"Cost-Volume-Profit Analysis in Profit Planning of Bottlers Nepal"

Faculty of Management Shanker Dev Campus

Submitted By
SUSHIL SHARMA

T.U. Reg. No.: 3348-95

Roll No.: 840/060

RECOMMENDATION

This is to certify that the thesis:

Submitted By SUSHIL SHARMA

Entitled "Cost-Volume-Profit Analysis in Profit Planning of Bottlers Nepal"

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

Mr.Joginder Goet Prof. Bisheshwor Man shrestha Prof. Dr.Kamal Deep Dhakal (Thesis Supervisor) (Head Research Department) (Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by **SUSHIL SHARMA**

Entitled:

"Cost-Volume-Profit Analysis in Profit Planning of Bottlers Nepal"

And found the thesis to be the original work of the student written according to the prescribed format. We recommend this thesis to be accepted as partial fulfillment of the requirement for Master of Business Studies (MBS).

VIVA-VOCE COMMITTEE

Head of Research Department	:	
Member (Thesis Supervisor)	:	
Member (External Export)	:	

DECLARATION

I hereby, declare that the work reported in this thesis entitled "Cost-Volume-Profit Analysis in profit planning of Bottlers Nepal" submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, Kathmandu, is my original work done in the form of partial fulfillment of the requirement for the Master Degree of Business Studies (MBS) under the supervision of **Mr. Joginder Goit**, Associated Professor of Shanker Dev Campus.

Sushil Sharma

T.U. Reg. No.: 3348-95

Roll No.: 840/060

Shanker Dev Campus

ACKNOWLEDGEMENT

This thesis entitled "Cost-Volume-Profit Analysis in Profit Planning of Bottlers Nepal" has been carried out to examine the CVP analysis of the BNL as a whole not concerning to a particular product. It is carried out within the conceptual framework of profit planning and control. This has been prepared in the form of the requirement of the Faculty of Management of Tribhuvan University for the partial fulfillment of the Master of Business Studies. I am extremely grateful to all of them who has helped me, guided me and supervised me to complete this work.

First of all, my sincere gratitude to my honorable teacher as well as the thesis supervisors **Mr. Joginder goit,** Associate Professor of Shanker Dev Campus of giving me his invaluable guidance, support and time in completing this thesis.

I would like to express my heartfelt thanks to all the staff of Bottlers Nepal Ltd. for providing me the data and other necessary information in writing this thesis.

I take this opportunity to thank all the teachers, administrative staffs and librarians of Shanker Dev Campus for their kindly support and co-operation.

I am also indebted to my parents, brothers, sisters and all my friends for their love, advice, endless encouragement and support.

Last but not least, I am thankful to all colleagues for their support and encouragement.

Sushil Sharma

Table of Contents

Viva-Voce Sheet

Reco	mmend	ation	
Decla	aration		
Ackr	owledg	ement	
Tabl	e of Cor	ntents	
List	of Table	es and Diagram	
Abbi	reviation	ıs	
СНА	PTER 1	1	1-8
INTI	RODUC	TION	1
1.1	Backg	ground of the study	1
1.2	Introd	luction of BNL	2
	1.2.1	An Overview of Company	2
	1.2.2	Share Capital of BNL	3
	1.2.3	Subsidiary company of BNL	3
	1.2.4	Product Line	4
	1.2.5	Profit Position	4
	1.2.6	Distribution Policy	5
1.3	Staten	ment of the Problem	5
1.4	Objec	tives of the Study	6
1.5	Signif	Ficance of the Study	7
1.6	Limita	ation of the Study	7
CHA	PTER 2	2	9-75
LITI	ERATU	RE REVIEW	9
2.1	Conce	eptual Framework	9
	2.1.1	Profit	10
	2.1.2	Planning	13
	2.1.3	Profit Planning	17
2.2	Process of Profit Planning		18
	2.2.1	Identification and Evaluation of External Variables	19
	2.2.2	Development of the Broad Objectives for the Enterprise	20
	2.2.3	Development of Specific Goals for the Enterprise	20

	2.2.4	Development and Evaluation of Company Strategies	21
	2.2.5	Executive Management Planning Instructions	21
	2.2.6	Preparation and Evaluation of Project Plans	22
	2.2.7	Development and Approval of Strategic and Tactical Profit Plans	22
	2.2.8	Implementation of Profit Plans	23
	2.2.9	Use of Periodic Performance Reports	23
	2.2.10	Use of Flexible Expenses Budgets	24
	2.2.11	Implementation of Follow-Up	25
2.3	Eleme	ents of Profit Planning	26
	2.3.1	Comprehensive and Co-Ordinate Plan	26
	2.3.2	Expressed in Financial Terms	26
	2.3.3	Plan for Operational Resources and Expenses	26
	2.3.4	Future Plan	27
2.4	Comp	onents of Profit Planning	27
	2.4.1	The Substantive Plan	27
	2.4.2	The Financial Plan	28
2.5	Major	Tools Used in Profit Planning and Control	29
	2.5.1	Operating Budget	29
	2.5.2	Financial Budgets	33
	2.5.3	Appropriation Budget	34
2.6	Conce	ept of Cost-Volume-Profit Analysis	38
	2.6.1	Use of CVP Analysis in Profit Planning	40
2.7	Applio	cation of Cost-Volume-Profit Analysis	41
	2.7.1	Contribution Margin Analysis	41
	2.7.2	Break-Even Analysis	42
		2.7.2.1 Break-Even Point	43
		2.7.2.2 Cash Break Even Point	44
		2.7.2.3 Composite Break-Even Point	44
		2.7.2.4 Cost Break-Even Point	45
		2.7.2.5 Break Even Chart	45
		2.7.2.6 Applications of Break-Even Analysis	46
		2.7.2.7 Assumptions of Break-Even Analysis	46
		2.7.2.8 Limitations of Break-Even Analysis	47

	2.7.3 Profit-Volume Analysis	48
	2.7.3.1 Profit Volume Ratio	49
	2.7.3.2 Margin of Safety	50
2.8	Economic Characteristics of Cost-Volume-Profit Analysis	52
2.9	Cost-Volume-Profit Analysis for a Multi-Product Firm	53
2.10	Break-Even Point for Multi-Product Firm	54
2.11	Cost Volume Profit Analysis and Limiting Factors	55
2.12	CVP Analysis with a Single Constraint	55
2.13	CVP Analysis with a Multiple Constraint	56
2.14	CVP Analysis under Condition of Uncertainty	56
2.15	Step (Jumping) Fixed Cost and Multiple BEP	57
2.16	Special Problems in CVP Analysis	58
2.17	Cost Structure	59
2.18	Segregation of semi variable (Mixed) costs.	61
2.19	Financial Statement Analysis	64
	2.19.1 Profitability Ratios	66
	2.19.2 Financial Ratios	67
2.20	Impact of Changes on Profit	69
2.23	Review of Previous Research	7
СНА	APTER 3	76-78
RESI	EARCH METHODOLOGY	76
3.1	Research Design	76
3.2.	Sources of Data	76
3.3	Population and Sample	76
3.4	Data Collection and Analysis	77
3.5	Scheme of the Study	77
СНА	APTER 4	79-111
DAT	A PRESENATION AND ANALYSIS	79
4.1	Sales Plan of BNL	80
4.2	Sales-Profit Relation of BNL	83
4.3	Raw Material Plan of BNL	86

Inventory Consideration	87
Selling and Distribution Overhead Expenses of BNL	88
Administration Expenses of BNL	90
Cost Variability	91
Profitability and Financial Ratios	93
4.8.1 Profitability Ratio Analysis	93
4.8.2 Financial Ratio Analysis	94
Cost Volume Profit Analysis of BNL	96
4.9.1 Break even analysis excluding other incomes and ending inventory	97
4.9.2 Cash Break Even Point	100
Change Effect and Relationship of CVP Analysis Factors	102
4.10.1 Change Effects of Sales Volume	102
4.10.2 Change Effect of Variable Costs	105
4.10.3 Change effect of fixed costs	107
Major findings	109
PTER 5	111-119
MARY, CONCLUSION & RECOMMENDATION	111
Summary	111
Conclusion	112
Recommendations	116
	Selling and Distribution Overhead Expenses of BNL Administration Expenses of BNL Cost Variability Profitability and Financial Ratios 4.8.1 Profitability Ratio Analysis 4.8.2 Financial Ratio Analysis Cost Volume Profit Analysis of BNL 4.9.1 Break even analysis excluding other incomes and ending inventory 4.9.2 Cash Break Even Point Change Effect and Relationship of CVP Analysis Factors 4.10.1 Change Effects of Sales Volume 4.10.2 Change Effect of Variable Costs 4.10.3 Change effect of fixed costs Major findings PTER 5 MARY, CONCLUSION & RECOMMENDATION Summary Conclusion

Bibliography

Appendix