1 Target and Achievement**

The table shows the highest achievement % of target are recorded in the fiscal year 059/60 and 060/61 which are 111% and 105% respectively. Production achievement exceeded to production target in these fiscal years. It is due to the efficiency of the workers and skilled management. It can also be attributed to the import of good quality raw materials which made the production smooth and easy.

During ten years figures the lowest production achievement percentage of target is 47.38 which occurred in the fiscal year of 064/65. Similarly, in the fiscal year 056/57 the production achievement in percentage of target is 49.61 which is second lowest production achievement of targeted production among the ten years figures. These are less than half of the production target. For other years, production achievement in percentages of target is 96.73% in the fiscal year 057/58, 76.38% in the fiscal year 058/59, 93.14% in the fiscal year 061/62, 74.20% in the fiscal year 062/63 79.96% in the fiscal year 065/66. The average production target of capacity is 62.22%. The average production achievement of capacity is 49.58% and the average production achievement of target is 80.58%. The targets and achievements are not satisfied. In such condition, the deviation between the target of production and the achievement will always exist. So, the 'comprehensive profit planning and control' should be immediately applied to reduce the deviation between the target and achievement.

Only few figures of production target and achievement are more fluctuated. The following graph shows the trend of production target and achievement is somewhat fluctuating.



#### 4.4.1.2 Capacity Utilization

NAL is not able to utilize the available capacity. It could not use more than 57% capacity. It means only 43% capacity has been utilized. For seven years there has been below 50% capacity utilization and there has been above 50% capacity utilization for three years. So it is a major problem for NAL to achieve profit objective. The senior executives of NAL, however, attribute the under utilization of capacity to the old machine and lack of staffs' discipline though, the management of the company itself is more responsible for it. The management should try to change existing situation. The concept of comprehensive profit planning & control is to be applied. It makes possible for utilizing idle capacity of the plant.

#### 4.4.2 The Trend of Seasonal Production Analysis of 065/66

**Table No.6**  
**Seasonal Trend Production of 065/66**

<b>Details</b>	<b>Achievement (Unit)</b>	<b>Seasonal Production Trend %</b>
Shrawan	2685.25	5.597
Bhadra	4363.75	9.096
Aswin	4563.99	9.513
<b>Total of 4th Quarter</b>	<b>11612.99</b>	<b>24.206</b>
Kartic	2828.75	5.896
Marga	5154.16	10.743
Poush	4357.22	9.082
<b>Total of 4th Quarter</b>	<b>12340.13</b>	<b>25.721</b>
Magha	5027.82	10.480
Falgun	3875.8	8.079
Chaitra	3889.44	8.107
<b>Total of 4th Quarter</b>	<b>12793.06</b>	<b>26.665</b>
Baisakh	5732.23	11.948
Zestha	2242.75	4.675
Ashad	3254.92	6.784
<b>Total of 4th Quarter</b>	<b>11229.9</b>	<b>23.407</b>
<b>Grand Total of the year</b>	<b>47976.08</b>	<b>100.00</b>

Source: NAL Production Department.

The table shows the seasonal production in percentage for the F/Y 065/66. The Seasonal production trend is 4.67% in the month of Zestha 065 which is the lowest percentage among the 12 months. Similarly, 5.60% is the second lowest production percentage of seasonal production in the month of Srawan 059 and 5.89% is the third lowest percentage in the month of Kartik 065. Rainy season, maintenance time, frequent breakdown and low power supply were the causes of low seasonal production.

The maximum production percentage of seasonal trend is 11.95% in the month of Baisakh 061. Similarly, the second highest production percentage of seasonal trend is

10.74% in the month of Marga 065 and third highest production percentage is 10.48% in the month of Magh 065

The NAL can produce 108000 units of medicines per year by utilizing the plant in full capacity. The company could not use its available capacity properly. It is due to outdated machine, poor discipline of staffs, absence of proper plan of exports, unnecessary disturbance in production and an inefficient production pattern of the company. These are the responsible factors for the low production.

#### **4.5 Production Expenses**

The production cost is the main cost of the manufacturing companies. It affects directly to the price of the production. Production expenses are divided into variable, semi-variable and fixed cost. The following Table No 7 shows the production cost structure of the NAL in percentages:

**Table No.7**  
**Cost Structure of Production**

<b>Particular</b>	<b>056/57</b>	<b>057/58</b>	<b>058/59</b>	<b>059/60</b>	<b>060/61</b>	<b>061/62</b>	<b>062/63</b>	<b>063/64</b>	<b>064/65</b>	<b>065/66</b>
<b><u>VARIABLE COST</u></b>										
Raw Material	49.15	47.12	56.48	58.61	63.80	66.37	53.59	53.59	53.59	53.59
Lab	0.46	0.40	0.38	0.38	0.29	0.44	0.39	0.39	0.39	0.39
Packaing	9.29	9.87	8.99	9.41	9.97	10.76	8.72	8.72	8.72	8.72
Duty & Charges	23.36	21.65	23.39	22.50	13.53	16.63	18.50	18.50	18.50	18.50
Interest	17.74	20.96	10.76	9.10	12.41	5.80	18.80	18.80	18.80	18.80
<b>TOTAL VARIABLE COST</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b><u>SEMI-VARIABLE COST</u></b>										
Power & Heat	65.10	66.60	75.87	70.63	65.75	64.44	68.08	68.08	68.08	68.08
Repairs & Maint.	30.89	30.42	23.53	27.33	32.77	33.78	29.78	29.78	29.78	29.78
Other Expenses	4.01	2.92	0.60	2.04	1.48	1.78	2.14	2.14	2.14	2.14
<b>TOTAL SEMI-VARIABLE COST</b>	<b>100.00</b>	<b>99.94</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b><u>FIXED COST</u></b>										
Salary	61.00	63.40	72.87	53.68	51.25	51.28	58.91	58.91	58.91	58.91
Provident Funds Employees Welfare Expenses	2.86	3.59	2.53	1.42	2.25	2.24	2.48	2.48	2.48	2.48
Insurance of factory	8.00	2.96	8.59	4.17	5.58	6.33	5.94	5.94	5.94	5.94
Depreciation	2.97	3.45	2.00	1.14	1.30	1.38	2.04	2.04	2.04	2.04
<b>TOTAL FIXED COST</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

*Note: Average of past six years from F/Y 056/57 to 061/62 data is used for last four years F/Y 062/63 to 065/66 data. So that, we should be understood in this study, the production expenses have been analyzed only past six fiscal years about fluctuation.*

The NAL's variable costs are raw material, lab expenses, packaging expenses, duty and charge and interest. The raw material has occupied 49.15%, 47.12%, 56.48%, 58.61%, 63.80%, 66.37% of variable total cost from fiscal year 056/57 to 061/62 and 53.59% each in rest four fiscal years. The expenses data is in increasing trend, if 6 years expenses data is analyzed. The raw material expenses of the company have occupied the highest percentage of total variable cost. The highest raw material expenses are 66.37% in the fiscal year 061/62. On average the raw material expenses of the company has occupied the highest percentage of total variable cost. The lab expenses of the company occupy the lowest percentage in total variable cost structure, which is less than one percent. The highest packaging expenses are 10.76 percent in the fiscal year 061/62. The packaging expense is directly related to production volume. The company's duty and charges are an important part of total variable cost structure which occupied 11.65 percent to 23.39 percent of total variable cost, under the ten years period. The duty and charges are directly effected by government import policy and purchasing quantity of raw materials. The interest has occupied 5.80 percent to 20.96 percent of total variable cost during the study period of ten years which is fluctuating highly.

Semi-variable cost of the company is power and heat, maintenance and other expenses. Among total amount of these expenses about 50 percent is fixed in power and heat, about 75 percent in maintenance and about 45 percent in other expenses. The power and heat expenses of the company have occupied the highest percentage of total semi-variable cost structure, which has occupied 65.10%, 66.66%, 75.87%, 70.63%, 65.75%, 64.44% from the fiscal year 056/57 to 061/62 and 68.08% each for remaining 4 fiscal years from 062/63 to 065/66, that means the power and heat expenses have played dominant role in total semi variable cost structure. The maintenance expenses of the company is one of the major expenses in total semi variable cost which occupied second position within total semi-variable cost are 30.89%, 30.42%, 23.53%, 27.33%, 32.77%, 33.78% (for 056/57 to 061/062) and 29.78% (for 062/63 to 065/66). The other expenses are nominal on semi-variable cost during ten years period which occupies the lowest percentage in total variable cost structure.

The NAL's fixed expenses are salary, provident funds, employees' welfare funds, factory insurance and depreciation. The percentages of salary are 61%, 63.40%, 72.87%, 53.68%, 51.25%, 51.28% for 056/57 to 061/062 respectively and 58.91% each for four fiscal years from 062/63 to 065/66 in total fixed cost. It contributes highest percentage on total fixed cost during the ten years period. The depreciation expenses of the company are in second place of the total fixed cost structure. The company incurred depreciation expenses with the utilization of machinery building, equipment etc which covers 25.17%, 26.60%, 14.01%, 39.59%, 39.62%, 38.77%, 30.63%, 30.63%, 30.63% and 30.63% of total fixed cost respectively from the fiscal year 056/57 to 065/66. The company's other fixed expenses are provident funds, employees' welfare funds and factory insurance which cover nominal in total fixed cost structure in comparison to salary and depreciation expenses. Provident funds vary between 1.42% to 3.59%, employees' welfare funds vary between 2.96% to 8.59% and factory insurance varies between 1.14% to 3.45%.

The observation clearly indicates that expense on raw material plays dominant role in total variable cost in during study period of ten years. The NAL's management should try to get control over the expenses using alternative methods in practice. The duty and charges and interest expenses are also appearing as an important part of the total variable cost structure. Duty and charges depend upon Government rules and regulations, but it can also be controlled to some extent with proper management. Interest expenses of the NAL can be reduced from total cost structure if the company makes the policy of repaying the loan regularly (timely), other variable expenses are playing minor role in total variable cost structure. The company's variable expenses show the fluctuating trend over the period under study. Power and heat expenses of the company cover more than 64% of total semi-variable cost during the ten years study period. It plays dominant role in total semi-variable cost structure. The management can employ any other alternative to reduce the expenses. Maintenance expenses of the company take the second position and other expense of total semi-variable cost the third. Semi-variable expenses are fluctuated over the period under the analysis. Salary expenses cover more than 51 percent of total fixed cost during the ten years period. It plays dominant role in total fixed cost structure. The company's management should have policy of appointing the key staffs (experts) necessary for operation without interruption in production. The depreciation expenses of

the company are in second position and other fixed expenses are minor with compared to salary and depreciation expenses. The fixed expenses are also fluctuated over the period under study.

#### **4.6 COMPARATIVE COST STRUCTURE OF PRODUCTION; AND SELLING, DISTRIBUTION & ADMINISTRATIVE EXPENSES**

The annual expenses are segregated in two major groups: production; and selling, distribution & administrative expenses. These expenses are divided into variable, semi-variable and fixed cost. This comparative cost structure helps the company's management know cost structure of the company, proper management, supervision and inspection of related expenses.

The following Table No.8 shows the comparative cost structure of production; and selling, distribution & administrative expenses in percentage.

**Table No.8**  
**Comparative Cost Structure of Production; and Selling, Distribution & Administrative Expenses (in %)**

F/Y	Selling, Distribution & Administrative				Production			
	Variable	Semi-variable	Fixed	Total	Variable	Semi-variable	Fixed	Total
056/57	38.65	8.41	52.94	100.00	65.99	18.07	15.94	100.00
057/58	18.10	6.86	75.04	100.00	58.99	11.72	29.29	100.00
058/59	37.82	7.00	55.18	100.00	69.05	13.06	17.89	100.00
059/60	44.71	7.05	48.24	100.00	69.31	13.10	17.59	100.00
060/61	36.84	6.10	57.06	100.00	63.93	17.77	18.30	100.00
061/62	14.09	7.85	78.06	100.00	58.60	22.45	18.95	100.00
062/63	31.70	7.21	61.09	100.00	64.31	16.03	19.66	100.00
063/64	31.70	7.21	61.09	100.00	64.31	16.03	19.66	100.00
064/65	31.70	7.21	61.09	100.00	64.31	16.03	19.66	100.00
065/66	31.70	7.21	61.09	100.00	64.31	16.03	19.66	100.00

Note: Average of past six years from fiscal year 056/57 to 0061/62 data is used for last four years F/Y 062/63 to 065/66 data.



In the above table, the fixed cost is the highest in selling, distribution and administrative expenses over the ten year's period; it covers 52.94%, 75.03%, 55.18%, 57.06%, 78.06%, 61.09%, 61.09%, 61.09% and 61.09% of the total selling, distribution and administrative expenses respectively under the period of 056/57 to 065/66 . Whereas the variable cost is the highest in production expenses in the ten years' period, which covers 65.99%, 58.9%, 69.05%, 69.13%, 63.93%, 58.60%, 64.13%, 64.13%, 64.13% and 64.13% of the total production expenses respectively from the fiscal year 056/57 to 065/66. The fixed cost of selling, distribution and administrative expenses and the variable cost of production are also in fluctuating trend.

Variable selling, distribution and administrative expenses lie between 14.09% to 44.71% of total selling, distribution and administrative expenses in the ten year's period. Whereas the fixed cost of production expenses lies between 15.94% to 29.29% of total production cost which show that the variable cost of selling, distribution and administrative expenses is more fluctuating than fixed cost of production expenses. In production expenses, semi-variable cost varies between 11.72% to 22.45% of total production expenses, whereas the semi-variable cost varies between 6.10% to 8.41% of total selling, distribution and administrative expenses which means that the semi-variable cost of production expenses are fluctuating more than the semi-variable expenses of selling, distribution and administrative expenses.

The figure shows that the production expenses is dominated by variable cost and selling, distribution and administrative expenses dominated by fixed cost, so the management should pay proper attention toward controlling those expenses to generate profit.

#### **4.7 TOTAL COST STRUCTURE**

The NAL's total cost is the composition of production; and selling, distribution & administrative expenses. The following Table No.9 shows the percentage of variable, semi-variable and fixed cost in total cost.

### Total Cost Structure

<b>F/Y</b>	<b>Variable</b>	<b>Semi-variable</b>	<b>Fixed</b>	<b>Total</b>
056/57	61.07	16.33	22.60	100.00
057/58	49.17	10.56	40.27	100.00
058/59	63.70	12.02	24.28	100.00
059/60	66.21	12.34	21.45	100.00
060/61	60.21	16.17	23.62	100.00
061/62	53.21	20.68	26.11	100.00
062/63	60.30	15.19	24.51	100.00
063/64	60.30	15.19	24.51	100.00
064/65	60.30	15.19	24.51	100.00
065/66	60.30	15.19	24.51	100.00

*Note: Average of past six years from fiscal year 056/57 to 061/62 data is used for last four years F/Y 062/63 to 065/66 data.*

The variable cost is the highest cost over the period under the study which covers 61.07%, 49.17%, 63.70%, 66.21%, 60.21%, 53.21%, 60.30%, 60.30%, 60.30% and 60.30% of total cost respectively from the fiscal year of 056/57 to 065/66. The fixed cost takes the second position in total cost, which covers 22.60%, 40.28%, 24.28%, 21.45%, 23.63%, 26.11%, 24.51%, 24.51% and 24.51% of the total cost respectively from the fiscal year 055/56 to 064/65. Then, the semi-variable cost which covers 16.33%, 10.56%, 12.02%, 12.34%, 16.17%, 20.68%, 15.19%, 15.19%, 15.19% and 15.19% of the total cost from the fiscal year 056/57 to 065/66 respectively.

In the analysis of the NAL's total cost structure, the variable cost plays a key role which covers around sixty percent of total overall cost. So the management should be very careful for these expenses. And all the parts of cost are fluctuated over the ten years' analysis period.

#### 4.8 PREVAILING TREND OF BEP AND ITS COMPARISON WITH SALES

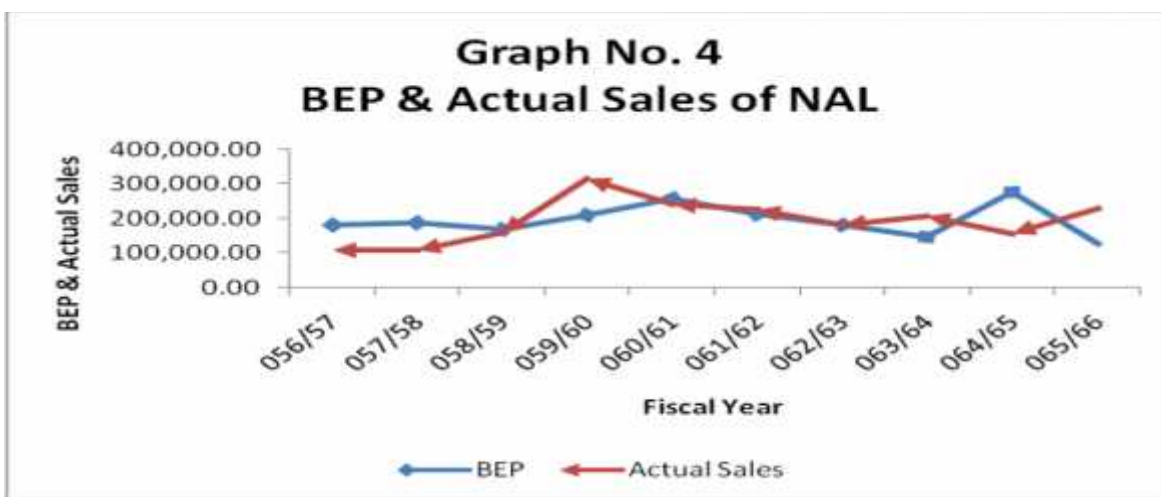
Break-Even Point (BEP) is the zero point area. If the company's sale is more than BEP, the company is on profit and if the company's sale is below the BEP the company is on loss. The BEP point represents the recovery of cost from the sales.

The following table shows the BEP and actual sales of NAL for the ten years' period.

**Table No.10**  
**BEP & ACTUAL SALES OF NAL**

	<b>Rs.</b>		
<b>'000'</b>			
<b>F/Y</b>	<b>BEP Rs.</b>	<b>Actual Sales Rs</b>	<b>Difference</b>
056/57	179,779.00	110,115.00	(69,664.00)
057/58	185,642.00	112,523.00	(73,119.00)
058/59	167,550.00	160,163.00	(7,387.00)
059/60	210,124.00	318,040.00	107,916.00
060/61	257,432.00	242,125.00	(15,307.00)
061/62	211,985.00	226,207.00	14,222.00
062/63	181,754.00	183,147.00	1,393.00
063/64	145,572.00	209,050.00	63,478.00
064/65	277,402.00	156,283.00	(121,119.00)
065/66	129,257.00	229,644.00	100,387.00

The following graph shows the BEP & Actual Sales Trend.



The above table and graph shows that the sales are more than the BEP in five fiscal years and less than the BEP in other five years. According to above table and graph both BEP and Sales (Rs) are fluctuated. Some fiscal year have more and some fiscal years have less fluctuation between the ten fiscal years of study period. The highest BEP is Rs.27,74,02 thousands and lowest BEP is 12,92,57 thousands in fiscal year 064/65 and 065/66 respectively among the ten various fiscal years. Similarly, the highest sale is Rs.31,80,40 thousands and lowest sales is Rs.11,01,15 thousands in the fiscal year 059/60 and 056/57 respectively among the ten different fiscal years. The sale is below the BEP in five fiscal years and another five fiscal years' sales are also not much higher than BEP, which indicates that the company could not make desired profit under this study period of ten years. So, the management of the company should try to increase the sales volume and able to reduce the avoidable fixed as well as variable cost to push up the NAL's profit towards the target profit.

#### **4.9 MATERIAL CONSUMPTION**

NAL produces and markets 31 clinical groups of medicines that consist of 80 preparations in 134 varieties in the form of six categories: tablet, capsule, liquid, Powder, Suspension ENT (ointment) and Intravenous (injectable) fluids. The following Table No.11 shows the currently available medicines in the market and their main ingredients and forms:

**Table No.11**  
**Products, Main Ingredients and Forms**

<b>S/No</b>	<b>Clinical Groups/Products</b>	<b>Main Ingredients</b>	<b>Forms</b>
01.	ALKALI MIXTURE Acitrasol	Di-sodium Hydrogen Citrate	Liquid
02	AMOEBICIDE Amgit  Nediquin	Metronidazole Metronidazole Benzoate Di-iodo Hydroxyquinoline	Tablet Suspension Tablet
03.	ANALGESIC & ANTIPYRETIC Cetamol, Nesprin	Paracetamol Acetyl Salicylic Acid	Tablet/Liq. Tablet
04.	ANALGESIC & ANTI- INFALAMTORY Cetaplus	Paracetamol, Ibuprofen	Tablet
05.	ANTACID Dimagel  RD-Sodamint	Aluminium Hydroxide Gel. Magnesium Trisilicate Aluminium Hydroxide Ge. Magnesium Hydroxide Sodium Bicarbonate	Tablet  Suspension  Tablet
06.	ANTHELMINTICS Pipracite  RD-Sodamint	Piperazine Adipate Piperazine Citrate Mebendazole Albendazole	Tablet Liquid Tablet Tablet
07.	ANTI-ALLERGIC Antillergin	Chlorpheniramine Maleate	Tablet
08.	ANTI-ASTHMATIC Ephedrine Hydrochloride	Ephedrine Hydrochloride	Tablet

	Minophyllin Salbumol	Aminophyllin Salbutamol Sulphate	Tablet Tablet
09.	ANTIBIOTICS/ANTIBACTERIALS Ardimycin Ardiprim Cloxam Granecure Necyclin Nemoxyl Nephenicol Necef RD-Ampi RD-Clox	Erythromycin Estolate Sulphamethoxazole Trimethoprim Cloxacillin Sodium Ampicillin Trihydrate Nalidixic Acid Tetracycline Hydrochloride Amoxycillin Trihydrate Chloramphenicol Palmitate Cephalexin Monohydrate Ampicillin Trihydrate Cloxacillin Sodium	Tablet/Sus. Tablet/DS Paed.Tab Capsule/Sus Capsule/Sus Tablet Capsule Capsule/Sus Capsule Suspension Cap/Susp. Capsule/Sus Capsule
10.	ANTISEPTIC SOLUTIONS Rollidone Tincture Iodine	Povidone Iodine Iodine Ethyl Alcohol	Liquid Liquid
11.	ANTI-MALARIAL Primaquin RD-Chloroquin	Priaquin Phosphate Chloroquin Phosphate	Tablet Tablet
12.	ANTI-SCABIES & PEDICULOSIS Scaben	Benzyl Benzoate	Emulsion
13.	ANTI-TUBERCULOR		
14.	ANTI-TUBERCULOR Ethambol	Ethambutol Hydrochloride	Tablet

	Nefampin RD-Niazide RD-Niazide Forte RD-Zone Fore  Zina-500	Rifampicin Isoniazid Isoniazid Isoniazid Thiacetazone Pyrazinamide	Capsules Tablet Tablet Tablet  Tablet
15.	ANTI-ULCER Tinidine	Ranitidine	Tablet
16.	COUGH SYRUP Codeine Phosphate Syrup Cufhist  Cufnas  Phencodin Salbumol	Codeine Phosphate Ammonium Chloride Sodium Citrate Chlorpheniramine Maleate Tolu Syrup Vasaka Syrup Chorpheniramine Maleate Codeine Phosphate Salbutamol Sulphate	Liquid Liquid  Liquid  Liquid Liquid
17.	DIALYSIS FLUIDS Haemodialysis  Introperitoneal Dialysis	Sodium Acetate Sodium Chloride Potassium Chloride Calcium Chloride Magnesium Chloride Sodium Lactate Magnesium Chloride Calcium Chloride Dextrose Anhydrous	Liquid  Liquid
18.	DIURETIC Pissex	Frusamide	Tablet
19.	EAR DROPS Nephenicol	Chloramphenicol	Liquid

20.	<b>EYE DROPS</b> Necarpin Nematropin Nephenicol Netrasol Netropin	Pilocarpine Nitrate Homatropine Hydrobromide Chloramphenicol Sulphacetamide Sodium Atropine Sulphate	Liquid Liquid Liquid Liquid Liquid
21.	<b>HYPNOTIC &amp; SEDATIVE</b> RD-Sonal	Phenobarbitone Sodium	Tablet
22.	<b>NASAL DROPS</b> Nosola	Ephedrine Hydrochloride Chorbutol	Liquid
23.	<b>PARENTERAL FLUIDS</b> Amgit Infusion Dextrose Injection Dextrose Saline  Distilled Water Normal Saline Potassium Chloride & Dextrose Injection Ringer Lactate   Sodium Chloride and Dextrose Injection	Metronidazole Dextrose Anhydrous Dextrose Anhydrous Sodium Chloride Distilled Water Sodium Chloride Potassium Chloride Dextrose Anhydrous Sodium Lactate Calcium Chloride Sodium Chloride Potassium Chloride Sodium Chloride Dextrose Anhydrous	Liquid Liquid Liquid  Liquid Liquid Liquid  Liquid  Liquid
24.	<b>REHYDRATION SALT</b> Jeevan Jal (Citrate)	Sodium Chloride Sodium Citrate Potassium Chloride Dextrose Anhydrous	Powder
25.	<b>RUBEFACIENT</b>		



	Iodort  Mencam	Iodine Methyl Salicylate Menthol Camphor Thymol	Ointment  Ointment
26.	THROAT PAINT Tongil	Iodine Essential Oils	Liquid
27.	TOOTHACHE DROPS Dentaik	Clove Oil Camphor Phenol Chloroform	Liquid
28.	TRANQUILIZER Diazecalm	Diazepam	Tablet
29.	VITAMINS & MINERALS Ardiplex  Ardiron  Beesix Nescorbic	Thiamine Mononitrate/Hcl Riboflavine/5-Phosphate Pyridoxine Hydrochloride Calcium Pantothenate/D- Panthenol Nicotinamide Ferrous Fumarate Folic Acid Pyridoxine Hydrochloride Ascorbic Acid	Tablet/Liq.  Tablet/Liq.  Tablet Tablet
30.	WATER TERATMENT Nirmal	Halazone	Tablet
31.	MISCELLANEOUS	Ethyl Alcohol	Liquid

	Gentian Violet	Powder
	Glycerin	Liquid
	Liquid Paraffin	Liquid
	Tincture Benzoin	Liquid
	Vasellin Yellow	Ointment
	Tinch-Iodine	Liquid
	Povidone Iodine	Liquid

#### **4.10 MEDICINE PRODUCTION QUALITY AND PROCESS**

NAL produces high quality medicines. NAL's medicines are consistently gaining popularity which shows by the consistent increase in sales volume. Some of the medicines are so popular that they have acquired household names. Various factors have contributed to the growing popularity; the most important is, of course, the confidence that has been shown by the medical practitioners, chemists and druggists on NAL products. The underlying truth in the confidence is "NAL manufactures safe, efficacious and quality medicines under GMP conditions of International Standard and markets them at reasonably fair prices."

Raw material, packing material and every batch of products are tested according to pharmacopoeia standards before they are released for distribution. NAL possesses its own Quality Control Laboratory and the quality control is monitored with and by highly sophisticated equipments and highly skilled personnel trained at home and abroad. It has its own Research & Development Laboratory where qualified pharmacist and other specialists are engaged in the development of stable and effective dosage forms and to bring out new formulations in order to meet the market demand and the urgent need of life saving drugs.

#### **4.11 NAL'S INVENTORY**

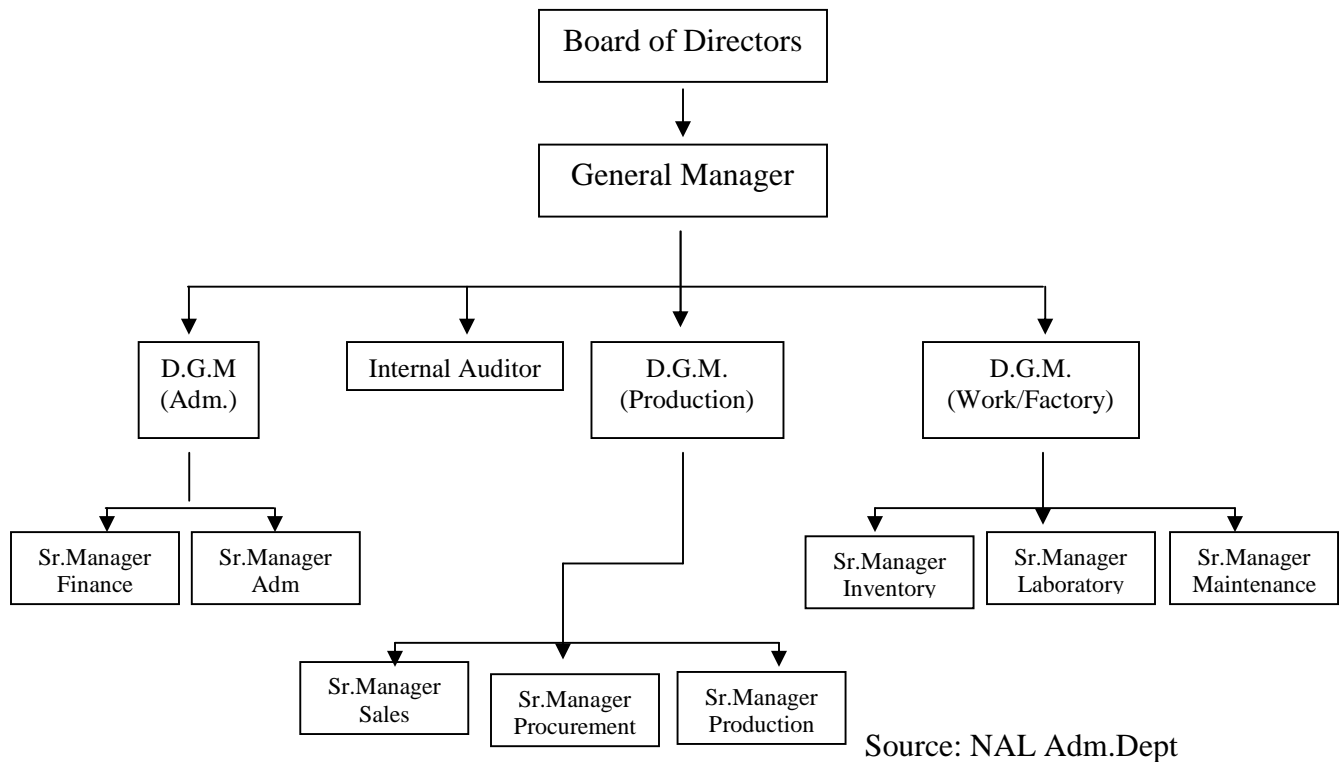
The inventory system of NAL is quite good, essential raw materials, equipments and spare parts are used to be in stock. Opening stock, closing stock, minimum stock level, maximum stock level, optimum stock level etc. of medicines and other necessary raw

material, equipments and spare parts are determined and arranged accordingly. While using stock goods both LIFO and FIFO systems are used.

Purchase requisition form has to be filled in and sent to procurement department of any department or section need goods and materials. The goods are purchased by procurement department and deposited in store and the store distributes the same to respective dept. as per the need. The report about stock is then sent to inventory section by the store. The enough inventories of medicines are always kept in stock for emergency purposes of the country and such stock can not be used for commercial purposes.

## 4.12 ORGANIZATION CHART OF NAL

### Organization Chart of Nepal Aushadhi Limited



## 4.13 MAJOR FINDINGS

NAL is not appropriately implementing the PPC. They are posing problems for implementing of PPC where there are internal as well as external factors. On the basis of data presentation and their analysis in the above section of this chapter, the following major findings have been noted:

1. The NAL's both sales target and sales achievements are in fluctuation trend. The actual sales of the company have been more than 50% of target sales in the most of the years among study period of ten years.
2. The NAL's production target and actual achievement are fluctuated. The management of the company has adopted fluctuating production policy. All the fiscal years production target are below the company's production capacity, and most of the fiscal years production achievements are lower than company's production capacity. The actual production of the company seems to be more than 50% of target productions in most of the years during ten years period.

3. Both sales and production seasonal trend analysis are also fluctuated in the fiscal year 065/66
4. The NAL has not adopted tactical (Short-term-below one year-monthly, quarterly) plan of sales and production about the products.
5. All variables, semi-variables and fixed expenses of both selling, distribution and administrative expenses and production expenses are fluctuated during ten years study period as well as in the total cost structure. Some expenses are highly fluctuated and some are normally fluctuated.
6. The repairs, maintenance and insurance expenses have occupied first position in total semi-variable cost structure of selling, distribution and administrative expenses of the company.
7. The raw material expenses of the company have occupied the highest percentage in total variable cost of production expenses in most of the fiscal years.
8. Salary expenses have occupied the highest percentage of total fixed cost of the production expenses during ten fiscal years. It plays dominant role in total fixed cost structure.
9. In comparison between selling, distribution and administrative expenses and production expenses, the production expenses is very high because of variable cost and selling, distribution and administrative expenses is dominant by fixed cost. Second position is occupied by variable cost in selling, distribution and administrative expenses in all the fiscal years and fixed cost in production expenses in most of the fiscal years. Semi-variable cost has occupied third position in both expenses.
10. Out of total cost structure of the ten fiscal years, the variable cost, the fixed cost and the semi-variable cost have occupied first, second and last position respectively.
11. BEP has fluctuated between ten fiscal years study period of the company. The BEP Rs. are above the actual sales Rs. in five fiscal years in the ten fiscal years study period.

## CHAPTER-V

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Summary

Nepal is struggling to achieve economic prosperity, though rich in natural resources. Nepal has not yet been able to exploit such resources for the economic progress of the country due to its poor economic condition. Its per capita income is only under \$200 according to the latest available figure. This figure indicates that Nepal still belongs to the group of the least developed countries.

Nepal is prominently an agro based country. The income from agricultural sector is, however, so inadequate that economic growth and poverty alleviation is almost impossible only being dependent on agriculture. As such industrial development is the only panacea for the country's economic ills. It is an obvious fact that industries of different scales have to be setup for the promotion of industrial development. However, Nepal is still suffering from acute shortage of infrastructures like roads, electricity, telephone, drinking water etc. The mountainous nature of the country has also posed a great problem for the development of the infrastructures.

Till now even the basic industries have not been setup in Nepal. Most of the industries are located in one place and the markets for these industries are also confined only to a few places. The concept of planned industrialization found its expression in the first five years plan and since then establishment of Public Enterprises have been given due priority. Although, many Public Enterprises were setup between the first and seventh five years plan, yet they lacked in realizing their objectives of providing goods and services to the common people and of generating sufficient income. As such most of the Public Enterprises went in loss. The achievement of these Public Enterprises was so marginal that the limited sources of the Govt.seemed to be wasted like pouring water into the desert. So, the Govt.adopted the policy of privatization, and consequently handed over such Public Enterprises running in losses to the private sectors. Following this policy the Govt.has already done the privatization such many Public Enterprises until now.

The concept of comprehensive PPC can be used as an effective remedy for the Public Enterprises running in losses. The PPC is not a technique to remove the unfavourable environment rather it helps organizations to improve over all aspects or the organs and mechanism. The concept and technique of PPC are systematic and formalized approach for performing significant phase of management planning and control.

The PPC concepts have been most important for efficient and effective management of any organizations. It is equally useful for the top of level management as well as the lower level management and workers. The PPC is a combination of various financial and physical techniques which not only helps to earn profit and to reduce unnecessary costs but also utilize the expenses in the best manner. It helps the organization achieve more production and qualitative production and increase productivity and sales volume. It supports the organizations to investigate the alternative source of income and suggest whether to invest or not in them. It also suggests prepare and implement plans and policies in the best way. PPC also helps to remove the uncertainty that exists in many firms, especially among lower levels of management relative to basic policies and enterprises objectives.

The PPC ensures discipline in operations. It requires the whole organization to undertake systematic action in development of operating plan. It maintains a high degree of co-ordination and team work in the organization. The responsibility is decentralized in PPC system. Each manager or worker is assigned with certain responsibility. A fixed responsibility is centered in the manager.

In this study, an attempt has been made to find out the degree of application of PPC concept in NAL with analysis of its production and sales target and achievement, cost structure etc. Review of relevant literatures has been made to ascertain the scope of the study. This research study is designed under descriptive and quantitative methods.

NAL has not seen the implementation of PPC system properly. It has only applied some parts of PPC like long term sales plan, long term production plan etc. Even the middle

level managers do not know the concept of PPC. More or less they are following traditional approaches.

From the analysis of data, it is found that there is no constancy between sales target and achievement. The company is not able to fully utilize its production capacity yet. The company's expenses are found in these categories-selling, distribution, administration and production. The total selling, distribution and administrative cost is highly influenced by fixed cost and total production cost is highly influenced by variable cost. In the total cost structure of the company shows that variable cost is highly dominant compared to semi-variable and fixed cost.

NAL being the largest medicines factory of the Nepal, needs great capital for its production functions and productions. There is shortage of capital at present. The company sometimes finds itself unable to buy the required raw materials, equipments and repair parts due to lack of capital. It has been hampered the medicines production in time.

## **5.2 CONCLUSION**

The following conclusions have been drawn on the basis of study:

1. There is no proper application of PPC, but very few techniques like sales budget, production budget etc. are maintained to some extent.
2. The management of the NAL has prepared only long-term plans of sales and production.
3. Efforts have been made to apply modern accounting system, computers are being installed in account section.
4. Due to the improper management of the company, there is substantial gap between sales target and achievement result of each year. As well as there is substantial gap between production target and achievement. Both sales and production plans targets will be found normally fluctuated and achievements highly fluctuated in most of the years during ten years period.



5. The management of the company has utilized around only fifty percent of the capacity of production during the study period of ten years. It has also adopted fluctuating production policy in practice.
6. The production seasonal trend of 065/66 is also fluctuated in whole year.
7. The analysis of total variable cost structure of selling, distribution and administrative expenses has clearly shown that in the variable cost structure sales commission plays dominant role among other variable expenses in most of the years. The management has not taken corrective action to reduce such type of huge expenses.
8. The repair, maintenance and insurance expenses have higher portion of total semi-variable cost of selling, distribution and administrative expenses in most of the year, shown by the analysis. The management of the NAL has not been able to control such large scale expenses. All semi-variable expenses have been found to be normally fluctuated during the study period of ten years.
9. The salary of total fixed cost of selling, distribution and administrative expenses has played dominant role among the other fixed expenses in all fiscal years of analysis which indicates that the company has suffered from over staffing.
10. From the analysis, the raw material expenses have occupied the highest percent of total variable cost in most of the study period of ten years. The NAL's management can control such expenses by the help of proper management.
11. Similarly, among total semi-variable cost structure, the power and heat expenses have occupied major percent during the analysis period of ten years.
12. The analysis shows that the total selling, distribution and administrative cost has been highly dominated by fixed cost.
13. Similarly, the variable cost has occupied larger percentage of the total production cost. The NAL's management needs to control more over such cost.
14. The BEP has fluctuated between the ten fiscal years, shown by analysis.

### **5.3 RECOMMENDATIONS**

On the basis of NAL's analysis of target and actual results of production and sales, capacity utilization of production, cost structures, BEP trends, inventory etc., the following suggestions are recommended:

1. To run any organization in a smooth manner, the concept of PPC has to be applied in management. In the absence of PPC concept, there is no meaning of management. But, using PPC as weapon is not an easy task. The whole management of NAL should be well familiarized with PPC and its implementation. Even the Govt.level seminar, training should be conducted so as to give knowledge of PPC concept in the management level. For this, experts need to be invited.
2. A systematic approach to comprehensive PPC is essential to run the Public Enterprises in Nepal in profit. In other words, the company should give due weightage to the major parts of CPPC like sales plan, production plan, material plan, labour plan, overhead plan, cash plan, flexible plan, capital plan, cost-volume profit and contribution analysis. The budgeted balance sheet, long term investment decisions, cash flow statement, funds flow statements should be made transparent and easily comprehensible. So that the management can see the weakness and think about its improvement.
3. The NAL is only preparing long range sales and production plans without preparing short range plans. So the company should also prepare the short range plans to support proper management of the resources.
4. The NAL management should try to minimize the gaps between targets and actual of sales plan and production plan. For this the management should know the forecasting, accuracy and so forth.
5. The NAL management has to utilize its full production capacity to increase production and achieve its objectives.
6. The NAL management should minimize unnecessary expenses such as sales commission expenses, repair and maintenance expenses, insurance expenses by act of proper management of the available resources.

7. Similarly, the management of the NAL is needed to remove unnecessary personnel and workers by applying good skilled personnel management system for decreasing salary expenses.
8. The company should control raw materials by bringing into practice of Material and Purchase Budget and proper management of raw materials.
9. Similarly, the company should control power and heat expenses by stopping negligence and practicing expenses budget.
10. The company is not taking care of BEP, though it is a major tool to see the recovery of the total cost i.e. fixed and variable. The company should take BEP into consideration to achieve the goal of desired profit.
11. The management of the company needs to apply periodic performance reports for the evaluation of all the expenses regarding the company.
12. Similarly, the company should be apply the standard costing methods in practice, which is the most effective tool of cost control.
13. The company should follow the modern management system and modern accounting system with modern equipments like computer etc.
14. The modern information system (MIS) down ward and up ward should be accepted by the management of NAL and lower level staffs should be participated in setting up goals.
15. The personnel of NAL seem to be unmotivated to their works, so the proper motivational program should be conducted and reward and punishment system should be made more effective.

16. The NAL is a Govt.owned PE with its own objectives. To achieve its objectives, it has to be operated on commercial basis motivating towards profit goal for its survival and towards the Govt.'s philanthropic works.
17. The company should suggest the Govt. not to intervene such Public Enterprises by changing rules, regulations and circulars time to time.
18. The company should have in-depth analysis of the company's strengths and weaknesses. It should try to overcome its weaknesses by using the SWOT analysis method.

Lastly, contrary to PPC theory, sales estimate is made at present by taking into consideration production estimate first. There is fluctuation in production which has also resulted in the fluctuations of sales. Similarly, there have been fluctuations in sales and production expenses. Fluctuations have also occurred in both the long term and short term production and sales. From the explanation given under different headings of 'Data Analysis and Presentation' chapter above it has been obvious that there has been variations in this fluctuation. Because of the wrong policy adopted by the company there has been increase in the production cost and the production has been less and not steady. The production should be made only after making the sales estimate based on thorough market study. At present, the demands for NAL are higher than its production in the country. In Nepal, besides the medicines produced by the NAL, there are many other medicines in the market produced by other Nepalese and Foreign Medicine Manufacturers. So there are tough competitions in the medicines markets in Nepal. The NAL must try to produce better quality medicines to dominant the medicines market by Nepalese own medicines. Similarly, NAL has to adopt the suitable inventory system and stable production policy not to decrease supply of medicines in the market and to ensure production in full capacity and decreases the cost respectively. In view above, to run the company in profit, the above recommendation must be followed by the management of NAL.

.....Thank you .....

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**ANNEX-I**  
**COMPANY PROFILE OF NAL**

1 . NAME OF PUBLIC ENTERPRISE : NEPAL AUSADHI LIMITED			
Address	:	Babarmahal. Ktm	
Tel. no.	:	4-221512	
Fax no.	:	<a href="mailto:nal@mail.com.np">nal@mail.com.np</a>	
2. Date of Incorporation:		2029 B.S	
Act of Incorporation :		Company Act 2021	
3. Share Capital:	75,499,000.00	Authorised :	150,000,000.00
Issued :	75,499,000.00	Paid Up :	150,000,000.00
4. Governing Act : Company Act, 2021			
5. Line Ministry :		Ministry of Finance	
6. Financial Status			
(A) Profit/ Loss			
Net Profit/ Loss for F/Y 2009/10 A.D		Rs. 15,85,35,000	
Cumulative Profit/Loss at end of F/Y 2008/09 A.D. :		Rs 42,39,31,000	
(B) Networth Rs. : -4615			
( C ) Outstanding loan to be paid to the Nepal Government :			
	<u>Total</u>		<u>Overdue</u>
	Principal Rs.: 10,85,00,000		Principal Rs.: 10,85,00,000
	Interest Rs. : 1,78,54,000		Interest Rs. : 1,78,54,000
(D) Outstanding Loan to be paid to the bank and other financial institution :			
	Principal Rs.: 6,98,71,000		
	Interest Rs. : 4,29,29,000		
(E) Investment :			
Loan Investement Rs			
	Share Investment Rs	:	
	Other Investment Rs	:	
( F ) Dividend to be paid to Nepal Governmet Rs :			
(G) Revenue to be paid to Nepal Government ( up to 15 July 2009) Rs :			
	Income Tax rs	:	3,42,000
	Excise Rs.	:	
	Vat Rs	:	
		Royalty Rs :	
		Others rs	: 7,98,982.64
(H) Last Fiscal Year of audit completed : 2064/065			
(I) Total amount of audit irregularities to be cleared Rs. 2,00,10,397.05			
(J) Cleared amount of audit irregularities in F/ Y 2009/10 Rs			
(K) Liability of retirement benefit of employees :			
	Funded Rs :		
	Unfunded Rs :11,10,96,000		
8. No. of Employees :		Permanent :	289
Contact : 1		Others :	
		Temporary :	
		Total	: 290

*Source : Annual Report of NAL*



**ANNEX-II****NEPAL AUSHADHI LIMITED****DETAILS OF PRODUCTION AND SALES TARGET FROM FISCAL YEAR 2061/62 TO 2065/66****PRODUCTION(F/Y 2061/062)**

PRODUCTS		TARGET	ACHIEVEMENT
TABLET(TAB)		10,11,90,000	4,89,75,000
JEEVANJAL(PACKET)		25,00,000	708,000
CAPSULE(CAP)		31,65,000	13,86,000
LIQUID(BOTTLE)		8,00,000	2,96,000
E.N.T(BOTTLE)		10,05,000	39,910
I. V. F(BOTTLE)		16,35,500	2,13,613
<b>SALES</b>		<b>Rs. 14,00,00,000</b>	<b>Rs.51986000</b>

**NEPAL AUSHADHI LIMITED****DETAILS OF PRODUCTION AND SALES TARGET FROM FISCAL YEAR 2061/62 TO 2065/66****PRODUCTION(F/Y 2062/063)**

PRODUCTS		TARGET	ACHIEVEMENT
TABLET(TAB)		10,68,92,000	5,92,80,000
JEEVANJAL(PACKET)		27,50,000	9,28,000
CAPSULE(CAP)		33,62,000	9,99,500
LIQUID(BOTTLE)		7,94,200	357,400
E.N.T(BOTTLE)		105,000	50,400
I. V. F(BOTTLE)		5,19,500	39,900
<b>SALES</b>		<b>Rs. 14,00,00,000</b>	<b>Rs. 6,34,40,000</b>

**NEPAL AUSHADHI LIMITED****DETAILS OF PRODUCTION AND SALES TARGET FROM FISCAL YEAR 2061/62 TO 2065/66****PRODUCTION(F/Y 2063/064)**

PRODUCTS		TARGET	ACHIEVEMENT
TABLET(TAB)		10,51,90,000	71,728,000.00
JEEVANJAL(PACKET)		20,20,000	528,000.00
CAPSULE(CAP)		31,20,000	2,596,000.00
LIQUID(BOTTLE)		6,85,500	97,915.00
E.N.T(BOTTLE)		98,000.000	34,543.00

I. V. F(BOTTLE)		528,000.000	143,111.00
<b>SALES</b>		Rs. 12,00,00,000	Rs.52702000

*Source : Annual Report of NAL*

**PRODUCTION(F/Y 2064/065)**

PRODUCTS	TARGET	ACHIEVEMENT
TABLET(TAB)	11,11,88,750	34,445,000.00
JEEVANJAL(PACKET)	16,50,000	200,000.00
CAPSULE(CAP)	2,725,000.00	574,800.00
LIQUID(BOTTLE)	675,850.00	61,535.00
E.N.T(BOTTLE)	95,000.000	169,644.00
I. V. F(BOTTLE)	680,125.000	89,789.00
<b>SALES</b>	Rs. 12,00,00,000	Rs.35050000

**NEPAL AUSHADHI LIMITED  
PRODUCTION(F/Y 2065/066)**

PRODUCTS	TARGET	ACHIEVEMENT
TABLET(TAB)	121,865,000.00	24,500,000.00
JEEVANJAL(PACKET)	2,200,000.00	160,000.00
CAPSULE(CAP)	860,000.00	358,000.00
LIQUID(BOTTLE)	986,750.00	35,800.00
E.N.T(BOTTLE)	290,000.000	41,516.00
I. V. F(BOTTLE)	658,700.000	37,800.00
<b>SALES</b>	Rs. 12,00,00,000	RS. 20,610,000

**NEPAL AUSHADHI LIMITED  
PRODUCTION(F/Y 2066/067), Till Mangsir 066**

PRODUCTS	TARGET	ACHIEVEMENT
TABLET(TAB)	55,007,000.00	13,305,000.00
JEEVANJAL(PACKET)	916,600.00	92,000.00
CAPSULE(CAP)	1,375,000.00	0
LIQUID(BOTTLE)	314,000.00	58,270.00
E.N.T(BOTTLE)	-	5,250.00
I. V. F(BOTTLE)	255,500.000	46,564.00
<b>SALES</b>	Rs. 49500000	RS. 8563200

*Source : Annual Report of NAL*

**ANNEX-III  
DETAILS OF ANNUAL PRODUCTION CAPACITY OF NAL**

PRODUCTS		ANNUAL PRODUCTION CAPACITY(IN UNITS)
TABLET(TAB)		55,007,000.00
JEEVANJAL(PACKET)		916,600.00
CAPSULE(CAP)		1,375,000.00
LIQUID(BOTTLE)		314,000.00
E.N.T(BOTTLE)		-
I. V. F(BOTTLE)		255,500.000
SALES		Rs. 49500000

*Source : Annual Report of NAL*

**ANNEX-IV**  
**Financial and Physical Target/Progress/Performance**

**Nepal Ausadhi Limited**

S.No	Description	Unit	F/Y 2009/10		F/Y 2010/20011		2011/12
			Actual	Target achieved %	Target	Revised Estimate	Target
<b>Financial Details</b>							
1	Gross operating Income	Rs. Lakhs	206				
2	Total expenditure	Rs. Lakhs	712				
3	Operating Profit/Loss	Rs. Lakhs	-512				
4	Other Income	Rs. Lakhs	24				
5	Net Profit & Loss(after income tax and bonus)	Rs. Lakhs	-491				
6	Administrative Overhead	Rs. Lakhs	150				
7	Depreciation	Rs. Lakhs	23				

8	Amortising Expenses		Rs. Lakhs				
9	Interest Expenses		Rs. Lakhs	577			
10	Provisions		Rs. Lakhs	516			
11	Total Fixed Expenses		Rs. Lakhs				
12	Net Fixex Assets		Rs. Lakhs	268			
13	Capital Work-In-Progress		Rs. Lakhs				
14	Investment		Rs. Lakhs	13			
15	Current Assets		Rs. Lakhs	713			
16	Current Liabilities		Rs. Lakhs	1513			
17	Working Capital		Rs. Lakhs				
18	Unamortised Expenses		Rs. Lakhs				
19	Cumulative Loss		Rs. Lakhs	4239			
20	Net Capital Employed		Rs. Lakhs				
21	Net Worth		Rs. Lakhs	-4615			
22	Share Capital		Rs. Lakhs	754			
23	Capital Grand		Rs. Lakhs	189	189		189
24	Cumulative Profit		Rs. Lakhs				
25	General reserve		Rs. Lakhs	60	6		60
26	share Holder's Fund		Rs. Lakhs				
27	Long term loan		Rs. Lakhs	1085	1685		1685
28	Short term loan		Rs. Lakhs	505			
29	Loan Installment Due		Rs. Lakhs	1513			
30	Closing Debtors		Rs. Lakhs	129	150		200

**Source : Annual Report of NAL**

**ANNEX-V**  
**Financial and Physical Target/ Progress/ Performance**

Nepal Ausadhi Limited

S.No	Description	Unit	F/Y 2009/10		F/Y 2010/20011		2011/12
			Actual	Target achieved	Actual	Target achieved %	Target
	Total Production Capacity						
1	Production						
	a. Tablets	Th. Nos	12186 5	20.3	13217	15	250000
	b. Liquid Infusion Files	Th. Nos	586	35.76	753	10	900
	c. Capsule	Th. Nos	860	42.2	3300		
	d. Powder files	Th. Nos	28	0			
	e. Jeevanjan (R.D. Soal)	Pld. IN Th	2200	7.3	2200	15	3000
	f.I.V.E.N.T Bottle	BTL	658	6.8	71314 2	10	1000
	g. E.N.T		290	2.2			400
2	<b>Purchase</b>						
	a. Internal	Rs . Lakh	18				
	b. External	Rs . Lakh	33				
3	<b>Sales</b>						
	a. Tablets	Th. Nos	1218	20	1320	15	200000
	b. Liquid Infusion Files	Th. Nos	550	35	76	10	900
	c. Capsule	Th. Nos	800	42	330	10	
	d. Powder files	Th. Nos	27				
	e. Jeevanjan (R.D. Soal)	Pld. IN Th	2200	7	2.5	12	3000
	f.I.V.E.N.T Bottle	BTL	600	7	7134	12	1000
	g. E.N.T		280	2			400
4	<b>Closing Inventory</b>	Rs. Lakh	224				
5	<b>Staff/ labourer</b>	No.s					
	<b>a) Employees</b>	Nos.	289				
	Technical	Nos.	254				
	non- technical	Nos.	35				
	<b>Permanent</b>	Nos.					
	Officer Level	Nos.	31				
	Assistant Level	Nos.	258				
	<b>Contract</b>	Nos.					
	Officer Level	Nos.	1				
	Assistant Level	Nos.					
	<b>(b) Labourer</b>	Nos.					
	Permanent	Nos.					
	Temporary	Nos.					
	Daily Wages/ Contract	Nos.	2				
	<b>( c ) Board Members</b>	Nos.	4				

*Source : Annual Report of NAL*

## ANNEX-VI

### Nepal Ausadhi Limited

S.N.	Description	Unit	F/Y 2009/10		F/Y 2010/11		2011/12
			Actual	Target achieved%	Target	Revised Estimate	Target
<b>1</b>	<b>Financial Status</b>						
1	Net Profit Ratio	Percentage	206				
2	Return of Capital Employed	Percentage	0				
3	Return on Equity	Percentage	-562				
4	Operating Expenses Ratio	Percentage	2096				
5	Debt Equity Ratio	Ratio	0.17				
6	Debt Coverage Ratio	Ratio	0.39		0.6		
7	Current Assets/Current Liabilities	Ratio	-800				
8	Quick /Acid Test Ratio	Ratio	0.6				
9	Fixed Assets Turnover Ratio	Ratio	1.22				
10	Inventory Turnover Ratio	Ratio	1.48				
11	Debtors Turnover Ratio	Ratio	1.6				
12	Average Collection Period	Days	229				
13	Employee's Productivity	Rs. Lakh	0.71				
14	Administrative Overhead Ratio	Percentage	0.73				
15	Worker's Productivity Unit		0.87				
16	Break Even Point						
	a. Unit						
	b. In Value	Rs. Lakh					
<b>2</b>	<b>Subsidy, Loan and Liabilities</b>						
<b>1</b>	<b>Subsidy Received</b>	Rs. Lakh					
	a. From GON	Rs. Lakh					
	b. From International Institutions		249				
<b>2</b>	<b>Loan</b>						
	<b>From GON</b>						
	a. Loan Amount Received	Rs. Lakh	1085				
	b. Loan Amount Paid	Rs. Lakh					
	From Bank and Other Financial Institution						
	a. Loan Amount Received	Rs. Lakh	757				
	b. Loan Amount Paid	Rs. Lakh	262				
	From International Institution						
	a. Loan Amount Received	Rs. Lakh					
	b. Loan Amount Paid	Rs. Lakh					
	Others						
	a. Loan Amount Received	Rs. Lakh					
	b. Loan Amount Paid	Rs. Lakh					
<b>3</b>	<b>Loan &amp; Liabilities Outstanding</b>						
	a. GON	Rs. Lakh	1264				
	b. Bank & Financial Institution	Rs. Lakh	1125				
	c. International Institutions	Rs. Lakh					

	c. Others.	Rs. Lakh					
<b>4</b>	<b>Amount Paid To GON</b>						
	a. Principal	Rs. Lakh					
	b. Interest	Rs. Lakh					
	c. Royalty	Rs. Lakh					
	d. Dividend	Rs. Lakh					
	e. Income Tax	Rs. Lakh	2.00				
	f. Value Added Tax	Rs. Lakh	3.00				
	g. Exise Duty	Rs. Lakh					
	h. Others						
<b>5</b>	<b>Liabilities payable to GON</b>						
	a. Principal	Rs. Lakh	1,085.00		1,685.00		1,685.00
	b. Interest	Rs. Lakh	179.00				
	c. Royalty	Rs. Lakh					
	d. Dividend	Rs. Lakh					
	e. Income Tax	Rs. Lakh	3.00				
	f. Value Added Tax	Rs. Lakh					
	g. Exise Duty	Rs. Lakh					
	h. Others	Rs. Lakh	24.00				
<b>6</b>	<b>Share structure</b>						
	a. GON	Rs,Lakh	747.00	747.00	747.00		747.00
	b. Corporation	Rs,Lakh	7.00	7.00	7.00		7.00
	c.Private Sector	Rs,Lakh					
<b>7</b>	<b>Miscellaneous</b>						
	Foreign Currency	US\$					
	a. Foreign Currency Expenditure on Import	US\$ in Lakh					
	b. Foreing Durrency Expenditure on Export	US\$ in Lakh					
<b>8</b>	<b>Contingency and Unfunded Liability</b>				<b>UNIT</b>		<b>FY 2008/2009</b>
	<b>(I) Undunded Liability</b>						
	a. Gratuity/Pension				Rs. Lakh		646.00
	b. Provident Fund				Rs. Lakh		138.00
	c. Accumulated Staff Leave				Rs. Lakh		207.00
	d. Unpaid Share Calls				Rs. Lakh		
	e. Others(Medical Allowances)_				Rs. Lakh		258.00
	<b>(II) Contingent Liability</b>						
	a. Litigation				Rs. Lakh		
	b. Gurantee				Rs. Lakh		
	c. Other Claims				Rs. Lakh		

**Source : Annual Report of NAL**

## ANNEX -VII

1. When and how was the company established?
2. Who is the main promoter of the company?
3. What are the problems faced by the company?
4. What are the raw materials used in medicine production? Which raw materials are imported from other countries?
5. What are the profit, sales, production, capacity utilization and cost trend of NAL?
6. What is the maximum and minimum profit sales, production of NAL during last ten years? And when?
7. Would you please, mention current policy regarding sales and production of NAL?
8. What are the annual sales and production targets and achievements for the last ten years?
9. How do you fix the sales price?
10. What are the causes of highest and lowest percentage achievement of sales and production targets in different fiscal years?
11. What are the main causes of substantial gap between sales target and achievement in each year?
12. What is the demand of NAL's medicines in the Nepalese market?
13. What is the monthly sales and production on the F/Y 2065/66?
14. What is the main cause of substantial gap between production target and achievement in each year?
15. Why has not the company been able to work in full capacity?
16. How are you segregating variable and fixed costs?
17. How do you segregate production and selling, distribution and administrative cost for depreciation cost?
18. What percentage of materials is consumed by the different kinds of medicines?
19. Which quality of medicines is produced and what is the medicines production process of NAL?
20. What is the inventory policy followed by the company and what is the inventory condition?
21. What is about PPC application to NAL?
22. Would you please mention the strategy followed by the organization to achieve the goal?