Chapter-I

INTRODUCTION

1.1 GENERAL BACKGROUND

Profit is the return on investment or the return of hard work or the return of labor exercised over a business enterprise. Profit is the primary measure of success of any business organization. To sustain in a competitive environment, a business firm must make a proper profit. But merely investment or hard work doesn't generate profit rather profit should be planned. Usually profit don't just happen, profit is managed. Whenever an enterprise is operated the basic objective we expect is the profit. Thus profit is the main goal of any business organization. If a firm cannot make profit, it cannot obtain or hold capital for very long.

Profit is the element that helps to sustain the enterprise in the long run. Profit helps the enterprise to exist as well as expand in this competitive environment.

"Precaution is better than cure" is the logic of profit planning and control in the filed of management accounting. It is very difficult to stay or survive in the modern complex and competitive business environment without proper PPC. In every large and small company, it is very necessary to know the importance of PPC. The concept of PPC is a management process that includes planning, organizing, staffing, leading and controlling. PPC is broadly defined as a systematic and formalized approach for accomplishing the planning co-ordination and control responsibilities of management.

Profit is a must and necessary for every business whether it is of service motive too. Profit may be defined differently as benefit obtained from doing something or the excess of return over outlay. Economists define profit as the reward for entrepreneurship for the risk taking. Accountants define it as the excess of the firm revenue over the expenses of producing goods or service over a given fiscal year.

The effective operation of a business concern resulting into the excess of income over expenditure fully depends upon as to what extent the management follows proper planning, effective co-ordination and dynamic control.

Business managers are continually involved in organizing, planning and controlling the operation of both large and small business organization. Profit planning is one of the most important management tools used to plan and control business operation.

Planning is the first essence of management and all other functions are performed within the framework of planning. Planning is a method of course of action throughout in advance. Planning is the process of developing enterprise's objectives and deciding in advance what is to do in future. Planning starts form forecasting and predetermination of future event. The procedure of preparing plan in respect of future financial and physical requirements is generally called "Profit planning or budgeting." Thus, budgeting is a forward planning and involves the preparation in advance of the quantitative as well as financial statements to indicate the intention of the management in respect of the various aspects of the business.

Thus planning includes (i) establishing enterprise's objective (ii) developing premises about the environment in which they are to be accomplished (iii) selecting a course of action to accomplish the objectives (iv) initiating activities necessary to translate plan into action (v) current re-planning to current event deficiencies.

The competitive environment and consumer oriented philosophy laid emphasis to the important of budgeting and profit planning. "Changes and regulations are bound to occur and it is vital that they should be recognized early for appropriated adjustment to be made. There are moreover, considerable advantages to be gained if chances can be made in advance to deal with them. The profit planning system has accordingly found a particularly suitable instrument for the practical exercise of this forethought and planning."(Willsmore, A.W :1960:1)

Budgeted profit plans are flexible and depend upon the size and nature of the firm. Generally, two types of profit plans are generated. For long -term objectives, strategic plans are prepared and short-term objectives, tactical plans are developed. The type of budget depends upon the nature of business entity. Generally, for a product manufacturing concern, following budgets are prepared.

a) Sales budget,
b) Production budget,
c) Raw material budget,
d) Purchase budget,
e) Labor hours and cost budget,
f) Manufacturing over head budget,

g) Administrative and sales expenses budget,
h) Cash budget,
i) Capital expenditure budget,
j) Flexible expenditure budget,
k) Projected income statement,
l) Projected balance sheet.

But in case of non-manufacturing enterprises a merchandise budget usually includes planning and sales reduction markdowns, employee discount, stock shortages, purchases and gross margins. Other functional budget such as production, material, labor hour, manufacturing overhead budget etc. are not formulated.

Profit planning/Budgeting is an artistic work. Budget formulation starts from sales forecasting. Business forecasting is an important element of budgetary control. The budgeting will be on ultra failure if it is not initiated and supported by Top Management. The support of the Top Management for the budgeting system implies that it is confident about its capabilities to plan the future course of action and run the enterprise successfully. Another main thing is that the goals of organization should be clear and realistic. Budgeting will not succeed if the goals to be achieved are not clear.

Time dimension is another consideration in Budgeting. Strategic long-range budget is prepared for more than a year (1Years to 5 year). Tactical short-range budget is prepared for one year, classified by month and quarters.

"Having prepared a plan, it is equally important to watch performance difference between actual results and the budgeted. It may indicate the necessity for corrections, so as to assure the realization of the forward plan."(Willsmore, A.W :1960:1)

"Further, as the enterprise grows, it changes and becomes more complex. There is the continuing problem of discarding less useful approach and replacing them with more appropriate ones. Both, budgeting and the accounting system must be revised as the enterprise change. It is not uncommon to find a situation where these two systems are internally inconsistent and do not effectively serve the needs of the enterprise. This result usually occurs when a 'system' developed in one other enterprises is literally transplanted without change. It is doubtful that any two profit planning and control should be identical because two companies are not identical."(Welsch,G.A :1986:14)

1.2 BRIEF INTRODUCTION OF PUBLIC ENTERPRISES IN NEPAL

Public Enterprises (PE) have assumed a significant role in almost all countries over the world. Yet there has no far been no standard definition of its own. The term "Public Enterprise" has been defined differently by different agencies and government to suit their own respective situation. UN has defined PE as "those organization which are entirely or mainly owned and or controlled by public authorities consisting of establishment which by virtue of their kind of activities, technology and mode of operation are classified as industries."

Due to the backward of industrialization, Nepalese people are still depending on agriculture for their livelihood. It is sure that most developing countries need to make fairly extensive use of Public Enterprise as a catalytic agent in the process of moving towards development process.

Public Enterprises is an organization which is owned by public authorities to the extent of 50% or more; is under top management control of the owning public authority; is engaged in activities of a business character and its output is in the shape of goods and services. PE has to maintain proper balance; it should by profit motive as well as service motive too.

PE in Nepal constitutes a vital instrument for the socio-economic development of out country. It enjoys a strategic and crucial position. They have been established in many sectors for the overall development of the country with different goals and objectives.

In 2008B.S. first formal government budget was introduced. Public Enterprise is autonomous bodies which are owned and managed by the government and which provides goods and services for a price.

Before privatization 64 PE's were established. In F.Y. 2063/64, 42 PE were running in Nepal under government. The procedure of privatizing some PE based on the strength of the private sector such as Bansbari Leather and Shoe Factory, Bhrikuti Paper Mills and Harisiddhi Brick Factory is the first phase. Under the program of privatizing other 14 or more PE are privatized and few other PE are in the process for privatization.

The PE in Nepal can be categorized as under;

Statutory Corporation: These are PE's established under special statures, e.g. RNAC, NIDC, NEA etc.

Companies: Some PE are established under the Company Act 1964 A.D., they are mostly manufacturing and trading concerns. These companies are either fully or majority equity held by NG.

PE is free to prepare their own plans and to implement these formulated plans. However, the Board of Directors has to receive approval form the administrative ministry in some cases. Some features of the system are:

The remuneration of chief executive officers and board members is fixed by NG. The Boards of Directors have to fix the salary of the staff within the limits perceived by the government. Prices of essential goods and services need approval of the government. The PE has to follow the general guide cones issued by the government.

Table-1: Flow of Fund between NG and PE

PARTICULAR	**FY. 1999-2000 (Rs. In MILLION)**
(A) Fund from NG to PE	6232.50
Share Capital	1,450.00
Loan Capital	4,150.00
Operating/Transport subsidy	577.50
Capital Subsidy	55.00
(B) Fund from PE to NG	7.030.00
Indirect taxes	-
Income tax	1,270.00
Dividend	1,800.00
Interests	1,700.00
Principal	2,260.00
(C) Cash flow form Govt. to Corporation	(797.50)

With the formulation of first company act 1936 and with the establishment of Jute Mill in Biratnagar, the history of industrialization in Nepal begins. A treaty was signed between Nepal and Tibet in 1645 A.D. which was a milestone towards the industrial development in Nepal.

We can divide the history of modern industrialization in Nepal into three periods:

1936 to II world war period (1950)

1950 to First Plan Period (1956)

1956 to Ninth Period (1997)

The first phase 1936-1950 was the period of rapid industrial development mainly due to war situation. The scarcity situation created by war, facilities given by the government, availability of foreign capital and technology were some reasons for industrial development. Out of this scarcity condition some industries were established to meet the demand of essential goods like sugar, matches, cotton textiles etc.

The second phase 1950-1956 was a declining period. The immediate cause of this declination was the end of war and by minimization of abnormal profit. There were other reasons like bad relation between employer and employee, worldwide economic depression and the absence of well-developed network of financing institution etc. The first commercial bank, Nepal Bank Limited could do very little support for financing the Nepalese Industries that time.

After the inception of Planning of Nepal in 1956, the government started to develop the basic infrastructure network first and establish different type of enterprises. Coming up to the present stage, Nepal has completed nine development plans and is running tenth one.

1.3 INDUSTRIAL BACKGROUND OF HCIL & SAMPLE P.E. FOR STUDY

The present study will examine the application of budgeting profit planning in Nepalese PE. Here we have taken HETAUDA CEMENT INDUSTRIES LIMITED (HCIL) as a sample of NG owned enterprise.

His Majesty Late King Birendra Bir Bikram Shah Dev on 13 Ashwin 2033 B.S. launched HCIL in he first year plan (1975-1980) under the company Act 2021 B.S.

It is located at Lamsure, Hetauda nearly 140km south of Kathmandu and has occupied 299 Bighas of land for the limestone in Bhaise and 149 Bighas for industry in Hetauda, Makawanpur District, Narayani Zone.

Cement is a fundamental construction material for strong and durable construction work. As a country develops, economically cement will be required in even larger quantities because development requires more construction which means more use of cement.

After the initiation of first five-year plan in 1956 the country seems to have the development activities in a planned way. Since then, need of the most important construction material cement has been realized. In most of the 9 five-year development plan shortage of cement hampered the construction very seriously. The demand of cement is increasing (and will be increasing) more and more day by day due to its durability and its property of binding material like clay and mortar. The internal sources and external sources fulfill the demand of cement in Nepal. The major external source is India and the internal sources are as follows:

1. Udaypur Cement Industry	-	277,200 MT
2. Hetauda Cement Industry	-	260,000 MT
3. Himal Cement Limited	-	108,400 MT
4. Maruti Cement Industry	-	16,500 MT
5. Annapurna Cement Industry	-	9,000 MT
6. Tribeni Cement Industry	-	9,000 MT.

Among these the major cement producers are Udaypur Cement Industry and HCIL. HCIL produces 260,000 Metric Tons, which is 5,200,000 bags per year. HCIL utilizes following raw materials in following proportion for producing 260,000 MT or 5,200,000 bags in a year.

LIME STONE	-	396,000 MT
CLAY	–	6,000 MT
COAL	–	50,000 MT
GYPSUM	–	10,000 MT
IRON ORE	–	6,000 MT
BAGS	–	5,200,000 MT
ELECTRICITY	–	6,000-(NO)
WATER	–	1,500 CM PER DAY

The major raw material require for providing cement is acquired from the Bhaise Limestone quarry. Similarly, preliminary works on exploring Okhare danda where a proven resource of high-grade limestone is provided a sound of raw material. Clay is available in adjoining Lamsure Hillock. Other raw material like iron ore, gypsum and coal are imported from the neighboring countries like India, Bhutan.

HCIL provides direct employment opportunities to about 925 people among them 629 personnel are technical and 29 personnel are administration. HCIL has been providing regular business to 100 trucks and 600 dealers. These are some major contribution HCIL has provided to the Nation. NG has provided the mark of Nepal Standard to HCIL. The main market of cement of HCIL is places cities like Kathmandu, Pokhara, Tansen, Butwal, Bhairahwa, Birgunj, Surketh, Dhankuta, Dharan, Biratnagar, Janakpur etc. Now HCIL can fulfill 34.5% of the total demand of the Nation. There are sufficient mechanical lab, quality assurance department and other facilities the industry. HICL has staff quarter and it also has a health section for the provision of medical facilities staffed by qualified doctor and experienced assistant. It has provided dust allowance, medical allowance, incentive, bonus, house rent and life insurance facilities for the administrators and employees. The factory has constructed a road and plantation work around the industry.

Following table shows the company's 5 years production, sales and profit & loss trend is depicted.

Table-2: Production, Sales and Profit &loss of five years

Fiscal year	Production MT	Sales MT	Profit & Loss in Rs.	Capacity Utilization
2061/62	124985	126926	14384942.99	48%
2062/63	125899	124389	12490177.06	48.42%
2063/64	136988	136558	239720.63	52.68%
2064/65	128969	128921.2	19855433.96	49.50%
2065/66	137364	119023	(27856096.29)	52.83%

Source: - HCIL Document

Financial is another major element. An industry cannot manage financial source by itself. It will have to depend upon external and internal source of finance for itself like banks, financing instates, government etc. HCIL had its initial source of finance as follows:

Loan	Rs. in Thousands	Percentage
A) Nepal Bank Limited	330,000	66%
B) Asian Bank Limited	1,044,823	21%
C) Nepal Govt.	206,395	13%
Total	1,581,218	100%

1.4 STATEMENT OF THE PROBLEM

An effective mechanism of financial management and control can be build upon a sound comprehensive budgeting system. Budgeting includes planning and preparation of financial and physical target, appraisal and reporting. Majority of the enterprises proposed long range and short-range plans; they are prepared on ad-hoc basis. Every year, Public Enterprises of Nepal are getting economic help from a huge investment of Nepal Government. The Public Enterprises are naturally becoming an unsustainable burden to the government. Hence, due to the poor performance of PE in Nepal, the country’s economic development is decreasing. There are various reasons for the poor performance of PE in Nepal, those reasons should be found out and corrective measures should be taken for the improvement in the performance.

Profit plan is one of the mot important management devices that plays a key role for the effective formulation and implementation of strategic as well as tactical plans of an organization. PPC requires the effective co-ordination between various functional budgets of an organization like sales plan, production plan, material plan, labor plan, cash budget and capital expenditure plan. Profit planning is a systematic and formalized approach for performing significant phases of management planning and control system. Generally, a manufacturing enterprise prepare different plans and budgets following headlines like, sales plan, production plan, purchase plan, material plan, labor plan, and cost budget etc. It is very essential for manufacturing company but it depends upon the flexibility and size of the firm. In PPC, budget is to specify a clear-cut process to develop a formal approval policy. In some special circumstance, it is said that PPC is applicable only to large and complex organization. And one profit planning or a single type of profit planning is not appropriate or applicable to all organization.

Here it has been tried to identify the application of major issues profit planning of HCIL. It has been attempted to see whether HCILS has made long-range forecast or short-range forecast to prepare its budget regards sales; production and related expenditure. It has also been tried to see whether the revenue raising afford has been made in the budget and actual forecast either by increasing the production line or increasing the sale of existing product.

Some important methods at looking PPC are as follows,

1. Budgeting
2. Cost-Volume- Profit-Analysis
3. Ratio Analysis
4. Cash flow analysis

This research attempts to show the relationship between the various functional budgets, their achievement and their effective application within the conceptual framework of profit planning for solving the problems that have accrued in PE

The following are also the issues of this study,

- Flexible budget
- Identification of cost

- Manpower budget
- Inventory consideration
- P/L account, Balance Sheet and
- Variance

The present study will try to analyze and examine the practice of Profit Planning in HCIL. Without proper planning for profit, it will not just happen. So every commercial enterprise should systematically plan for profits.

Although PPC is useful for every enterprise, it can't be free from comments. The followings are its comment:

Profit Planning programs depends to a large extent in the realism with which the basic estimates are made. So estimated sales and expenses can't be exact and that can't give satisfactory results.

Profit planning can't prefer short time period. It must continuously be adopted not only for each particular enterprise but for changing conditions within the enterprises. It must be dynamic in every sense of the world. So it is impossible to implement PPC in each and every enterprise of Nepal.

Profit plans will be effective only if all responsible executive expert’s continuous and aggressive efforts towards their accomplishment; it won't occur automatically but out management has no interest in all participated in its implement in an appropriate way.

It is not realistic to write out and distribute out goals, policies and guidelines to the entire supervisor.

Budgeting places too great demand in management time, especially to revise budget constantly. Too much paperwork is required.

At last it is too costly, so manager, supervisor and other employees hate budgets and create all kinds of behavioral problem.

The study here has tried to answer the following research question,

a) What are the main problems faced by the enterprises in developing and implementing profit plan?
b) To what extent is there the base prepared for applying profit plan.
c) What are the fundamentals principles adopted in short-term and long term planning?
d) What is the situation of sales and production activities?
e) What step should be taken to improve profit-planning system in the PE?

1.5 IMPORTANCE OF THE STUDY

The main importance of the present study lies in the role of budgeting profit panning process, that can play not only in the profitability of enterprises but also the overall managerial performance, financial performance and there by improvement in the industrialization process of a country.

PPC is a major instrument that minimizes future risks and maximizes the output from the scarce resources. Budget or profit plan defines the goals or objectives of the firm in a clear manner so as to avoid confusion and to facilitate their attainability. It also provides a detail and clear course of action to be performed so as to reduce uncertainty and for the proper direct individual's and groups effort to achieve goals. Hence PPC is very useful to entrepreneurs, decision-makers and future researchers.

In context of Nepal very little study has been made in the fields of profit planning. This study highlights about the application of detailed and systematic approach of profit planning on budgeting in Nepalese Public Enterprises. It also studies the problems, effectiveness and significance in budget application and implementation.

1.6 OBJECTIVE OF THE STUDY

The main objective of the study is to highlight the degree of application of Profit Planning in PE rather say HCIL are as under:

1. To analyze the various functional budgets that is prepared in HCIL.
2. To examine the practices and effectiveness of profit planning in HCIL.
3. To examine the cost structure.
4. To evaluate the panned and actual variance of the enterprise.
5. To highlight the planned production and actual production trends.
6. To show the capacity utilization of HCIL.
7. To give some suitable recommendation and suggestion.

1.7 LIMITATION OF THE STUDY

The study is concerned with PPC of PE called HCIL. The scope of this study is limited to this enterprise (HCIL); the study has undergone through the data of five (5) years. The comprehensibility and accuracy of the study is limited due to the lack of sufficient data. The necessary information required for achieving the objectives is taken form those personnel who are in managerial levels and from published financial document and planning documents. Time limitation and source constraints are factors of limitation of scope of this study.

Chapter-II

Review of the Literature

2.1 INTRODUCTION

Industrialization plays a critical role in achieving high rate of economic growth in developing countries, and Nepal is a developing country too. Economic development of a country is contingent to the industrialization, which is conventionally measured by increase in the share of industry and a rise in per capita income. In the developing process, it has been facing so many serious problems. All the efforts are concentrated towards solving such problems as how to develop fast growth of national income and alleviation of poverty and reduction of income inequalities. Industrialization initiates the process of social transformation by broadening the middle class group and creating a new industrial work force. This brings about redistribution of income across social groups. Industrialization triggers various impulses that stimulate business or upper income group to undertake industrial ventures in order to increase import and exports. Industrialization provokes structural change within economics, innovating three important factors; Technology, Specialization and Trade.

In developing countries, industrialization is challenging proposition between myth and reality. Industrial development is a major infrastructure for stable economic development. Neither the government nor the people themselves are able to establish the industries. Seventh periodic National plan was implemented into Nation by the past government. Such periodic plans was targeted towards national development and creating infrastructure for stable economic growth, but the results are not satisfactory and only countable industries are established to invest on the large scale of industry, they are interested to invest on the large scale of industry, they are interested in immediate return from their investment. After the political change of 2046, B.S. the government has been taking new policy for industrial development. From this cause, more industries are proposed to establish jointly with other country investors. The establishment of industry is not only the complete solution. The fundamental problem is the protection and creating environment for smooth running in the future. In the history of industrialization, especially after the Second World War, a very few developing countries in Asia witnessed especially newly industrialized economics and ASEAN countries a spectacular achievement in the industrial front.

Nepal exists in South Asia, a developing region in Asia where development efforts have been thwarted by amazingly increasing population growth rate a cute disguised unemployment and object poverty that have often shattered the aspiration of better future of this reason processing more than 20% of world population. Being economic vulnerability, be it land locked ness, poor infrastructure, limited export potential or deprivation of transit facility, just to have a few, may diminish the prospects for development. Unless these key bottlenecks are addressed with firm political determination with a clear national priority, pragmatic policies and appropriate strategy industrialization will remain in quandary.

2.2 INDUSTRIALIZATION

The development of industrialization in a systematic and planned way is a recent origin. However, we should not forget, to convert the traditional occupation of "Modern" lives through improvement of technologies, growth of skill of labor force etc, is required.

According to Prof. Harry Johnson, "Industrialization involves the organization of product in business enterprises characterized by specialization and decision of labor both within and among themselves, this specialization is based on the application of technology and of mechanical, electrical power to supplement and replace human efforts and motivated by the objectives of minimizing cost per unit and maximizing the return to the enterprises."

We have to say there were non-industries established in the nation before the political change B.S. 2007. However, the facts are there were few industries established,

1. Biratnagar Jute Mill Ltd. in 1993 B.S.
2. Morang Hydro Company, in 1999 B.S.
3. Nepal Plywood Company, in 2002 B.S.
4. Juddha Match Factory Ltd. in 2002 B.S.
5. Morang Sugar Mills, Morang Cotton Mills and Raghupati Jute Mills Ltd.

After the political change of 2007 B.S. Nepal adopted mixed economy where by public and private sector co-exists. When we glance over the economic development and its history, we fine the fiver-year plan has been valued as a greater significance. Side by side, it is clear that the government has provided many facilities like tax concession, foreign exchange, technical and economical assistance for the industrial development. We are in confirm that the first five year plan emphasized on the investment techniques of both public and private sector in the field of industrial development, and Nepal started a planned process of industrialization since then.

2.3 HISTORY AND GROWTH OF PE IN NEPAL

History of Industrialization process in Nepal begins with the formulation of first company act 1936 and with the establishment of Jute Mill in Biratnagar while Cottage and small scale industries were developed since ancient diaeval period and that a glorious time for the development of handicrafts and cottage industries. A treaty was singed between Nepal and Tibet in 1965 A.D. that helped to strengthen our monopolized Trans Himalayan Trade activities since the period of Malla dynasty. This treaty was a milestone towards the industrial development of Nepal. However, the history of modern industrialization in Nepal can be divided into three periods,

- 1936 to II World War period (1950)
- 1950 to first plan period (1956)
- 1956 to ninth plan period (1997)

Public Enterprises were established as a strong means of development after the Second World War in developing countries. It was believed that the government should play a predominant role in economic development especially in these developed and developing countries cast in the socialistic pattern with this vies, public enterprises were established in production, distribution and even in business sectors. In Nepal too, same ideas were the reason for the emergence of such enterprises.

Before the political change in 1951 and the emergence of awareness of economic and social development, public sector enterprises were neither viewed as an instrument for development, nor did the government encourage their establishment and operation. Nepal too tried to develop public sector institutions after the advent of democracy in 1951. The first enterprises to be turned public sector were Nepal Bank Limited in 1954 A.D. which was established in 1938 A.D. with government and private shareholding.

2.3.1 The First Five Year Plan (1956-1961)

Before the advent of the plan there were altogether nine modern industries as 2 jute mills, 1 cotton mill, 1 sugar mill, 1 ply wood factory, 3 match factory and 1 hydro –

electrical company. Two important events occurred in the year 1956, which were establishment of Nepal Rastra Bank and advent of First Development Plan. This plan started in 1956 and ended in 1961 A.D. The main achievement of this plan was development of Act. 2013 (B.S.) and under this act different PE were opened. During this plan period, seven PE were established. Main PE were Royal Nepal Airlines, Nepal Industrial Development Corporation, Raghupati Jute Mill, Timber Corporation of Nepal etc.

However, the first plan did not contain any special target of establishing industries, production increment and work to the unemployed. However encouragement of private savings and investments in productive enterprises and research work in industries were some general objectives of the plan. "Mixed economic system" remained the basic philosophy for carrying out economic activities. Major achievements of the plan were as following,

- Tribhuvan Highway linking Kathmandu- Terai- India was constructed.
- First Industrial policy 1957 (2014 B.S.) was declared which was amended many times with the objective of providing facilities and incentive for industry establishment and operation.
- Industrial policy of 1957 was replaced by a new one under the Industrial Enterprises Act 1961 (2018). Again the policy was amended in 2023 and it classified industries into large, medium and small according to scale of operation.
- Industrial Development Center was established in 1957, which was later converted into Nepal Industrial Development Corporaion (NIDC) in 1959 with the aim of providing financial and technical support for private entrepreneurs.
- Patan and Balaju Industrial Districts were established. These were the beginning of some physical and institutional infra structural development for industry in Nepal. NIDC could provide loan of Rs. 12 lakh 33 thousand for industrial development at the end of the plan period.

2.3.2 The Second Three Year Plan (1962-1965)

This plan gave priority for Sugar, Cigarette, Leather Shoes, Matches, and Biscuits etc. This could reduce unemployment, use indigenous raw materials and earn foreign currency. It was a "Preparatory" or long term perspective Plan. It had some program e.g. establishment of industrial districts for the promotion of small scale industries, provision of financial and technical support to encourage private sector industries and to modernize jute, cotton matched and sugar industries running in the private sector. Total credit mobilization from NIDC was Rs. 2 crore, 43 lakh during the plan period.

This plan period laid emphasis to export trade and the main objective of this plan was that to establish the autonomous corporation rather than direct intervention. It gave emphasis to manufacturing industries to promote industrialization in the country, during this plan notables PE were established, like Provident Fund Corporation, Gorkhapatra Sansthan, Nepal Electricity Authority, National Commercial Bank, Janakpur Cigarette Factory Limited, Birgunj Sugar Factory Limited. Industrial enterprise Act 1961 is the major achievement of this period.

2.3.3 The Third Five Year Plan (1965-1970)

As in the previous plans, emphasis was given to private sector industries to raise productive capacity of existing enterprises. Plan had a target of establishing five new industrial estates one each at Dharan, Pokhara, Nepalgunj were set up within the plan period. Production target of some important industries entirely based on foreign raw material were opened and hence making the achievement side totally disappointing. The plan had allocated 17.5% of the total plan expenditure for the industry, mining and tourism. Out of the total investment, Nepal Industrial Development Corporation (NIDC) could invest Rs. 17 crore during the plan period.

It further gave emphasis for national development through establishment public and private industries and alternative of export type of corporation.

In conformity to led emphasis on manufacturing sector 7 production oriented industries were established during this plan period out of 12 enterprises. Among these, three were established with the help of foreign assistance. Both development and construction materials producing as well as consumer goods producing industries were promoted during this period. Besides these, some important agencies associated with the agricultural sector were established. The main PE are Himal Cement Company Limited, National Insurance Corporation, Dairy Development Corporation, Nepal Telecommunication, Brick and Tile Factory Limited, Bansbari Leather and Shoes Factory Limited etc.

2.3.4 The Fourth Five Year Plan (1970-1975)

During the fourth plan-period, altogether 205 industries including agro–based, forest based, mineral-based and other import substituting industries were approved. The plan envisaged the policy of promoting industries in the public sector at least for the initial period. NIDC had a providing credit and share investment of Rs. 13 crore, 12 lakh to establish these industries. However, in real term this plan also could prove no better than the previous plans. Only a few rice and flour mill, cement, beer and a ghee processing plant was installed. Two major achievements of the plan were amendment of industrial enterprises act 2018 B.S. and the enforcement of New Industrial Enterprise Act 2030 B.S. The other achievement was established of Industrial Service Center (ISC) which is presently known as National Productivity and Economic Development Center (NPEDC) to support technology service for private sector industries e.g. consultancy services, feasibility study, quality control etc.

The main PE established in this plan period are Balaju Textile Industry Limited, Nepal Oil Corporation Limited, Royal Drugs Limited, Jute Development and Trading Corporation, Drinking Water and Sewerage Board, Nepal Food Corporation, Hetauda Textiles Industry Limited etc.

2.3.5 The Fifth Five year Plan (1975-1980)

This plan was prepared with some change and shifted its emphasis away form infrastructure development to "People oriented and maximum utilization of manpower." Plan had a target of establishing cotton textile mill and cement. The pace of growth of PE during the plan slowed. Eight public enterprises were proposed during this period. Emphasis was laid to implement the projects proposed in the previous plan. Government had the target to provide Rs. 14 crore of financial resource to NIDC for its lending operations. The total expenditure target from government side was Rs. 50 crore and 10 lakh. Similarly, Rs. 40-50 crores investment was expected form the private sector (NPC 1975). Achievement side of the plan could not be materialized on real grounds. Productive capacity of existing industries could not increased due to shortage of electricity supply, bad industrial relations (frequent labor strikes) etc. New industries could not be established. Some primary works about cement, paper and pulp magnetite and rosin and turpentine industry were done (NPC 1975). License for some manufacturing industries, annual industrial production was increased by 6.7% within the plan period (NPC 1975).

The main PE established during this fifth plan are Hetauda Cement Industry Limited, Security Marketing Corporation, Nepal Institute of Standard etc.

2.3.6 The Sixth Five Year Plan (1980-1985)

Reviews of existing custom duty, taxation, wage price, license policy and protection for industries with the help of restricted imports duly were the major policies for industrial development in the sixth plan period. The development expenditure of the plan was 33 billion and 94 crore. Out of those expenditure 26% (881 crore) was allocated for the industry mining etc. giving second priority to this sector.

The sixth five year plan stated, “only those industries that call for a type of technology and levels of investment of technology and levels of investment which is not readily forth coming from the private sector and yet the existing run-industries, those are considered worthy of being transferred to private sector will be out. It also provided public commercial and industrial enterprises would be vested with the sufficient freedom of action to conduct their day to day administrative affairs. They will be freed from the uncalled from government interference and controls."

This plan comparatively seems quite progressive. Electricity supply was improved due to the completion of two big hydro projects, {Kule Khani (60 MWs) and Devighat Hydro Project (14 MWs)}, construction work of Hetauda Cement Factory and Bhrikuti Paper Mill (Nawalparasi) was completed. Some self sufficient type of industries e.g. tooth paste, noodles, beer, polythene, pipe, aluminum utensils and radio assembling industries, matches, fruit juice processing industries etc. were established in private sector. Some important steps were taken for attracting private investment e.g. introduction of Nepal Industrial Policy 2037, Industrial Enterprise Act 2038 and Act for foreign investment and technology transfer 2039. But the production target of some important public enterprises was not satisfactory like establishment of Udaypur Cement Factory, Nepalgunj Paper Mill, Kailali Raisin and Rurpentine Industry, Lumbini Sugar Mill; integrated Textile Industry (Nepalgunj) had some important targets which it could not fulfill in the plan period.

Implementation of new Industrial Enterprises act 1987 (2044B.S.) was one of the important performance of the plan. The production of readymade garment and woolen carpets made significant contribution in foreign exchange earning. The production growth of leather shoes, sugar, beer, cements etc. seemed very positive. Some expansion work in Patan, Pokhara, Dhankuta and Surketh Industrial Estates were performed, construction work of Bhrikuti Paper Mill and Lumbini Sugar Mill was completed. Three foreign commercial banks, Nepal Indosuez Bank, Nepal Grindlays Bank (now standard chartered Bank) and Nepal Arab Bank Ltd. (now Nabil Bank Ltd.) were established within this plan period.

During this period notable changes took place like, Hetauda Leather Industry was disposed to private sector and there was a proposal to dispose Live Stock Company as well. Beside an important decision to manage similar PE and liquidate all Paddies and Rice Exporting Companies were taken and following companies were merged,

- Eastern Electricity Corporation with Nepal Electricity Corporation.
- Cultural Corporation with Ratna Recording Corporation.

- Rastriya Chamal Karkhana with Nepal Food Corporation.
- Akshya Kalyan Kendra with Balaju Textile Industry and
- Fuel Corporation with Timber Corporation of Nepal.

2.3.7 The Seventh Five Year Plan (1986-1991)

The trends of industrial growth rate also seem very fluctuating, some times a high growth and sometimes a sharp decline. The seventh plan realized that most of the public sector industries were not commercially viable as expected and they were to be privatized on phase wise basis. Out of 23 public sector industries reviewed for their financial status only seven were running in profit. There were some public sector's industry established which were, Nepal Television, Nepal Coal Industry Ltd. and Udaypur Cement Udhyog etc.

Seventh plan specified the following major objectives and the policies related to Government Corporation,

- So long as the private sector was not prepared to produce necessary import substituting goods and undertake the expansion of infrastructure, government corporations would be developed as a major medium for producing such goods and services.
- Since it was the responsibility of government to supply the essential goods and basic services to the people, they would be done through the medium of government corporations in an organized manner.
- Encouragement would be given to private sector participation in the management and investment of government corporations and gradual transfer of ownership to them would be effective.
- Steps to mobilize sources from the private4 sector would be intensifies and the participation of the sector, through saving generated would be encouraged in government corporations.
- The major policies of the seventh plan were amalgamation of similar type of corporations, liquidation or privatization of weak Corporation, clear cut responsibilities and accountabilities of the chief executives, quality control of the products of monopoly type corporations. Depending upon the nature of the Public Enterprises, especially on the basis of whether it was established to earn profits or to run at break even point or to run purely on the subsidy, a set of functional objectives will be developed and government enterprises would be classified accordingly.

2.3.8 The Eighth Five Year Plan (1992-1997)

The eight five-year plan was introduced after the restoration democracy in 2050 B.S. That gave emphasis for privatization of domestic well foreign investment in the Nepalese Industries based on efficiency comprehensive advantage. Industrial Policy 1992, Industrial Enterprise and Foreign Investment and Technology Transfer Act 1992 and formulation of Environment Pollution Act were some of the important policies of the plan. Similarly, from eighth plan onward industrial activities would be divided into five sub-sectors for implementation and coordination industrial sector programs. This plan targeted the broad policy guidelines regarding privatization. A privatization bill 2050 was promulgated by parliament for program regulation. Accordingly three manufacturing SOE's were privatized with certain modalities which are as follows,

- Bansbari Leather and Shoe Factory Ltd. (To a Foreign Investor)
- Bhrikuti Paper Mill Ltd. (To a Joint Venture Company)
- Harisiddhi Brick and Tile Factory Ltd. (To a group of Local Investors)

Regarding the productivity improvement, the role of National Productivity and Economic Development Center was increased. This center was established in 1994 as a service institution or National Productivity Organization of Nepal (NPO). In addition, it is supposed to co-operate with various agencies for productivity enhancement in different sectors of the economy.

The eight plans had given much emphasis on privatization of public enterprises, to accelerate the pace of national development, increase efficiency in all areas through proper and efficient management, and bring necessary changes in the structural framework of the corporations in order to enhance the standard of services rendered by them. Mainly, the following reasons make the privatization of public enterprises a necessity,

1. Most of the enterprises are running in losses.
2. PE lack commercial ethnics.
3. PE are overstaffed.
4. Lack of skilled professionals and responsible management in the corporations.
5. Unnecessary government interference.

The objectives of privatization are mainly concerned with the development of industry and business sector, increment in productivity and efficiency, the mobilization of saving and increase in public participation in the commercial field.

Some privatized PE since eight plans were Bansbari Leather and Shoe Factory, Harisiddhi Brick & Tile Factory and Bhrikuti Paper Factory.

2.3.9 The Ninth Five Year Plan (1997-2002)

This plan has emphasized to low costing economic structure with the development of essential infrastructures as Transportation, Electricity, Communication etc. Main objectives of the ninth plan are,

- Diversity the industrial production and domestic/foreign market with adequate provision of incentive and facilities for private sector.
- Identify the goods to be produced, which have comparative advantage and competitive capacity in international market.
- Increase income and purchasing capacity of rural people by creating additional non-agricultural employment opportunities with the development of small enterprises.
- To fulfill this objective NG and UNDP is launching a Mircro Enterprise Development Program (MEDEP) with long term vision of "Poverty Alleviation and Employment Generation." The program will be implemented in phased manner in 10 districts 5 from hill and 5 from terai.

2.3.9.1 The Ninth Five Year Plan (1997-2002)

Average estimated growth rate of industrial output would be 11-16% for the attainment of 6% growth rate. To fulfill this target, 17% saving rate and 25% investment output of total GDP is essential. During ninth plan period, total 35 billion rupees would be invested in industries with 7 billion rupees annually from domestic and foreign investment. By fulfilling this target, additional 350,000 employments will be created and contribution of industrial sector to GDP will reach up to 14% by the end of the plan.

2.3.10 Performance and control of PE

The resultant picture of Nepalese Public Enterprises is not very bright. An appraisal of PE financial performance thus indicated a general pattern of low profitability compared with big size of investment. Number of reasons is put forward and argued as responsible for their poor performance and consequent huge losses viz.

- Absence of clarity of objectives.
- Absence of required performance evaluation, monitoring and remedial actions.
- Managerial efficiency.

- Unnecessary intake of employees.
- Untimely replacement of machinery and equipment.
- Absence of required incentives.
- Interference from outside including the government in its functioning etc.(Shrestha, M. B :1986:83)

"Manufacturing sector cannot always survive without financial consideration. Being enterprises of commercial nature they can depend on government subsidies."

Puskar Bajracharya refers the following recommendation to improve the low efficiency and profitability of Nepalese PE.

- The mission, goals and objectives of PE should be clearly and adequately stated. There is virtually no spell out of these objectives in manufacturing PE these days. Every manufacturing PE, therefore, must have properly spelled out objectives in specific and clear terms.
- Manufacturing PE should function in the line of private sector organization with due consideration to business and economic motives.
- Government policy regarding manufacturing PE should be clear and specific.
- Consequences in the failure of performance should be clearly spelt out.
- Planning process should be as much as possible organization based.
- Long-term planning should be developed and short-term plans and policies should be based upon it.

"It implies the outright mismanagement of scare natural resources. Above all, it is a clear indication that these enterprises have utterly failed in effective mobilization of internal resources for accelerating the country's pace of development."

"Effective control, in essence, is concerned with making the performance conform to time, quality costs and other specifications." Control implies some standard of performance, which can see as a norm or target or a reference for comparing actual results, standards are set in advance. They indicate desired outcome. The actual outcome is compared with the desired outcome and appropriate adjustments are made to correct the deviations so that the gap between the two can be reduced." (Anthony,R.N. and Deardon,J :1984:78)

2.4 FORECASTING AND PLANNING

2.4.1 Forecasting is the First Essence in Profit Planning

Forecasting of a reliable and dynamic nature is an essential input to all planning processing. More precisely it is a crucial part of the information on which planning decisions are made concerning the forward affairs of an organization.

Defining future in unknown, yet, managers must take decisions today which either depend on or affect conditions ruling tomorrow such decisions can be in the field of investment, research and development, price, advertisement, recruitment and so on, and involve the future values of variable like output demanded, wage rates, interest rates consumer’s income and the likely state of technology.

Predication, estimation or expectation of future situation is known as forecasting. “The need for forecasting is increasing as management attempts to decrease its dependence on chance and become more scientific dealing with its environment. Since each area of organization is related to all others, a good or bad forecast can affect the entire organization.”(Agrawal,G.R :1984:30)

“Forecasting and estimation are two related terms. The strength or weakness of a profit planning program depends to a large degree on the accuracy within which the basic estimates are made.” (Anthony,R.N. andDeardon,J :1984:78)

It should be realized that budgeting is not merely forecasting although forecasting is form the basic of budgeting, forecasting is the estimate of the future environment within which the company will operate, good planning depends on good forecasting.

2.4.2 Levels of Forecasting: Short-Term, Intermediate and Long-Term

The short-term forecasting is prediction extending a maximum of two years in the future. Short run forecasting provides management more rationally ordered information and a sounder base for decision making. “The intermediate range forecasting covers from 3 to 5 years. This is one of the least developed areas of prediction, because the forecaster does not have the advantage of surveys of consume and business intentions, neither can be extrapolate long-tem trends, nor is he a particularly good position to rank the importance of qualitative factors. In particular, intermediate forecasts must consider the problems of cyclical fluctuation of they are to be meaningful.”(Chambers,E.J :1982:333)

A long-term forecast may indicate the volume of investment necessary in plant and equipment. Forecasts are frequently made in the form of long range projection that compares an economic situation with a minimum of five years into the future with present circumstances on with those of the relevant past. Typically, long-range aggregate projections have been set up in Gross National Product of framework. One an appraisal has been made of the growth potential of the aggregate economy; consideration may be given first to the magnitude of future industry sales and second to the size of the company sales by product or service line as well as total.

2.4.3 Planning Vs Forecasting

"The reason for forecasting is not so much to predict the future but to be prepared to meet it when it comes in the future. Forecasts involve a careful look at the future in terms of what is thought likely to happen which plans are the embodiment of what is to be attempted to meet that future. There plans are reflected in budget that shows the expected costs of reaching selected goals and it is important that budgets should be seen in this way as the shadow of plans and sot as the shadow of forecasts. Nevertheless, the more reliable the forecast the more dependable the plans, so that, every possible step should be taken towards ensuring accuracy in forecasting." (Willsmore,A.W :1991:117)

"A plan may be described as a statement of objectives to be attained in the future and an outline of the steps necessary to reach them. And since future possibilities depend on future circumstances, planning is inextricably bound up with forecasting." (Earnest,D :1996:316)

Some planning goes on in every company even though the plans may consist of little more than a few ideas in the chief executive's head based on an informal forecast derived from past experience know facts common sense and a few hunches. Planning of that type needs no explanations; everyone does it in his daily life.

The distinction between forecasting and planning is not given the exact by anyone. Webster gives-to plan the definition for forecast. Forecasting is our best thinking about what will happen to us in future. In forecasting we define situations and recognize problems and opportunities. In planning, we develop our objectives in practical detail, and we correspondingly develop schemes of action to achieve these objectives.

"It is important to make a distinction between sales forecast and the sales plan primarily because the internal technical staff should not be expected or in every sales plan."(Welsch,G.A :1986:172)

Knowledge of forecasting technique is little value unless they can be effectively applied in the organization process. There can be no intelligent or effective planning for business enterprise without the primary steps of forecasting good planning depends upon forecasting.

2.4.4 Corporate Planning : A Brief Sketch

Corporate planning as a concept requires some attempt at definition. It is a comprehensive future oriented continuous process of management, which is implemented within a formal framework and which is responsive to relevant change in the external environment. It is concerned with both strategic and operational plans at the appropriate levels with in the organization. It includes methods of monitoring and control and is concerned with both the short and the long term.

Corporate planning was first started in the United States in the late 1950's and it is now being used in one form or another in several. Corporate planning is simply the achievement of enterprise objectives.

L.R. Stanton stated that corporate planning determines long range goals of a company as a whole and in order to achieve them functional plans are made keeping probable changes in the environment in view. Corporate Planning thus is action oriented and not concerned with more plans.

Shiva Ram Koirala clears the main objectives of corporate planning are:

- Embodiment of goals and objectives in the enterprise
- To formulate realistic and attainable objectives.
- Achievement of objectives.
- Clarity and adequacy of goals and objective.
- Communication of goals and objective involvement of personnel in developing goals of the enterprise.

The steps or components of corporate planning are,

1. Setting of corporate strategic objectives.
2. Establishment of the corporate performance required form.
3. Internal appraisal viz. assessment of the organization's current state in resource and performance terms.
4. External appraisal viz. surveying and analyzing the organizations environment.
5. Forecasting future performance based in the first phase on the results of 3 & 4.
6. Analysis of the gap between the results of 2&5.

7. Identification and evaluation of strategies to reduce the performance gap or in other words to meet the strategic objectives.
8. Choice of strategies.
9. Evaluation of performance against plan.

In the context of Nepal, M.B. Shrestha states that the corporate planning practices in Nepal suffer from a number of institutional set books emerging both from governmental and corporate levels which must be paralyzed to make the practice effectively.

Corporate planning and profit planning has close relationship in the business plan. Profit planning is a part of corporate planning. So profit planning has no other dimension, it must be formulated within the corporate planning.

2.5 REVIEW OF PROFIT PLANNING

2.5.1 Profit

Profit is the return on investment or the return of hard work or the return of labor exercised over a business enterprise. Profit is the primary measure of success of any business organization. To sustain in a competitive environment a business firm must make proper profit. However, merely investment or hard work do not generate profit rather profit should be planned. Usually profit do not just happen, profit is managed. Whenever an enterprise is operated the basic objective we expect is the profit. Thus, profit is the main goal of any business organization. If a firm cannot make profit it cannot obtain or hold capital for very long.

Profit is the element that helps to sustain the enterprise in the long run. Profit helps the enterprise to exist as well as expand in this competitive environment.

"Precaution is better than cure" is the logic of profit planning and control in the field of management accounting. It is very difficult to stay or survive in the modern complex and competitive business environment without proper PPC. In every large and small company, it is very necessary to know the importance of PPC.

Profits are the primary measure of business success and firms or industry are organized to make profits. Generally, profit is controversial term, and many authors defined it in different ways.

Dean Joel Clearly distinguishes the views of accountant and economist about profit as following point. The most important point if difference between the economist and accountant approaches center around, (1) The costs, i.e., what should be subtracted from revenue to get profit,(2) The meaning of depreciation (3) The treatment of capital gains and losses, and perhaps most important (4) The price levels basis for valuation of assets.

"Profit is a reward of the entrepreneur, rather of the entrepreneur function. Profit differs from the return on other factors in three respects, (a) profit is a residual income and contractual or certain income as in the case of other factors (b) there are much greater fluctuation in profits than the rewards of the factors (c) Profits may be negative aware as rent wages and interest must always be positive.(Dwett,K.K:1981:299)

The word "profit" implies comparison of the business between two specific dates, which are usually separated by an interval of one year. In order to optimize the corporate sources of wealth or which national prosperity depends the corporate financial objectives of a company is to maximize, within socially acceptable limits profit from the use of funds employed by them. The maximization of profits within socially acceptance limit implies that a proper regard to public interest has been paid. No company can survive long without profit. Profit is the ultimate measure of its effectiveness and in a capitalists society, there is no future for a private performance of a business in profits is profit which relay is a measure a low well a business performs economically, profit is a signal for the allocation of resources and a yardstick for guiding managerial efficiency. Profit is a primary objective of a business. In a view of the heavy investment, which is necessary for the success of most enterprises, profit in the accounting sense tends to become a long–term objective, which measure not only the success of product but also of the development of the market for it.

2.5.2 Planning (The Basic Foundation of Profit Plans)

Planning concentrates on setting and achieving objectives of an organization. Planning is the first management function to be performed in the process of management.

Planning is the first of management function among the five alternative proceeds organizing, directing, coordinating and controlling. Planning must choose among alternative objective, policies and programs, as well as the methods, procedures and techniques for making the plan effective. Planning is the foundation of business security. The business enterprise assures tomorrow's solvency by the means. To plan is to determine purpose of the plan is to adjust internal conditions to the predicted environment in order to obtain the greatest advantage for the company. The plan should be sufficiently flexible to meet unforeseen condition. A co-ordinate plan could in corporate both immediate program and long range objectives.

Planning means assessing the future making provision for it and assuring the establishing goal can be met with acceptable home frame. Defining planning in the simples term as the determination of anything in advance of action, it is essential in a decision making process that provides a basis for economical and defective action in the future. Effective planning sets the stage for integrated action to take place, reduce the number of enforceable crises, promotes to use of more efficient methods and provides the basis for the managerial function of control, there by assuring to cusses on organization objectives.

Generally, strategic planning is viewed as planning beyond one year, deals with the broad sub division entity (such as division but not dept.) and focuses on objectives and goals that extend over the long term. The distinction between long –term and tactical planning is important is structuring the planning process for an entity. Management planning is a continuous process. It must be revised as condition change and new information becomes available the function of planning should vary in scope and intending with the level of management. Top management has a broader planning responsibility that the lower.

The planning process, both short and long term is the most crucial component of the whole system. Welsch further stated that management planning is a process that includes the following five phases,

1. Establishing enterprises' objectives and goals.
2. Developing premises about the environment of the entity.
3. Making decision about course of action.
4. Imitating actions to activate the plans, and
5. Evaluating performance feed back for re-planning.

Planning is rational way, a systematic way of perceiving how business industrial or any organization will get where it should go by examining future alternative course of action open to any organization and choosing them. In choosing most feasible and desirable courses of action a perspective, a frame of reference is established for current decision. In this process, planning examines the involving chains of cause and effect likely to result in the future and respectively, exploit or combat them as the case may be.

In industry and commercial business, the different between success and failure, profit and loss, depends upon the outcome of well-laid plans. Planning is an integral part of out everyday lives, without it action becomes purposeless and effect is wasted. All effective planning involves the basic elements, which are summarized as follows:

a) A clear definition of the objectives.

b) An analysis of the steps required to attaining the objectives.

c) An estimate of the time and effort involved in each individual steps.

d) Examination of the risks involved and assets of the allowances necessary to cover uncertainties.

e) Calculation of the total time and cost involves reaching the objectives.

f) Decision on the method to be implemented.

g) Establishing of time schedule for individual parts of the agreed plan i.e., relative calendar time scale.

Planning is essential to determine the goal. Planning directs the employees to determining the course of action and it reduces the uncertainty. Formal planning indicates the responsibility of management and provides and alternative to grouping without directions. On the other hand, planning involves the determination of goals, process of reached goals or units are to assume responsibility and be held accountable.

Planning is a systematic and also a rational way of perceiving how business, industry, or any organization will get where it should go by examining future alternative course of action open to any organization and choosing them. In choosing most feasible and desirable courses of actions, a perspective, a frame of reference is established for current decision. In this process planning examines the involving chains of cause and effect likely to result in the future and respectively, exploit or combat them as the case may be.

2.5.3 Meaning and Definition of Profit Planning

Profit planning is one of the most important managerial tool to plan and control business operations. Budgets or plans are financial plans prepared as a guide to and control of future operations.

It is viewed as a process designed to help management effectively perform significant phase of the planning function. It is a managerial tool, which is applied by every business endeavors or units. So that a PPC is the formal expression of the enterprise’s plans, goals and objectives stated in financial terms of specific future period. Moreover, management for achieving prescribed objectives at a fluid environment applies various strategies, policies, programs and procedures.

Profit planning is a part of an overall planning process and is an area in which finance function plays a major role. The success of each enterprise in realizing its optimum profit in each year will be determine by the extent to which it establishes objectives, develops co-ordinate plans to meet those results which are planned. This entire process constitutes the budgetary planning and control programme.

Profit planning can be broadly divided into two groups as a functional plan and financial plan. Functional plan includes Sales Plan, Production Plan, Raw-material plan, Direct Labor Plan, and Capital Expenditure Plan, Projected Income Statement and Projected Balance Sheet. After preparing these functional Plan and Financial plan the possible future profit could be known and one can modify or re-visits plan to adjust the possible future profit to expectation.

The essence of profit planning is managerial determining and control of the long range destine of the enterprises. The overriding concept implies that objectives and responsibilities must be definitely determined, critically evaluated as to their potential impact on the success of the enterprises and fully communicated to the various levels of management.

Matz and Milton described the profit planning is a well throughout operational plan with its financial implications expressed at both long the short range profit plans and budget in the form of financial statements, including balance sheet, income statement and cash and working capital projection.

“The profit planning and control means the development and acceptance of objectives and goals and moving an organization efficiently to achieve the objectives and goal. Other term used in the same context of comprehensive profit planning and control are business budgeting managerial budgeting and budgeting.” (Welsch,G.A :1986:34)

“Profit planning in fact is a managerial technique and a profit plan is such a written respect to definite future period and included. It is a format statement of policy, plan, Objective and Goal established by the top management in respect of some future period. Profit planning is a predetermined detailed plan of action developed and distributed as guide to current operations and as partial basis for the subsequent evaluation of performance. Thus we can say that profit planning is a tool which may be used by the management in planning the future course of actions and in controlling the action performance.”(Gupta,S.P:1992:521)

“Profit planning fits with the total systems concepts that integration all the functional and operational aspects of an enterprise. Integrands and interrelationship of all areas in a business. (Production, Finance, Marketing, Personnel and Administration) will be essential for effective management. Profit planning involves wide participation of all levels of management form all the subdivision of the enterprises. It covers the entire organization from the chief executive officer-right up to front line supervisor.” (Welsch,G.A :1986:34)

Profit planning is most recognized that it is not a separate technique that can be thought of an operated independently of the total management process. The broad concept of numerous managerial approaches and techniques that might be exploited such as sales forecasting, sales quarter system, capital budgeting, cash flow analysis, cost-volume-profit analysis, flexible budgets, time and motion study, standard costing, strategic planning, production planning, management by objectives, organizational planning, manpower planning and cost control.

2.5.4 Basic Assumptions and Limitations of Profit Plan

There are many assumptions of using Profit Planning programs. Firstly, the basic of a business must be measured in terms of money. If there is to be May assurance, that money will be available for the needs of the business. Secondly, it is possible to plan of a business in comprehensive way. Co-ordination of the business in every aspect of business is to establish optimum profit goals. Thirdly, profits planning is pre-planning not merely what to do if things workout forecasted but also what to do if things workout different from the forecast.

In developing and using a profit planning and control program, the following four additional limitations should be kept in mind,

1. The profit plan is based on estimates.
2. 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 will not take the place of management administration.

The profit should be regarded, not as a master, but as a servant. It is not assumed that any profit plan is a perfect. The most important considerations to make sure by intelligent use of the profit plan, that all possible attainable benefits are derived from the plans as rendered.

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The profit planning and control means the development and acceptance of objectives and goals and moving an organization efficiently to achieve the objectives and goal. Other term used in the same context of comprehensive profit planning and control are business budgeting managerial budgeting and budgeting.

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2.5.5 Budgeting, a Tool of Profit Planning

“Budgeting is a summary of all phase of a company’s plan and goals for the future. It sets specific targets for sales production distribution and financing activities and it generally culminates in projected statement of net income and a projected statement of cash position.”(Garrison,R.H:1985:297)

An excellent method of determining profits and measuring managing performance in the company as whole and in each department is by means of budgets. It should be emphasized that a budget is more that a financial instrument, it relates also to quantities to product and to operations, and consequently serves as a completer program of business activities in the period to which it relates. In a word, budgeting or planning the conduct of a business. As a Professor Sander says, “The essence of a budget is a detailed plan of operations for some specified future period, followed by a system of records which will serves as a check upon the plan. This applies to the over all planning of the whole business and the detailed planning of the operations in individual department."

Budget as a tool of planning and control is closely related the broader system of planning and control in an organization. In operational terms it involves the step of skiing objectives, specifying goals, formulation strategies, and expressing budgets.

A budget is a quantitative expression of a plan of action and aid to co-ordination and implementation. Budgets may be formulated for the organization as a whole or for any sub unit. Budgeting includes sales, production, distribution and financial aspects of an organization. Budget programmed and designed to carry out a variety of functions, planning, evaluating performance, coordinating activities, implementing plans, communicating, motivates and authorizing actions. Charles T Horngren further stated that it is a quantitative expression of plan of action and an aid to co-ordination and control. Budgets are forecasted financial statements formal expression of managerial plans. They are targets that encompass all phase of operations-sales, production, distribution and financing.

"A budget is a mechanism to plan for the firm's all operations or activities, which generally covers the area of revenues and expenditure. The budget is a plan, which must be prepared in advance of commencing operations, stating what and how things are to be done. The budget covers a definite period of time, usually one year. The budget is a tool of direction, co-ordination and control, and as such, it is the most important device of the administrative for these purposes. The basic elements of a budget are:

1. It is comprehensive and co-ordinate plan.
2. It is expressed in financial terms.
3. It is a plan for the firm's operations and resources.
4. It is a future plan for a special period." (Pandey, I.M :2002:63)

To ensure success, before any system of budget control is output into operation, there should be a clean understanding on the part of the management of both, how the system is to be operated and what objects are in view.

Budget is a statement of estimated performance for a specific period of time. The natural means of performance evaluation is the comparison between the ideals and the actual; here, the ideals are the budgeted or standard specifications, which are set before the budget period begins. So, the actual performance is compared with the standard performance and such comparison gives an idea about the degree of success because of the actual performances.

2.6 FUNDATMENTAL OF PPC

"Basically, comprehensive profit planning and control offers a systematic and proven approach to management process. Concepts of profit planning and control process is frequently minimized or completely over looked in much of the literature and decision the subject." (Welsch, G. A: 1986:215)

2.6.1 Fundamental of PPC

a. The mechanics of PPC: It included matter related to design of budget schedules, clerical method of completing such schedules and routine computation.

b. The techniques of PPC: Techniques are special approaches and methods of developing information for managerial use in the decision making process. The techniques are many varying form the simple to the sophisticated.

c. The fundamentals of PPC: 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 and control.

2.6.2 Managerial Involvement

"The success of the PPC program based upon sound organization structure and also clear cut designation of ones of authority and responsibilities. The purpose of organizational structure and the assignment of authority to establish a framework within which enterprise's objectives they are attained in a co-ordinate and effective way on continues basis. The scopes of interrelationship of the responsibility of each individual manager are specified. To increase management and operational efficiency, particularly all enterprises, except perhaps the very smallest ones should be structurally desegregated into organizational sub units. The manager of each sub units would be assigned specific authority responsibility for the operational activities of that sub unit.

Responsibility center further classifies in respect to the extent of responsibility as follows,

1. Cost Center
2. Profit Center
3. Investment Center

2.6.3 Responsibility Accounting

Profit planning and control require responsibility accounting systems that is, one tailored to organizational responsibilities within this primary accounting structure, secondary classification of costs, revenues and other relevant financial data may use to meet this need of the enterprise. A responsibility accounting system can be designed, implemented regardless of the other features of the accounting system.

2.6.4 Full communication

Communication can be either of dialogue or understanding from working together. Although, most of management gives least important to communication but it is most important thing for any organizational. Many organizations face many problems due to bad communication system. Communication is a vital element for any organization to be successful as well as to reduce losses.

Communication is a necessary activity in all facets of management. Communication can be broadly defined as an interchange of though of information to bring about mutual understanding between two or more parties. It maybe accomplished by combination of words, symbols, messages and subtitles of understanding that came from working together, day by day out by two or more individuals, All communication involves a sender, a message receiver. Communication may be through link that brings together the human element in a managerial decision, and leadership is accounted by communications that means by which behavior is affected, modified and energized. Too often communication is taken for granted, consequently in formation follow in inadequate. There must be three primary informations in an entity, downward, upward and laterally in the organization.

Communication can be done in various means, it is not only verbal or written form but there are many others like sound, symbol, colors and many others. Without communication or say effective communication, no organization can do better. You cannot instruct to your subordinates or ask your seniors or you cannot tell others about the company's objective, rather you cannot get or receive information of any kind. Comprehensive PPC resting upon a second foundation of communication provides important revenues to enhance effective communication for effective planning and control requires that both the executive subordinate have the same understanding of responsibilities and goals. Full and open reporting in performance reports that focus on assigned responsibilities likewise enhances the degree of communication to sound management.

2.6.5 Realistic Expectation

To determine the Profit Planning and control purpose or enterprises objectives and specific budget goals should represent realistic expectations. It is related to their specific time dimension and an assumed external and internal environment that will prevail during that time span. Within these two constraints, realistic expectations should assume a high level of overall efficiency. Realistic expectations should assume a high managers and operational units. The top management of the enterprise has the direct responsibility for defining the level of challenge that should be represented by realistic expectation.

The definition of realistic expectations in a given enterprise therefore should be related to many variables, such as size of the enterprise, characteristics of the managers, leadership characteristic, maturity of the enterprise, sophistication of the management, nature of operation and behavioral management. Finally, this discussion of the definition of realistic expectations emphasize the premise that managers at all levels will be better motivated in the long run if they are given realistic expectations as opposed to spurious expectations based on the premise that high unattainable expectations are necessary for these kinds of people.

2.6.6 Time Dimension in PPC

Profit Planning have involved as a systematic approaches to resolve many aspects to the time dimension in planning and controlling operations. Effective implementation of the profit planning and control concepts requires that the management of the enterprises establish a definite time dimension. Time dimension perspectives in managerial planning require a clear-cut distinction between historical considerations and future considerations. Historical decisions and the results of operations in the past often constitute, in effect, the launching platform for future determinations. “Two important timing issues require careful attention if the planning functions is to be carryout effectively. One relates to the concept of planning horizon, and other relates to the timing of planning activities. Planning horizon refers to the period of time into the future for which management should plan. Another time dimension relates to project planning.” (Welsch, G. A: 1986:37)

Another time dimension relates project planning. A continuing necessity exists for management to plan specific and identifiable projects each of which has a unique time dimension because such projects entail. Commitment over variable time spans. The time dimension should be unique to the enterprise and should be designed to fir tits particular needs characteristic. Every management should develop a similar time dimension chart for decision making and planning purposes. Time dimension chart viewed as a matter of basic policy, force early consideration of major decision and timely planning.

2.6.7 Flexible Application

This fundamental stresses that a profit planning and control program (or any other management technique) must not dominate the business and that flexibility in applying the plans must be forthright policy so that "Strait Jackets" are not imposed and all favorable opportunities are seized even through. "They are not covered by the budget."

"The main aim or end of the management is to utilize the resource in most effective way to achieve high from investment. For this purposes, the comprehensive profit planning and control program administrated in a sophisticated manner permits greater freedom at all management level. This effect is possible because all levels of management are bought into the decision making process hen plans are developed." (Welsch, G. A: 1986:46)

It is common for budgets to impose inflexibility on an endeavor and act as a severe constraint on the decision-making freedom of managers and supervisors. Contrary to this view a profit planning and control program administered in a sophisticated manner permits greater freedom at all management levels.

2.6.8 Behavioral Aspect

In the budgetary system there is substantial evidence suggesting that supervisors often assume that budgets can be used as effective pressure devices to increase productivity. Supervisors often do not realize however the behavioral effects of such budgetary pressure are. One effect is that order to lesson the likelihood that the budgeted performance level will ultimately be set even higher. Moreover employees often react of every new more management makes to increase productivity.

"The behavioral aspect of the management process has been accorded extensive and intensive investigation by psychologists, educators and businessman. The attention is increasing in scope and intensity in recognition that here much, unknown, misconceptions and speculations concerning the respect of the individual and the group in varying situations. The comprehensive profit planning and control approach to managing brings many of these behavioral problems into sharp focuses. A sophisticated view of profit planning focuses on a positive approach to resolve certain behavioral problem but many respect it can provide one effective to their partial solution." (Welsch, G. A: 1986:46)

Other human reactions to budgetary pressure include, (1) Supervisors trying to place the blame on others when production problems emerge, (2) staff line strife such as when supervisors place blame on the budget people or production control personnel, and (3) pressure that is allowed to build up with no healthy outlet there by reducing efficiency.

2.6.9 Behavioral Viewpoint

"A comprehensive profit planning and control program facilitates control in many ways, underlying this is the measurement of actual performance against planned objectives goals and the reporting of that measurement in performance reports. This measurement an the reporting extend 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 difference between the two. This type of reporting represents the effective application of the well-recognized management exception principle. The exception principle holds that the manger should concentrate. Primarily on the exceptional items that appear daily, weekly and monthly reports, there by leaving sufficient managerial time for overall policy and planning consecration. It is the "Out of line" items that need immediate managerial alteration to determine the causes and to take corrective action. The items that are not out of line need to 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 figures with no basis for calling attention to the unusual or exceptional items." (Willsmore, A.W:1960:146)

2.6.10 Follow up

"The fundamental holds that both good and substandard performance should be carefully investigated the purpose being three fold,

1. In the case of substandard performance to lead in a constructive manner to immediate corrective action.
2. In the case of outstanding performance to recognize it and perhaps prove for a transfer of knowledge to similar operations.
3. To provide a basis for better planning and control in the future." (Willsmore, A.W:1960:49)

2.7 PROFIT PLANNING AND CONTROL

"An enterprise should take to establish a sound foundation for initiating a Profit Planning program. The planning process should involve periodic consistent and in-depth re-planning so that all aspects of operations are carefully re-examined and re-evaluated. Therefore, individual managers engaged in the planning process should help knowledge about the components of profit planning and control." (Welsch, G. A: 1986:33)

2.7.1 Evaluation of Relevant Variable

"In order to implement profit planning and control efficiently management should evaluate the relevant variable the present on the function of an enterprise. By relevant variable we obviously imply those that will have direct and significant impact on the enterprises."

"Identification also involves separate considerations of variables that are non-controllable and those that will have a direct and significant impact on the enterprises."

2.7.2 Development of Broad Objective of the Enterprise

Based on evaluation of the enterprise and practical assessment of strength and weakness of the enterprise management is in a position to develop the realistic objective of the enterprise.

"Development of the broad objectives of enterprise is a relevant variables and an assessment of the strength and weakness of the organization executive management can specify this phase of profit planning .The statement of broad objective should express the mission, vision and ethnical tone of the enterprise. It tends to provide enterprise identify, continuing of purpose and definion," (Welsch, G. A: 1986:64)

2.7.3 Development and Establish Specific Goals for the Enterprise

"The purpose of this step is to bring the statement of broad objectives into sharp focus and at the some time to move form the realm of general information to the confines of internal management. This component of comprehensive profit, planning and control program details specific short range and long range goals for the enterprise. This step provides definite and measurable goals for the whole enterprise and for the whole enterprise and for each of the major sub-division." (Welsch, G. A: 1986:65)

Further, it provides both narrative and quantitative goals that are defined and measurable such goals should be categorize as specific and common. The specific goal should define such operational goals as expansion and for contraction of product and service line, geographic areas, shares market, growth trends, production goals, profit margin and return on investment.

2.7.4 Development and Evaluation of Enterprises Strategies

The management should develop the strategy for the strategy or long-range profit plan and tactical (short-range) plan. Company strategies are the basic trust ways and practice that will be sued to attain planned objective and goals.

"Strength focus on the "how" they represent the plan of action. In this step, as in all other steps, the issues are determined interrelate and overlap with the other component. In the development of basic strategies for the enterprise, executive management must focus on the identification of the critical areas are unique to each form.

Although strategy formulation is of continual concern to executive management, better managed companies have found that periodic reassessment of the strategies is essential in light of careful analysis of all relevant variables and their future potential impacts." (Welsch, G. A: 1986:60)

2.7.5 Preparation of Planning Premises

"When the objectives for the periodic plans are developed, the executive management should provide with the certain instruction and guidelines to the lower management in order to develop the Profit Plan of the other respective responsibility centers. Thus, the instruction and format guidelines as communicated by the Top Management at this point in the planning process have come to be generally identified as the statement of planning process have come to be generally identified as the statement of planning premises. It is simply a communication step from executive management to the lower level of management." (Welsch, G. A: 1986:60)

2.7.6 Preparation and Evaluation of Project Plans

When the planning is received from the Top Management, the executive responsible for the enterprise, sub unit must develop the project plan. The project once prepared and evaluated the periodic plans should be developed with the help of project plan must be coincided with the project plan.

Periodic and project plan different in nature and function project plan encompass variable time horizons because each project ahs a unique time dimension. Project plan encompass such items as plans for improvement of present production, new and expanded physical facilities etc. the nature of project is such that they must be planned as separate units. In planning for a project, the time span considered most normally be the anticipate life span of the project. The preparation and evaluation of current and future project pans are essential on a formal basis one the profit planning phases.

2.7.7 Development and Approval of Strategic and Tactical Profit Plans

This step suggests that these two plans should be developed when the planning premises and periodical instruction received form the Top Management, the executives responsible for the major organizational sub unit should engage to develop periodic plans. Though, long range and short-range profit plan can be developing contrary for all the organizational submit but the emphases should be on the participation principles holds goods.

"Of course, it is possible for a firm to develop these two profit plans for all aspect of the operation centrally. However, we have expressed the prevailing view that meaningful behavior effect. Therefore, these two steps envision that upon receipt of the planning premises and procedural instruction each manager in change of major responsibility center will immediately initiate activities within his own functional sphere to develop a strategic long range profit plan and harmony with five year plan, a tactical short range profit plan." (Welsch, G. A: 1986:68)

2.7.8 Implementation of Profit Plan

"Implementation of management plans that have been developed and approved in the planning process involves the management function of directing. Subordinates in the accomplishment of enterprise objectives and goals, communication are an especially important aspect of direction. However, a comprehensive Profit Planning and Control program may and substantially in accomplishment of this function. Planned strategies and policies developed through meaningful participation along the lines described in course of profit planning established foundation for effective communication." (Welsch, G. A: 1986:71)

2.7.9 Using Periodic Performance Reports

The implementation of plan requires the timely performance reports to be prepared and forwarded by respective organizational sub unit. For this, Welsch explained "as profit plans are being implemented during the period of time specified in the tactical plan, periodic performance reports are needed. These performance reports are prepared by the accounting department on a monthly basis. Also some special performance report is prepared more often in an "as needed" basis. This performance report (a) compare actual results with planned performance and (b) show each difference as favorable or unfavorable performance variation.

A clear distinction must be made between external and internal financial reports. Internal reports can be further classified as (a) Statistical reports that give the basic quantitative internal statistics about the operations of the enterprises (b) Special managerial reports about none recurring and special problems (c) Periodic performance reports which is focused on dynamic and continuous control tailored to the assigned managerial responsibilities."

2.7.10 Follow up Procedure

Follow up action is an important face of effective control and planning. Performance reports since they indicate the status of performance by responsibility provide a basis for certain follow up actions. It is important to distinguish between cause and effect. The performance variations are effect, the management must determine the underlying causes. The identification of causes primarily is a responsibility of line management. Analysis to determine the underlying causes both favorable and unfavorable, performance should be given immediate priority. In the case of unfavorable performance, after identifying the basic causes, as opposed to the results and having selected what appears to be the most fruitful alternative for corrective action? The manager must initiate its implementation. In addition, a special type of follow up procedure should be implemented continuously; it should be designed (1) To determine the effectiveness of the prior corrective actions, and (2) To provide a basis to improve future planning and control procedure.

2.7.11 Line Staff Responsibilities Related to PPC

The chief executive has ultimate responsibility for Profit Planning. However, there must be a concentrate assignment of responsibilities to line and staff executives. Each line executive must be assigned center responsibility for (1) Operational decision inputs into the plan, (2) Implementation and (3) control. The Profit Planning program must be established upon a firm foundation of line responsibility and commitment to develop, implement and attain the role of each center in the enterprise objectives and goals. We cannot over emphasize that a Profit Planning and Control program should be viewed as an approach to assist managers in line positions in carrying out their basic responsibilities. They should view the plan as their own and they must assure full responsibility for attaining them.

In contrast the staff responsibilities for a PPC program include, (1) Designing and improve the system, (2) Supervising and co-ordinations the operation of the system, (3) Providing expert technical assistance analysis and advice to the line managers and (4) Developing and distribution performance reports.

"The chief financial officer should be assigned overall responsibility for the Profit Planning and Control program. Normally the financial function includes a Budget Director or Director of planning and control, who should be assigned the staff supervisory responsibility. In view of the importance of and effective profit planning and control program, the positive of the staff of the individual responsible for the program should be such that it will command attention and respect through out the firm." (Welsch, G. A: 1986:91)

2.8 DEVELOPMENT OF PROFIT PLANNING

2.8.1 Sales Plan/Budget

The sales planning process is a necessary part of PPC because it provides for basic management decisions about marketing and based on those decisions, it is an organized approach for developing a comprehensive sales plan. If the sales plan is not realistic, most of the other part of over all profit plans is not realistic. Simply, if it was impossible to assess the future revenue potentials of a business, there would be little incentive for investment in the business initially or for contribution of it except for purely speculative ventures that most managers and investors prefer to avoid.

Comprehensive sales plan includes two separate but related plans, the strategic and tactical sales plans. Comprehensive sales plan in corporate is such management decision as objectives, goals strategies and premises. These translate into planning decision about planned volume of goods and services, prices, promotion and selling efforts. There are certain objectives of preparing sales plan. These are,

1. To reduce uncertainty about future revenue,
2. To incorporate management judgments and decisions into planning process.
3. To provide necessary information for developing other elements of comprehensive profit plan.
4. To facilitate management's control of sales activities.

Sales planning and forecasting often is not a plan rather it is a statement and or a qualified assessment of future conditions about a particular subject based on one or more explicit assumptions. A forecast always 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, sales plan incorporate management decisions that are based on the forecast, other inputs and management judgment about such related items as sales volume, prices, sales plan when management has brought to beat management judgment, planned strategies, commitments of resources, and the managerial commitment to aggressive function to attain the sales goals.

The primary source of cash is sales, the capital addition needed the amount of expense to be planed, the man power requirements, the production level and other important operational aspects depend on the volume of sales. In harmony with the comprehensive, profit plan, both strategic long-term and tactical short-term sales plan must be developed. Thus, one commonly observes a five-year strategic sales pan. Many management decisions commit a large amount of resources involving a life span of many years' basic strategies and major moves often involves irreversible commitments of resources and longtime span.

"The confusion between forecasting and planning was emphasized by one another as follows. When the leader of an organization says that he would like a forecast, what he offer means is that he wants a plan he wants to make something happen he uses the plan as a target for people in his organization."(Armstrong, J.C:1978:5)

Sales plan is the starting point in the preparation of the comprehensive Profit Planning and Control. It is an estimate of the goods that will be sold. After knowing, creating the idea of what it sales be, it can then decide how much to produce for purchase. All the other plans and budget are dependent up on the sales budgets.

The preparation of sales plan is based upon the sales forecast. It should be broken down not only in time periods but also into geographical or responsibility areas by the use of sales quotas. The budget is usually presented both in units an in dollars of the sales revenue or sales volume. The sales/budget should be realistic. It is not realistic most other parts of overall profit plan also are not realistic. Therefore, management should develop a realistic sales plan.

2.8.1 (a) Sales Planning and Forecasting

The reason for forecasting is not so much to predict future as to be prepared to meet it when it comes forecasts involve a careful look at the future in terms of what is thought likely to happen which plans are the embodiment of what is to be attempted so as to meet that future. There plans are reflected in budget that shows the expected costs of reaching selected goals and it is important that budgets should be seen in this way as the shadow of forecasts. Nevertheless, the more reliable the forecast, the more dependable the plans, so that every possible steps should be taken towards ensuring accuracy in forecasting.

"It is important to make distinction between sales planning and forecasting because they are often confused. A forecast is not a plan; they have different purpose but are relative.

A forecast is as statement of feature conditions about a particular subject based on one or more assumption. Management may accept, reject or modify the forecast. It is one input of a comprehensive sales plan. A sales plan incorporates all management about such related items as sales volume, prices, production, financing. A sales plan is not conditional but forecast is condition. It is technical staff function." (Welsch, G. A: 1986:172)

A plan may be described as a statement of objectives to be attained in the future and an outline of the steps necessary to reach them. And since future possibilities depend on future circumstances, planning is inextricably bound up with forecasting. Some planning goes on in every company even though the plans may consist of little more than a few ideas in the chief executive's head based on an informal forecast derived from past experience know facts common sense and a few hunches. Planning of that type needs no explanations; everyone does it in his daily life.

2.8.1(b) Strategic and Tactical Sales Plan

In order to develop comprehensive profit planning both strategic long term and tactical short-term sales plan must be developed. Strategic sales plan may cover the time span of five years to ten years in the usual case and the tactical sales plan will cover time span of one year.

A comprehensive sales plan includes both strategic and technical sales plan. Both sales plans must be prepared (developed) in comprehensive profit plan.

Tactical sales plan is also called short-range sales plan. It is to be developed for short-term period in a company for future 12 months, detailed by months and quarters. Tactical sales plan includes detailed plan for each major product and for grouping of motor products. Short-term sales plans are usually developed in terms of physical units or jobs and in sales or dollar. Short-term plan May involve the application of technical analysis, however managerial judgment plays a large part in their determination. A short range sales plan should include considerable detail, where as long range sales plan should be in broad terms.

For planning and controlling purpose, short-term plan must be developed by sales responsibility. It is also necessary for completing other component of profit plan. Development of the strategic and tactical sales plans is separate task but they must be integrated because the short-range sales plan should dovetail with the strategic plan in all major respects.

2.8.1 (c) Development of Comprehensive Sales Plan

To develop a comprehensive sales plan the following process should be followed,

1. Develop management guidelines specific to sales plans including the sales planning process and planning responsibilities.
2. Prepare one or more sales forecast consistent with specific forecasting guidelines including assumption.
3. Assemble all the other data that will be relevant in developing a comprehensive profit plan.
4. Develop strategic and tactical sales plans.
5. Consideration of alternatives.
6. Developing pricing policies.
7. Price cost volume consideration.

2.8.2 Production Plan

After developing the comprehensive sales plan, the next step in manufacturing enterprise is to develop a production plan. This entails the development of policies about efficient production levels, use of productive facilities and inventory levels. The quantities specified in the marketing plan adjusted to conform to production and inventory policies, give the volume of goods that must be manufactured by product and by interim time periods thus production plan can be represented in this way,

Production requirements = Sales Volume ± finished goods inventory change

The second step of profit and control is the production budget. When the sales budget has been agreed upon, the budget executive for the manufacturer turns his attention to the problem of preparing a production budget. In broader terms a production budget is an estimate of the number of units of each product will be produced in the coming budget period.

The production planning refers the development of policies about efficient production level, use of production facilities sand inventory levels.

The production budget is an estimate of the quantity of goods to be manufactured during the budgeted period. In developing production budget, the first step is to establish policies relative to inventory levels, the next step is to be manufactured during the budget period, and the third step is to schedule or operate this production to interim periods. Production budget is initial step in budgeting manufacturing operations. When the recommended production is completed by the production department, it should be submitted to the executive committee for appraisal and then to the president for tentative approval prior to its use as a basis for developing materials, and factory overhead budget.

Planning scheduling and dispatching of the actual production throughout the year are functions of the production department; therefore, it is essential that the production managers perform responsibilities for the planning and control of these functions. With respect to production planning, the managers must plan an optimum co-ordination between sales, inventory and production levels. An efficient and co-ordination between production plan is necessary for economical manufacturing of products. Therefore, there must be co-ordinations between sales plans, production plans and inventory policies. The production budget and inventory policies provide the basis of obtaining these issues. To develop a long-range plan (say five years in the future) broad estimates of production levels are necessary to plan capacity requirement and (involving capital additions) factory cost structure and personnel requirement s and cash flows. The short- range production plan should be in harmony with the time dimension used in short-range profit plans.

"Interim production must be planned so as to (1) have sufficient goods to meet sales requirement, (2) keep in term inventory levels within reasonable limits, and (3) manufacturing the goods as economic as possible" (Welsch, G. A: 1986:193)

Mathematically, we can understand production planning as under,

Planned sales unit+ desired final inventory level of finished goods- beginning inventory in finished goods =Total requirement of production.

2.8.3 Material Plan/Budget

Once the firm has estimated in sales and production, a purchase budget can be prepared. It involves planning and controlling and controlling or raw materials and sales involved in production process. In other word, material budget is a co-ordinate of the required raw materials and parts, inventory level of raw material and parts must be purchased. 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 cost of such material and parts, the tactical short term profit plan should include, 1) detailed budget that specified the quantity and cost of such materials and parts purchases. Planning raw materials and parts usually requires the following four sub budgets.

2.8.3.1 (A) Materials and Parts Budget

This budget specifies the planned quantities of each raw materials and parts required for planned production. It should specify quantities of each raw material and part by time, product and responsibility center.

2.8.3.1 (B) Materials and Parts Purchase Budget

The materials and parts purchase budget specifies the quantities and timing of each raw material and component part needed. Therefore a plan for purchases must be developed. The purchases and parts budget specifies the planned quantities of materials and parts to be purchased the estimated cost and the required delivery dates.

2.8.3.1 (C) Materials and Parts Inventory Budget

This budget specifies the planned levels of raw materials and parts inventory in terms of quantities and cost. In other words, material inventory budget deals with the difference between the required quantities budget and purchased units bought.

2.8.3.1 (D) Cost of Materials and Parts Budget

This budget specifies the planned cost of the materials and parts inventory in terms of quantities and cost.

Planning and Control of materials and parts costs are frequently critical because the cost of production and the efficiency with which operation can be conducted on a day to day basis depend to a large degree on the smooth flow of materials and parts (at a reasonable cost) to the various sub division of the factory. Material and parts planning improves co-ordination of effort by pin point responsibilities, careful thought is required to anticipate and iron out difficulties that otherwise might not become apparent until after actual operations start, resulting in delays, mix-ups and consequent high costs materials and parts planning avoid the accumulation of excess inventories and inventories shortages, both of which can be extremely costly.

2.8.3.2 Factors Considering Inventory Policy for Materials Budget

The primary considerations in setting inventory policies for materials and parts are,

1. Timing and quantity of manufacturing needs.
2. Economics in publishing through quantity discount.
3. Availability of materials and parts
4. Lead-time (delivery time).
5. Permissibility of materials and parts.
6. Shortage facilities needed.

7. Capital requirement to finance in inventory.
8. Cost of shortage.
9. Expected changes in the cost of materials and parts.
10. Protection against storage.
11. Risk involved in inventories.
12. Opportunities cost.

2.8.3.3 EOQ Model for Purchasing Policy

To solve the question of how much to purchaser at a time by using well known approach to compute the purchasing quantity is EOQ.

$$EOQ \text{ X} \sqrt{\frac{2AO}{C}}$$

Where, A=Annual requirement

O= Ordering cost

C= Carrying cost

By using re-order pint, we must re-solve the problem of when to purchase.

ROP=Average usage + Average lead-time + Safety Stock.

2.8.4 Planning and Controlling Direct Labor Costs

Planning and Controlling labor involves major and complex problems areas, a) Personnel needs b) Recruitment c) Training d) Job description and evaluation, e) Performance measurement , f) Union negotiations and g) Wage and Salary administration. Effective planning and control of long term and short term labor costs will benefit both the company and its employees. To plan and control labor costs effectively, the different types of labor costs must be separately considered. Labor as a manufacturing cost is defined as those labor costs directly identifiable with the production of specific units of finished goods. The production plan provides the company data for planning the direct labor requirements.

The direct labor budget requires two additional decisional inputs standard direct labor hours per unit of each finished goods and the average hourly wages rates expected.

Direct labor cost occupies a significant position of total production cost so that the labor cost needs systematic planning and control. The basic reasons for preparing a separate direct labor budget are to provide planning data about the direct labor costs of each product unit and investment requirements. The main responsibility for planning and controlling of direct labors is of chief executive, production manager and financial manager.

The responsibility for preparing the direct labor budget should be assigned to the executive responsible for the manufacturing function. The direct labor budget must be in harmony with the structure of the annual profit plan. Therefore, it should show planned direct labor hours and cost by responsibility by time and by product. The personnel function can be more efficiently performed because a basis is provided for effective planning recruitment training and use of personnel through effective planning of direct hours and costs.

2.8.5 Planning and Controlling Expenses

Expenses planning and controlling are necessary to maintain reasonable expense levels to support the objectives and planned programs of the enterprise. Expenses planning should not focus on decreasing expenses, but rather on better utilization of limited resources. Expenses planning and control should focus on the relationship between expenditures and the benefits derived from those expenditures. In planning expenses for a responsibility center, the output or activity for that center must be planned.

2.8.5 (A) Cost Behaviors

1. Fixed Expenses: Those expenses that change in total directly with to month within relevant range of output and given set of conditions. For example salaries, property taxes, depreciations etc.

2. Variable Expenses: Those expenses that change in total directly with changes in output or volume or work done. For example, direct materials, directly labor etc.

3. Semi-variable Expenses: These are those expenses that are neither fixed nor variable. These expenses changes in the dame direction as output changes but not in proportion to the change in output.

2.8.5 (B) Planning Manufacturing or Factory Overhead

Manufacturing overhead is that part of total production cost not directly identifiable with specific products or jobs. Manufacturing overhead consists of, 1) Indirect material, 2) Indirect labor (including salaries) and 3) All others miscellaneous factory expenses, such as taxes, insurance depreciation supplies, utilities and repair. Manufacturing overhead includes many dissimilar expenses therefore it causes problems in the allocation of these costs to products. It will be recalled that a manufacturing must have production departments, servicing departments in the factory. Accordingly, factory overhead expenses budget for the manufacturing vice president must prepare each department. In turn to establish a policy requiting each department supervisor to develop his, own proposed factory overhead budget. There are two distinct types of responsibility centers productivity and service. Producing centers are those manufacturing departments that work on the product directing on product manufactured. However, services departments do not work on the product directly rather they furnish services to the producing department and to the other service department.

Manufacturing OH including two problems,

1. Controlling of manufacturing overhead.
2. Allocating of Mfg. OH to production

2.8.5 C Planning Selling and Distribution Expenses

Selling and distribution expenses include all costs related to selling distribution and delivery of products to customers. Careful planning of such expenses affects the profit potential of the firm. Selling and distribution expenses are not product costs and are not allocated to specific products; a separate distribution expenses plan should be developed for each responsibility center in the distribution function. The Top Marketing Executive has the overall responsibility for developing the distribution expenses plan. Selling and distribution expenses include all the costs related to selling, distributing and delivery of products to customers. Top Marketing Executive has the direct responsibility for planning the optimum economic balance between (1) Sales budget, (2) Advertisement budget and (3) The distribution expenses budget. Therefore, sales, advertisement and distribution expenses are three separate problems in profit planning and control. All these expenses must be systematically planned by responsibility center.

The selling and distribution expenses prepared by the sales managers should be based on planned volume of activity or output. The selling and distribution plan should be submitted by the managers of the responsibility centers to next level of management for evaluation, approval and consolidation.

2.8.5 (D) Planning Administration Expenses

Administration expenses include those expenses other than manufacturing and distribution. 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 function. They are increased in the responsibility centers. It includes a large portion of fixed cost than variable cost. Each administrative expense should be directly identified with a responsibility center and the center manager should be responsible for planning and controlling the expenses. The Head of each of administrative, accounting (including director of profit planning) departments submitted an expense budget for consideration and approval by the financial vice-president.

2.9 Planning Capital Expenditure

Capital expenditure often called capital budgeting. Capital budgeting is the process of planning and controlling the strategic (long term) and tactical (short-term) expenditure for expansion and contraction of investments operating (fixed) assets. Capital expenditure budgeting is a process of planning and controlling of the long-term and short-term expenditure for expansion replacement and contraction of fixed assets. Capital budgeting is useful to earn profit and to reduce future cost capital expenditure involve two planning and controlling phase. Top executive and department managers are responsible for capital budgeting.

"Capital budgeting decisions may be defined as the firm's decision to invest its current funds most efficiently in long term activities in anticipation of an expected flow of future benefit over a series of years".(Pandey,I.M :2002:63)

Capital expenditure is investments because it requires the commitment of resources today to receive higher economic benefits (i.e. profits) in the future. A major issue in planning capital expenditure is the problems of ensuring that a company has the capacity to produce acquire or be able to deliver the goods and services that will be needed to meet its sales and service plans.

Usually following methods are popular for evaluating investment proposals.

Simple and Traditional Method

$$Pay\,Back\ \mathrm{Z}\,Period\ \mathrm{X}\frac{Initial\ Investment}{Annual\ CFAT}$$

Average Rate of Return:

This accounting measure respects the ratio of the average annual profits after taxes to the investment in the project. Mathematically,

$$Average\ rate\ of\ return\ \mathrm{X}\frac{Earning\ Average\ AT}{Initial\ Investment}$$

NPV (Net Present Value) Method:

NPV is the excessive of present value of cash flow over the present value of cash out lay NPV= (Total Present Value-Net Cash Outlay) of cash flow.

Internal Rate of return:

Average rate of return is that rate which equates the present value of NCO and cash flows to make NPV o.

Profitability Index (PI):

PI is the benefit-Cost ratio of a project, which is determined by dividing the present value of future net cash inflows by the initial cash outlays.

2.10 PLANNING CASH FLOWS

The planning and control of the inflows the cash outflows and related financing is important in all enterprises. Cash budgeting is an effective way to plan can control the cash flows.

"A cash budget shows the planned cash inflows and outflows and ending position by interim periods for a specific time span. The short- term cash budget includes in the annual profit plan. A cash budget basically includes two parts; (1) The planned cash receipts (2) The planned cash disbursements. Planning cash inflows and outflows gives the planned beginning and ending cash position for the budget period. Planning the cash inflow and outflows will include (1) the need for financing probable cash deficits or (2) the need for investment planning to put excess cash to profitable use." (Welsch, G. A: 1986:433)

The primary purpose of the cash budget is to,

1. Give the probable cash position at the end of each period as a result of planned operations.
2. Identify cash expenses or shortages by time periods.
3. Establish the need for financing and or the availability of idle cash for investment.
4. Co-ordinate cash with (a) total working capital, b) sales revenue, and c) liabilities.
5. Establish a sound basis for continuous monitoring of the cash position.

2.11 COMPLETION AND IMPLEMENTATION OF PROFIT PLAN

2.11.1 Completion of the profit plan

"The development of an annual profit plan ends with the planned income statement, the planned balance sheet and the plan cash flows. Theses three statements summarize and integrate the deleted 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. Prior to distribute the completed profit plan, it is generally distracted to re-state certain budget schedules so that technical accounting mechanics, computation and jargon are avoided so much as possible. The redesigned budget schedules should be assembled in logic order, reproduced and distributed before the first day of the planned period. The profit plan completion date is important. Issuance of a profit plan after the beginning of the budget period is one sure way to destroy much of the budget's potential. Timely completion of the budget suggests the need for a budget calendar." (Welsch, G. A: 1986:466)

2.11.2 Implementation of Profit plan

Implementation of management plans that have been developed and approved in the planning process involves the management function of leading subordinates in attaining enterprise objectives and goals. However, a comprehensive profit planning and control program may aid substantially in performing this function. Plan, strategies and policies developed through significant participation establish the foundation for effective communication.

It is desired that the distribution of profit plan include a "Statement of Planning Premises". From the top Executive that emphasized performance, challenge and positive motivation. After distribution on of the profit plans, a series of profit plan conferences should be sheeted. These conferences are intended to build profit consciousness, performance orientation and aggressive, yet flexible, application of the application of the plans to attain the objectives.

Special emphasis be devote to the manner in which anticipated events and problems will be handled at various management levels.

2.12 PERFORMANCE EVALUATION

Performance reports constitute an important part of internal management control procedures. These reports serve to motive managers to perform in conformity with expectations. Moreover, they signal upper management where operations are not proceeding according to the plans. To be effective performance reports should be tailored to the organizational stricture and simple, accurate and timely and used to facilitate management by exception.

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 evaluation is an important phase of control process. There are lots of technique and criteria for the evaluation of performance of business enterprise but in the context of Nepalese Public Enterprise, there is no use of such technique and they also do not have a systematic and in depth approach to performance evaluation. HCIL is a NG owned manufacturing. Its performance evaluation is only limited in identification of cost variability and C-V-P analysis and variance analysis.

It is impossible to evaluate the all techniques of performance report but this research used the following evaluation techniques to measure the performance of HCIL,

1. Financial Ratio.
2. Identification of Cost Variability and C-V-P analysis.
3. Flexible Budget.
4. Variance Analysis

2.12.1 Management Follow up Procedure

Better managed companies issue monthly performance reports covering all aspects of operations The follow up procedures preferred by other companies involve constructive conferences where the causes are discussed and corrective action is decided upon follow up procedures should begin at the Top Management level in the executive committee meeting, for example, where both unsatisfactory and satisfactory conditions are discussed and analyzed. Favorable variances should be accorded equivalent study, (1) To determine whether the goals were realistic and (2) To give recognition to those responsible for high performances, and (3) possibly to transfer some "know-how" to other sub-divisions of the company.

Important aspect of follow up procedure is that resulting action is strictly a line responsibility rather that a staff responsibility. The budget director, controller or other staff officer should not undertake, nor be assigned, the responsibility for enforcing the budget.

2.12.2 Analysis of Budget Variance

A basis feature of performance reports is the reporting of variances between actual results and planned or budget goals. If a variance is significant, a careful management study should be made to determine the underlying causes. The underlying causes, rather than the actual results, should lead to remedies through appropriate corrective action by management.

There are numerous ways to study or investigate variances to determine the underlying causes.

Variance analysis involves a mathematical analysis of two sets of data in order to gain insight into the unreeling causes of variance. One amount is treated as the base, standard or reference point variance analysis has wide application in financial reporting.

Variance are analyzed in the following areas,

1) Raw material variances
2) Labor Variances
3) Overhead Variances
4) Sales Variance
5) Profit Variances

Following are the basic steps in analyzing variances, (1) Setting Standards, (2) Measurement of performance, (3) Analyzing Variances (4) Take Corrective Action.

Variance should be broadly grouped under two categories; favorable and unfavorable. Variances further should be classified as controllable causes and uncontrollable causes, and then related center or managers should be accounted for responsibility.

PPC in Nepalese Context (A Review of Previous Research Work)

In the context of profit planning, there are lots of dissertation are submitted in the manufacturing and non-manufacturing field. Among them, very few dissertation have been gone thought sufficient tools of profit planning and control in Nepalese context because most of the company have not been used the PPC program here so most are not in detailed. Here some public and private company or industries research has been presented in the related research work in the topic of profit planning and control.

A. Mr. Narayan Prasad Poudel

Mr. Narayan Prasad Poudel has tried to highlight the research work on the topic of profit planning in manufacturing public enterprises in Nepal, (A Comparative Study of Himal Cement Company Limited and Hetauda Cement Industry Limited). The main objectives focused by him were to interpret the trend of profit planning HCCL and HCIL and how they are contributing in the national development. The researches have undergone through published document and planning documents. He has analyzed last five years trend. He has used the selected data of financial and statically tools. Based on his data presentation and their analysis, the most remarkable finding has been presented below,

1. Nepalese manufacturing Public Enterprise are suffering from the problem of in adequate skill, which has seriously constrained the production of high quality product and use of sophisticated processes.
2. It has found that the cost of production in manufacturing enterprises is very high but it is also noted that the quality of finished product is very unsatisfactory in comparison to foreign production.
3. The decision making power in these manufacturing public enterprises are concentrated only in Top Level Management.
4. It has been noted here that the basic programs of HCIL and HCCL are not concentrated and focused to overcome the existing wow material problems faced by both the enterprises.
5. Actual production of HCIL is more fluctuation than that of HCIL.

His Recommendations are as under:

1. HCCL and HCIL have not practice of preparing systematic long term and short term production plan. Therefore, it is suggested them that should prepare short term as will as long term production systematically.
2. There should be continues flow of information among various level of management and various groups of employees. The goals, objectives, and strategies of these enterprises should carefully be communicated to low level management.
3. The concept of PPC should be well informed to every level of management in order to utilize scarce resources more efficiently and qualified manpower of planning should be hired and existing manpower should be well trained to develop and implement the profit plan more effectively.

B. Mr. Umesh Shrestha

He has submitted on the topic planning in Nepal (a case study of Himal Cement Company Limited). The main objectives of the study were to examine the practice and effectiveness of profit planning in HCCL. The data were taken from the financial records of HCCL for five from FY 2049/50 to FY 2054/55. Both primary and secondary sources of data were used.

The main points of the conclusion of the study are as under,

1. HCCL have not adequately considered controllable and non-controllable variables affecting the company. This research shows the following strength and risks of the company,

Strength: a) No problem of sales.

b) Experienced staffs.

Risks: a) Competition with international and notational market.

b) Raw materials are import from overseas.

c) Lack of skilled work force.

2. Objectives of Nepalese Public Enterprise are not clear. There is conflict between social and profit objectives, which are hindering to profit planning programs of PE's. Similarly, HCCL have not any effective program to increase profitability.
3. HCCL have not any objectives to create and maintain optimum enterprises environment that motivate of all employees. Similarly, no fair reward and punishment system for employees on the basis of their work performance.

   Further more, this company has no any major programs to accomplish formulated objectives and to implement to continuously and consistently increase the expertise of management at all levels and to take full advantage of the latest techniques and innovations as they are developed.
4. Nepalese public enterprises lack budgeting expert and skilled planners. Plans are formulated on traditional ad-hoc basis. Few managers are competent but most of all can not analyze company's internal and external environment.
5. Red-tapism is another main obstacle in decision making and implementation of plans programs. Every function requires unnecessary formalities, which create delays in decision making and functioning.
6. HCCL have no any marketing research program and no marketing specialist so this enterprise is unable to develop alternative marketing policy for sales expansion.
7. HCCL have not any statement of specific goals about research and development, factory productivity, capacity utilization and cost control.
8. HCCL has not made the sales forecasting on realistic ground. Because there is no significant positive correlation between actual and targeted sales. Actual sales are less consistent than targets.
9. Distribution system of HCCL in not adequately. HCCL mainly depends on National Trading Limited and mainly concentrated on Kathmandu valley.

10. Traditional pricing system is main features of Nepalese PE. Usually, cost plus pricing methods is applied to determine price.
11. Another main problem is the low productivity of manpower, which is due to lack of motivation and incentive and over staffing by political pressure.
12. HCCL have not any policy about cash flow plan and have no any advance programs of utilizing the excess funds that is likely to generate in courses of operation.
13. HCCL have not a practice of analyzing the variances. So the managerial of these companies are not conscious or rethink about the causes of variances. No single department of mangers is made accountable for significant variances.

In this study, he recommends the following options to improve profit planning in manufacturing PE like HCCL,

1. The HCCL and all PE should adequately identify and evaluate the external variables and their influences and in depth analysis of companies strength and weakness.
2. HCCL should decide to develop effective program to expand growth rate.
3. HCCL should effectively plan to utilize its idle capacity by introduction new products or by expanding current products. New sales deports should be established within domestic market.
4. Volume of inventories should be maintain to optimum level on the basis of following consideration,
   - Demand fluctuation
   - Carrying costs and ordering costs
   - Opportunity cost of working capital
5. Production plan must be based on sales plan and stable production should be preferred except in unusual cases. Production plan should be disseminated among all the enterprises.
6. Strict supervision is necessary to watch and control the wastage working hours of the employees.
7. Discounted cash flow techniques should be applied to evaluate the proposals while expenditure planned.
8. The company should develop the systematic periodic performance reports detailed by assigned responsibilities for the accomplishing the planned objectives and to take corrective action toward poor performance timely.
9. Variances should be broadly classified as favorable and unfavorable cases of unfavorable variance should be diagnosed and identified as controllable and non-

controllable. Particular department and manger should be made responsible and accountable unfavorable variances.

10. Finally, a systematic approach to comprehensive profit planning, budgetary, is essential to adopt in the public enterprises in Nepal. Implementation of profit or eliminate loss of HCCL and all Nepalese PE's. Otherwise, the HCCL must be hand over to private sector.

C. Mr. Nur Nidhi Neupane

Mr. Nur Nidhi Neupane has written a thesis about profit planning and control in manufacturing public enterprises of Nepal "A case study of HCIL". He has included six years period starting from FY 2054/55 to FY 2059/60 for the sake of long run planning. He has also used the period of seventh year and eight year test period. The presentation and analyze of data is admirable he has briefly presented the long-range and short-range data and he has described about the weakness as well as conclusion very well. He has used secondary data for unpublished documents, magazines and report of auditor's general office and primary data collected form the personal interview.

Based on his research, he has found the following conclusion,

1. There is no application of PPC. However, very few techniques like sale budget, production budget etc are maintained to some extent.
2. Each department is suffering form their responsibility. Whatever they achieved no provision reward and punishment is followed.
3. Full capacity utilization (installed capacity) is being the unachievable dream, this should not be treated as so. Only 50% of installed capacity is again far form the achievement.
4. The production aspect is sometimes hampered of poor repairing and maintenance pattern. The disturbance on production is continued for a long term, due to lack of preventive maintenance and repairing of machinery. There seems lack of experts and technicians.
5. The inventory policy regarding raw materials and work in progress is insufficient. The company even does not maintain the level of safety margin in an appropriate manner.

Some recommendation on the basis of analysis,

1. The concept of PPC is accepting as the heart of management. In the absence of which the management will be of no meaning, but using PPC as weapon is not an easy task. The whole management of HCIL. Should be well recognized with PPC and its implementation. Even the government level seminar, training etc should be conducted in the management level. The experts on this field should hire for a while for the betterment of the company.
2. The personnel of HCIL are seemed not motivated to their works, so the proper motivational program should be conducted. In addition, reward and punishment system should be made more effectively.
3. It is found that the targets (physical as well as financial) are set in an ad-hoc basis so that the gap between achievement and target is pointed very high. This should be minimized. For this, the HCIL should know the forecasting accuracy and so forth.
4. The company should follow the modern management system with modern equipment so that unnecessary employees and the salary and benefits provided to them will be minimized or the expenses will be minimized so far.

D. Mr. Niraj Pudasaini

Mr. Pudasaini has written a thesis about profit planning and control in manufacturing public enterprises of Nepal "A case study of HCIL". He has included five years period starting form FY 2060/61 to FY 2064/65. The presentation and analyze of data is admirable he has briefly presented the long-range and short-range data and he has described about the weakness as well as conclusion very well. He has used secondary data for unpublished documents, magazines and report of auditor's general office and primary data collected form the personal interview.

Based on his research, he has concluded the following,

1. HCIL have not adequately considered controllable and non-controllable variables affecting the company. This research shows the following strength and weakness of this industry,

   Strengths of this company are,

   a) No problem of sales
   b) Experienced staffs
   c) Local raw materials
   d) High quality products

e) Employment opportunities

f) Increasing demand of the cement.

Weaknesses of this company are,

a) Lack of autonomy

b) Raw materials, packing material and spare parts are not available in time due to various reasons.

c) Lack of full capacity utilization of production.

2. Objectives of Nepalese Public Enterprises are not clear. There is conflict between social and profit objectives, which are hindering to profit planning, program of PE Similarly, HCIL have not any effective program to increase profitability.
3. There is no well- developed system of reward and punishment to employees based on their work performance. No programs have been attention about fair working environment.
4. HCIL have no satisfactory achieved of targeted specific goals because of following reasons,
   a) Inadequacy of right material of right time at right quantity
   b) Low productivity
   c) More bureaucratic of NG on sales and purchase.
5. The company has not any broad objectives to operate with a positive and dynamic philosophy of management, which is vital to a competitive and growing company.
6. HCIL has been suffering from the department and staff conflict, due to lack of defining the line and staff responsibility clearly, due to the manager personal ego.
8. One major problem in Nepalese PE is behavioral problems that arise in organization. HCIL has been suffering from too much under utilization of available capacity.
9. Red tapism is another main obstacle in decision-making and implementation of plans and programs. Every function requires unnecessary formalities which create delay in decision making and functioning.
10. Due to lack of budgeting experts and skilled planners, plans are formulated on traditional ad-hoc basis.
11. HCIL have not any statement of specific goals about research and development, factory productivity, capacity utilization and cost control.

12. Planning department of HCIL has no adequate authority to decide and create new ideas to formulate various plans.
13. Distribution system of HCIL is not adequate. Mostly it has followed wholesales channel of distribution but in some specific client, it distributed direct to the customer.
14. HCIL have not any policy about cash flow plan and have no any advance program of utilizing the excess funds that is likely to generate in course of operation.
15. Pricing system of Nepalese Public Enterprises is not scientific. PE adopts tradional pricing methods. Usually cost plus pricing method applied to determine price. Certain products are priced below costs as per NG circular.
16. C-V-P relationships are not consider while developing sales plans and pricing strategy.
17. HCIL have not a practice of systematic forecasting. Sales forecasts are made with precious sales figures and production capacity. This shortcoming is due to lack of skilled experts.
18. Another main problem is the low productivity of manpower, which is due to lack of motivation and incentive and over staffing by political pressure.
19. Theoretical formula of production plan i.e. planned production (sales plan+ desired ending inventory-opening inventory) is not adopted by HCIL.
20. Although there is a big competition with international market but HCIL has no problem of selling their product in Nepalese market.
21. There is no any systematic and effective practice of profit planning so it is required to have a good knowledge about the concept of comprehensive profit planning and control then they should equally implement this concept in real practice.
22. Management by objective (MBO) techniques should be followed for planning to maintain co-ordination, co-operation and self-motivation among departments and employees.
23. HCIL have not a system of periodical performance reports so it can be conclude this PE are not seriously conscious to their poor performance.
24. NG intervention should not be made for functional aspect of enterprise. Management should be given full authority, responsibility and accountability and accountability for routine and major both operation.

25. HCIL and other manufacturing public enterprise should try to identify their environment opportunities and threats in order to capitalize such opportunities and to mitigate the threats.
26. HCIL should have to develop effective programmed to avoid existing problems and to accomplish formulated objectives and to implement them effectively.
27. The promotion of personnel is necessary to boost up their moral. Time to time training is essential to develop their performing skills and activates.
28. Duty responsibilities and power of each level of employees should be adequately defined. This will significantly help to minimize the misunderstanding between employees.
29. The percentage of margin of safety is not higher so to meet the higher profit HCIL should keep the sales highly significant or more than that.

His recommendations are as under,

1. Management of the company should try to minimize the gap between planned and actual sales by the application of short range and long range sales plan in practice, similarly, in case of production plan.
2. The management of the company needs to increase in production and sales volume for the utilization of available capacity.
3. Control the excess number of employees, should reduce expenditure, salary and wages.
4. There should be continuous flow of information among various level of management and various groups of employees. The goals, objectives, and strategies of the enterprises should carefully be communicated to lower level management.
5. Margin of safety is only 24.90%, it is not sufficient for the competition market condition, so it should be tried to increase the margin of safety.
6. HCIL should decide to develop effective program to expand growth rate.
7. The company is suffering from excessive burden of fixed cost therefore it should try to reduce the unnecessary amount of fixed cost and other unproductive expenditure should be avoided, this concept of cost effectiveness will promote the profitability will promote the profitability position.
8. The concept of cost classification such as controllable and not-controllable fixed and variable should be emphasized for implementation.

9. To improve the inventory turnover ratio and to minimize the existing inventory level the company should focus on maintaining inventory policy.
10. The company should develop the systematic and effective performance report detailed by assigned responsibility that should be sufficient to reward the best performance and to punish the idle employ.
11. Nepalese Public Enterprise should be operated on commercial basis. Entrepreneurship should be developed within the enterprises. Executive directors or general managers should be appointed for some long period and right person should be placed at right place.
12. The management of the company should improve present condition of the company by the application of profit planning system and techniques in practice.

Chapter -III

Research Methodology

3.1 RESEARCH METHODOLOGY

Research Methodology is the way of systematic investigation to find answer to a problem and creates new idea and knowledge of those which are generally applicable. The research should have certain characteristic, like it should be controlled rigorous systematic, valid and verifiable, empirical and critical. Research Methodology helps to analyze, examine and interest various aspects of works, should as gather information, data collection procedure, analysis presentation. The basis objective of this study is to highlight the application of profit planning concept in HCIL with respect to efficiency to earn profit and sales. This study is on the profit planning of HCIL in the past years and the result will be carried with the help of different budgeting. The motive of the study is to analyze the plan of HCIL with broad view to suggest the measure to improve the economic activities from the existing condition as well as to recommend suggestions for its improvement in future. The methodology consist research design, period covered, nature and sources of data and tools and techniques of analysis.

3.2 RESEARCH DESIGN

Research design is the plan structure and strategy of investigation conceived as to obtain answer to research question and control variance. Research design is a plan to obtain the answer of research question through analysis of data.

The research design of the present study is descriptive as well as analytical. This study is an examination and evaluation of budgeting procedure in the process of profit plan of HCIL. The study is closely related with the various functional budgets and other accounting statement as well as the actual result of the budgets. On the basis of design, attempts have been made to investigate profit planning of HCIL followed by some innovative suggestion.

3.3 PERIOD COVERED

Profit Planning has two time periods, i.e. long term and short term. The present study covers five-year period form FY 2061/62 to 2065/66 for long term plans to be analyzed. Actual details are present for FY 2065/66. Tactical short-range plan of FY 2065/66 is taken to analyze.

3.4 NATURE AND SOURCE OF DATA

To fulfill this research and to achieve the objective of this study, secondary data has been used. Secondary data has been taken form the published accounting and financial statement of HCIL. Other sources of secondary data relating to this study are magazine and newspapers, unpublished officials records, publication of Ministry of Finance, publication of National Planning, Central Bureau of Statistics and other publication.

3.5 RESEARCH VARIABLES AND TOOLS

Presentation of collected data and its interpretation use the same budgeting tools. The tools used in this study are mainly regression and correlation analysis, C-V-P analysis, funds -flow analysis, mean, trend line, and flexible budget.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

"Profit planning is a predetermined detailed plan of action developed and distributed as a guide to current operations and as partial basis for subsequent evaluation of performance. It is a systematic approach for attaining effective management performance. Since the profit planning is a primary purpose of business then is to increase the chances of making a profit. Comprehensive profit planning and control is a newly developed concept as a crucial way in the business enterprise. Thus we can say that PPC is a tool which may be used but the management is planning the future course of action and in controlling the actual performance."

It is sure that most of the developing nations need to make family extensive use of public enterprise as a catalytic agent in the process of money towards development oriented economy. PE has assumed significant role in almost every countries of the world. Public Enterprise in Nepal constitutes a vital instrument for the socio-economical development of our country. In the context of our country, the private sector did not show any interest, due to lack of capital, entrepreneurship skills, capable of being bearing risks. Thought there are some private entrepreneurs who take interest in business possibly, they did not have capital.

Public enterprises were established as a strong means of development in order to prepare infrastructure services to produce the require goods in the country. Further PE was established to help in controlling the price situation to increase government revenues, and to contribute significantly in the national development as well as to assist the country's economic advancement. PE world has not been able to perform well commercially due to over loading of undefined and vague social objectives there have also been excessive political and bureaucratic interventions. PE losses are increasing in most countries. It must not be forgotten hat the main reason of the "failure" of PE to deliver the goods is the government itself. PE is the only sub-systems of the governmental system and they will have to suffer the system. The government gets the PE it deserve. The financial situation of the government corporations, in fact, is in a very poor shave, virtually majority of Nepalese public enterprises are running a loss. The pictures of public enterprises in Nepal are, how a poor and critical position. How long these enterprises can survive by government subsidy? This is a serious matter of thinking. Profit planning technique can considerably contribute to improve the present poor performance of Nepalese public enterprises.

Hetauda Cement Industry Ltd. a NG owned manufacturing company, which is running at a profit, but the profit amount is not so satisfactory. According to the profit and loss account, it has been shown that it's profit trend approaching to decline. Being as NG owned enterprise accounting year of HCIL beings from its of Shrawan to the last of Ashad strategic long-range plans generally are prepared in advance for following five years. Technical short-range plans are prepared for 12 months of coming year.

4.1.1 Long -Term Sales Plan

Sales plan provides basic management decision about marketing and based on those decisions, it is an organized approach for developing a comprehensive sales plan. Preparation of sales plan is first and important step in developing the overall profit planning process of the firm. Sales are the primary source of cash and all other functional budgets/plans are prepared based on sales plan. All business operations are directly linked with the sales plan and thus sales planned should be realistic. A plan of operation must necessarily be built around the activity of volume of business that can reasonably be expected during the specific period covered by the profit plan.

The sales plan is such a step, which opens the door of financial plan. It is a estimation of sales in uncertain period of future when the actual sales is not far from the planned sales than it is known as good sales plan. The efficiency of good planner or planning expert can be evaluated from the comparison between actual and planned sales.

Following Table shows the picture of long-term sales trend (sales targets and sales achievement) from 2061/62 to 2065/66. The picture shows that achievements are always below the targets and the percentage of sales are different.

Table-3 Long Term Sales Plan In MT (Metric Ton)

Fiscal Year	Target Sales (MT)	Achievement Sales(MT)	Percentage %
2061/62	182000	126267.00	69.30%
2062/63	182000	124385.00	68.34%
2063/64	182000	136558.00	75.03%
2064/65	182000	128921.20	70.83%
2065/66	182000	119023.00	65.40%

Sales achievement is usually below the targets and the percentage of sales achievement is not consistent. It is due to the carelessness of the management and lack of dedication in their respective job. We can figure out or say that there is a wide gap between target sales and achievement sales every year which denotes the weakness of top level management regarding the field of co-ordination and integration of effort of employees. On the other hand, we can also say that the target sales are high. Target sales may be derived on ad-hoc basis without any analysis. So, they need to analysis first to derive the target sales and the top management should gather strength and generate co-ordination among the employees.

The same gap may be illustrated with the help of the figure below:

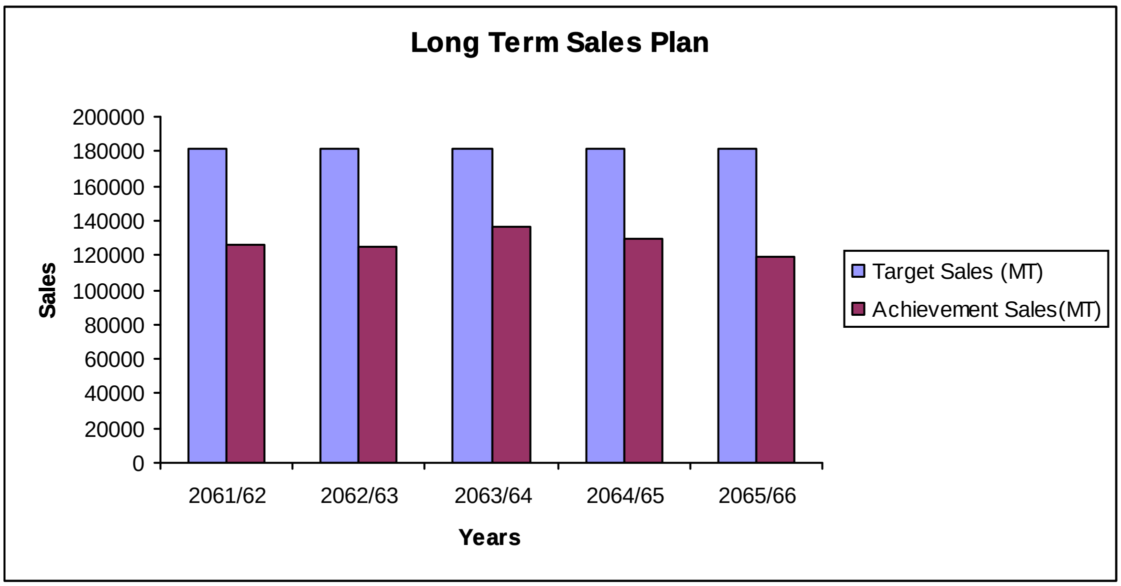

Diagram no. 1

Above figure expresses the trend of sales achievement is fluctuation to any extent. Due to that particular reason, we cannot express the figure of potential sales trend.

To analyze the trends of actual sales and to estimate the possible future sales for coming year, a statistical tool called least square method can also be used. In this method, it is assumed that the sale is consistently changed (increased or decrease) with the change in time as such change can be expressed by the component of time series. Five years data (2061-2066) are used to calculate the value of required fitting the straight-line trend. To fit the straight line trend, the time factor is consider dependent factor upon time. Then the straight line trend of actual sales (Y) upon time is expressed by the equation.

$Y = a + bx$, where x is the time.

After calculation, we get the value of a (constant) and b (variable).

Detail calculation of a and b in Apeendix-1 with the value of a and be we can easily estimate the possible actual sales of given year from the appendix-1,

$$Y = 127030.84 - 995.18x$$

This rend shows the negative figures of sales for future.

To conclude the characteristic of sales figures of HCIL following points can be drawn.

1. Sales figures are more inconsistent and highly variable.
2. Least square, straight line trend (YC) shows that actual sales will go on decreasing in near future.

Long-Term Production Plan

The long term production planning refers the development of policies about efficient production level, use of production facilities and inventory levels. Preparation of production budget is the second step in developing profit plan, for the purpose of formulation of the profit plan the requirement of the sales plan must by transited the supporting activities of other major functions. In the case of manufacturing enterprises, the sales plan must be converted to production plan. We can understand the production planning mathematically as under,

Production Unit= Planned Sales + Final Inventory-Initial Inventory

The following factors are to be considered for production planning.

a. Total production requirement (by product and by interim period) for the planning period.
b. Inventory policies relative to the levels of finished goods and work in progress.
c. Plant capacity
d. Availability of raw materials.
e. Availability of capital
f. Availability of Labor
g. Timing of production or the effect of the length of the processing time.
h. Economic lot size.

The production plan is an estimate of the quantity of goods to be manufactured during the planned period. The production plan is based on the capacity of plant and sales plan. Any one of the manufacturing enterprises should necessarily be developed its production plan appropriately and efficiently.

Generally, long-term production plan is made for five years. HCIL also used to prepare a long-term production plan for coming five years. The responsibility of production planning of HCIL goes to production department. Production of HCIL depends upon the capacity of the plant or machine. HCIL has 260000 MT capacities to produce cement, which fulfill the demand of sales. The department manager prepares the production budget based upon the adequacy or availability of manufacture facilities, plant capacity, availability of raw materials and sales trend. Till now the sales and production of HCIL has not been satisfied on achievement of his production. There is some reason for not achieving the desired production for FY 2065/66

1. Frequent breakdown of plant and machinery (mainly cooler) in the plant site.
2. Snapping of the track of rope-way.
3. Non-availability of slag in India.
4. Disruption in the quarrying activities due to early heavy rainfall.
5. Frequent interruption in the electricity in the month of Baisakh, Jestha and Ashad.

Following table shows the long-term production target and achievement of HCIL form FY 2061/62 to 2065/66.

Table-4: Production Target and Achievement in MT

Fiscal Year	Target Production	Achievement Production	Percentage%
2061/62	182000	124985	68.67%
2062/63	182000	125899	69.18%
2063/64	182000	136988	75.27%
2064/65	182000	128696	70.71%
2065/66	182000	137364	75.47%

The table of long-term production targets and achievement shows that progresses are varying 68.67% to 75.47%. The production ad target productions of HCIL of FY 2061/62 to 2065/66 can be represented in the bar diagram as follows,

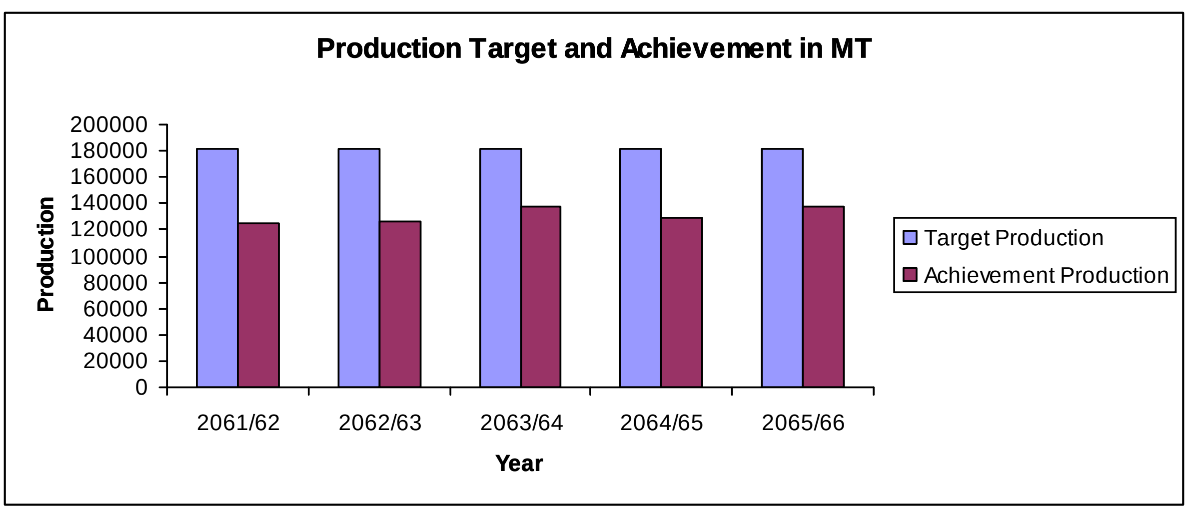

Diagram No. 2

This time-production relationship can be expressed in terms of straight-line by least square method.

Detail information is shown in Appendix-2

Summarized result from appendix-2

We have

$$Y=130789.4+2755.5x$$

This trend line shows the positive figures of production.

4.1.3 Inventories of Hetauda Cement Industries Limited

The production budget is important when the objective is both to sell and to store. The budget sale and the inventory affect the production volume finished goods inventory is the cushion between sales and production. When sales exceeds production then inventory is used for sales and the level of inventory going to be decreased and on the other hand when production exceeds sales than the excess production is kept into store and the level of inventory is going to be increases. A certain level of inventory is needed for smooth sales activities of the company. Different companies have different inventory policies according to their nature. Generally, inventory level of product seasonally, production process and other so many factors.

HCIL has adopted unstable inventory and production policy. HCIL has invested large sum of money to maintain appropriate and adequate level of inventory.

The following table presents the actual inventory level of finished goods form 2061/62 to 2065/66.

Table -5 Finished Goods Inventory on Trade Amount

Fiscal Year	Opening Inventory	Closing Inventory
2061/62	201,780,946.52	182,716,005.36
2062/63	182,716,005.36	236,990,452.21
2063/64	236,990,452.21	230,855,886.57
2064/65	230,855,886.57	240,356,885.23
2065/66	240,356,885.23	-

The above table shows that the closing inventory of HCIL has been fluctuated year by year. It has been fluctuated form 182,716,005.36 to 240,356,885.23. It is clear that HCIL is unable to reduce the inventory in FY 2064/65 (240,356,885.23) as compared to FY 2063/64 (230,855,886.57). The inventory is increased by 3.97 percent in FY 2064/65 than FY 2063/64. It can be clearly observed that HCIL has not any adequate and appropriate policy regarding the inventory of Raw Materials. Nevertheless, in real practice, slight inventory is held. There is no clear cut and effective policy regarding inventory and purchase of raw materials. HCIL has not involved the timing and quantity needs by the factory, shortage involved and protection against shortage etc.

4.1.4 Raw Material Budget of HCIL

Material Budget is a co-ordination of the required raw material and parts. Inventory levels of raw materials and parts that must be purchased. Direct Material cost cover that major portion of firm's expenses in manufacturing enterprises. Raw materials Budget is prepared after the completion of production budget. Production budget specify the quantity of products to be produced and on the basis of that, material requirement is calculate by multiplying the units to be produced with standard raw material quantity needed to produce for each unit.

In the production process, most of the manufacturing enterprises use material directly or indirectly. Direct material is generally defined to include all material that constitutes and integrate part of finished product and can be directly identify with the cost i.e. a cost which varies in proportion to change in production output or volume. Indirect material is generally defined as material used in the manufacturing process but not directly tractable to each product.

In the concern of Hetauda Cement Industry, it used yearly raw material as follows:

Table-6: Yearly Raw Material Requirement

Description	Raw Material	Quantity
Lime Stone	396,000	MT
Clay	6,000	MT
Coal	50,000	MT
Gypsum	10,000	MT
Iron Ore	6,000	MT
Bags	5,200,000	Bags

In order to produce the cement HCIL uses the given raw material for its installed capacity 260,000 MT or 5,200,000 Bags.

HCIL used to purchase most of the material from India and only few materials form Bhutan. Generally, HCIL used to issue the tender for material at the end of every two-month, so that there will not be any shortage of materials as well as burden of stocking in a high level.

Table-7: Comparative Material cost of HCIL

Detail	F.Y. 2066	F.Y. 2065	F.Y. 2064	F.Y. 2063	F.Y. 2062
Limestone Purchased	17,850,141.41	16,537,795.51	15,530,331.38	11,227,765.71	8,924,696.34
Transportation by road	8,267,151.32	9,695,946.43	8,971,318.21	6,279,107.20	6,854,037.18
Limestone received form Okhare	-	-	11,413,666.92	6,010,548.53	10,244,962.72
Other materials	173,680,414.34	165,704,458.16	189,602,886.89	179,072,345.37	149,780,711.02
Total	199,797,707.07	191,938,200.10	225,518,203.40	202,589,766.81	175,804,407.26

The above table shows that total material cost FY 2066 is higher that FY 2065. Planning of material is played a vital role in profit planning and control. The condition of material play of Nepalese PE are not diagnosed as controllable and non-controllable which means the expenses budget of expenses control programs are not so effective. Therefore, company should take this situation seriously and try to maintain the optimum level in the future.

Here the table below represents the physical verification of HCIL. It clears the raw materials in detail.

The following table shows the full information about the raw material of FY 2063/64.

Hetauda Cement Industries Limited

Physical Verification at the en of Ashad 2064

(FY 2063/64)

S.N	Name	Opening Stocks	Receipt/Production	Total(3+4)	Consumption	Closing Stock	Remarks
	2	3	4	5	6	7	8
1	Limestone(MT)						
	Bhainse	3013.578	107548.980	110562.558	108274.384	2288.174	Crushed
	Okhare	8167.324	46300.340	54467.664	35128.117	19339.547	Uncrushed
	Jogimara	741.447	7095.580	7837.027	7839.027	0.000	
	Annapurna	9.800	26307.100	26316.900	26226.635	90.265	Uncrushed
	Total LST	11932.149	187252.000	199184.149	177466.163	21717.986	
2	Iron Ore (MT)	749.817	4356.660	5106.477	2394.896	2711.581	1.32%
3	Gypsum(MT)	1128.157	10833.500	11961.657	10586.191	1375.466	7.70%
4	Coal (MT)	5870.90	29116.900	34956.990	30676.540	4310.450	25.74%
5	Slag (MT)	2091.540	3933.220	6024.760	6024.760	0.000	
6	Bauxite (MT)	124.852	0.000	124.852	65.145	59.707	
7	Clay(MT)	178.480	2193.00	2371.480	1954.872	416.608	
8	Poly Bags						
	OPC(No)	53333.000	2349500.000	240333.000	22294525.000	166.515	
	OPC(No)	23260.000	510000.000	533260.000	501630.000	26.500	
9	Rap Meal (MT)	3455.510	181872.096	185627.606	183325.866	2301.740	1.54%
10	Clinker(MT)	7984.350	118660.777	126645.127	120416.704	6228.426	
11	Cement						
	OPC MT	1123.675	112151.370	113275.045	11476.250	1798.795	
	PSC MT	1609.990	24836.685	26446.675	25081.2500	1365.175	

4.1.5 Selling Channel and Consideration

The sales and marketing department proudly express that it has no problem of selling. HCIL has altogether 268 dealers in several region of Nepal. This number might be fluctuated yearly. The HCIL always sells its product through dealer. However, in rare case, it provides its goods and service to the consumer directly, when the consumers are of local territory, project and NGO's. In this way, what we can point out about marketing channel is that,

Producers - Dealers - Consumers

Producers - Consumers

Due to the qualitative standard, HCIL has succeeded to get mark of Nepal Standard. Always it tries its best to maintain its existing quality. Because of the goodwill and other reason, there will remain no stocks after production of cement bag.

4.2 TACTICAL SHORT RANGE PLAN

While preparing on overall profit plan, plans for short range generally for coming one-year period are developed. Tactical short-range plan should be detailed by months, even by weeks or days.

The HCIL prepares the sales budget monthly, 4 monthly, ½ yearly and yearly. While developing sales plan, HICL has not a practice and approaches to identify the external variables and to forecast systematically the future sales rather month, quantity in FY 2065/66

Table-8: Short Term Tactical Sales Plan- 2065/66

Months	Target in MT	Achievement in MT	Percentage
Shrawan	8,100	5,120.45	63.22
Bhadra	13,500	4,930.05	36.52
Aswin	16,400	7,171.00	43.73
Kartik	17,000	1,538.15	09.05
1st Four Months	55,000	18,759.65	
Mangsir	17,000	6,901.25	40.60
Poush	13,000	13,538.70	104.14
Magh	16,000	10,170.55	63.57
Falgun	17,300	16,274.20	90.07
2nd Four Months	63,300	46,884.70	
Chaitra	16,000	15,286.85	95.54
Baisakh	16,500	15,163.90	91.90
Jestha	16,200	11,004.05	67.93
Ashad	15,000	11,924.20	79.49
3rd Four Months	63,700	53,379.00	
Total in a Year	182,000	119,023.35	65.40

Source: HCIL Document

The bar diagram represents the actual sales and targets sales achievement of HCIL FY 2061/62 to 2065/66. From the trend, it is observed that there is gap between monthly sales plan and monthly sales achievement.

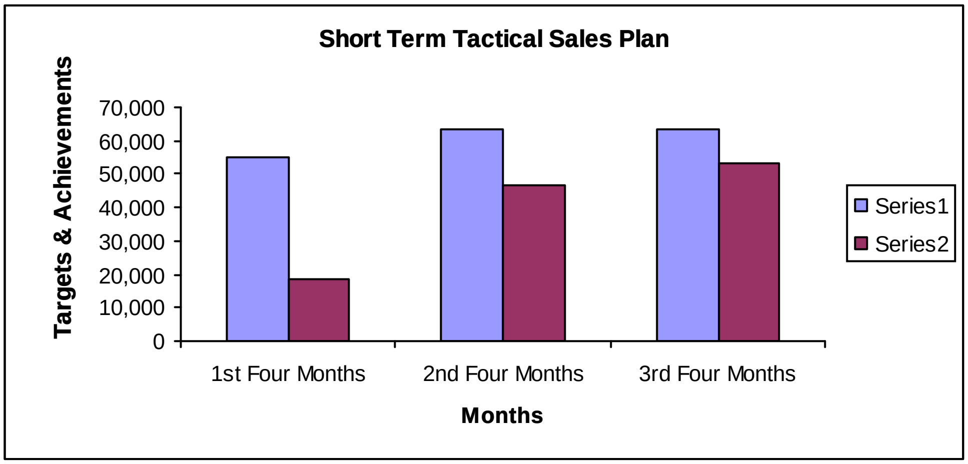

Diagram No. 3

The table and graph show that in the month of Poush, the sales achievement is highest i.e. 104.14 percent and unit is 13538.7 MT. The target achievement was 13000 MT and the lowest achievement percentage is in the month of Kartik i.e. 9.05 percent of target sales. It is due to the Dashain and Deepawali festival.

When we observe on 4 months measuring, the last four-month have 83.80% achievement. That is the highest achievement and the months included are Chaitra, Baishkh, Jestha and Ashad.

4.3 TACTIAL PRODUCTION PLAN

The production planning refers the development of policies about efficient production level, use of production facilities and inventory levels. The responsibility of developing production plan in HCIL depends upon planning manager. Theoretical concept of production plan can not match with the practically in HCIL. Production plan is primary step and all other sub-budgets, including sales are prepared to support and in accordance to production target. Therefore, the planned volume to be sold plus desired finished goods ending inventory minus finished goods opening inventory don't determine rather production volumes are determined by availability of raw materials, skilled manpower etc. There is no inventory policy had been implemented? Following table shows the production plan of HCIL for FY 2061/62 to 2065/66 classified by period of a period of a year into three four month's period.

Table-9: Short-Term Tactical Production Plan

Months	Target units	Achievement in units	Percentage
Shrawan	8,100	8,375	103.00
Bhadra	13,500	5,511	40.82
Aswin	16,400	9,024	55.02
Kartik	17,000	9,477	55.74
1st Four Months	55,000	32,387	63.64
Mangsir	17,000	13,107	77.10
Poush	13,000	14,721	113.23
Magh	16,000	12,124	75.77
Falgun	17,300	16,803	97.13
2nd Four Months	63,300	56,755	90.81
Chaitra	16,000	14,016	87.60
Baisakh	16,500	13,080	79.27
Jestha	16,200	10,667	65.85
Ashad	15,000	10,459	69.73
3rd Four Months	63,700	48,222	75.61
Total in a Year	182,000	137,364	74.47

Source: HCIL document

When we observe on months measuring, the second four month has 90.81% achievement. That is the highest achievement and the months included are Mangshir, Poush and Falgun.

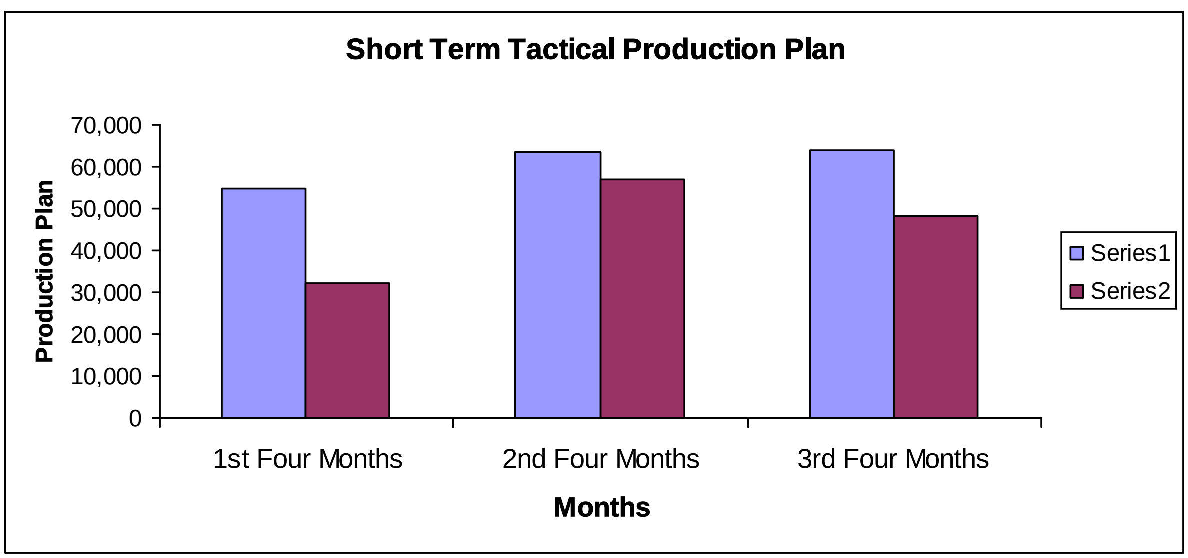

Diagram No. 4

4.4 CAPACITY UTILIZATION

Capacity utilization is the most important factor in manufacturing enterprises. Production and sales, both plans are dependent upon the capacity of machine. Higher the capacity, higher the units can be produced, cost of production also depends upon the utilization of capacity. Cost of production is lowest at optional level of capacity utilization, lower utilization of capacity increase per unit manufacturing cost. However, over utilization of capacity reduce working life of machine.

HCIL has complex and serious problem of under utilization of available capacity. In the case of HCIL, its yearly capacity of the plant is 260,000 MT of cement (5,200,000 bags of 50 KG per bag) and per day capacity is 800 MT (16,000 bags pf 50 KG per bag). From the table below, we can find utilization of capacity of FY 2061/62 to 2065/66 follows,

Table-10: Capacity Utilization

Fiscal Year	% of Capacity Utilization
2061/62	48.00%
2062/63	48.42%
2063/64	52.68%
2064/65	49.50%
2065/66	52.83%

Note:

$$Capacity\,Utilization\,\mathrm{X}\frac{Actual\,\mathrm{Pr}oduction}{Total\,Capacity}\,|100=\ldots\ldots\ldots..\%$$

This result of capacity shows that it is operating under low capacity in every year. The capacity of FY 2065/66 is higher than the FY 2064/65. Therefore, in the FY 2065/66 has most capacity utilized. It is clear that more than 55 percent capacity has not yet been utilized in average during the period of analysis. The main causes of idle capacity are inadequate available of raw materials, unskilled work force, mismanagement etc. Hence, we can conclude that HCIL is suffering form the utilization of full capacity.

4.5 PLANNING OF EXPENSES

Planning for expenses is necessary to maintain reasonable expenses for the necessary objectives and planned programs of the enterprise. Managers should view expenses and control as necessary to maintain reasonable expenses. By realizing this fact, expenses planning should not focus on decreasing expenses but rather on effective utilization of scarce resources. If we take the case of Nepalese manufacturing enterprises, they are attempting to reduce expenses without rational planning or without considering the adverse affects on benefits. Among few commit sufficient should to the maintenance of assets such as plant and machinery, equipment and building. Inevitably, such short range soon cause even higher temporary reduce expenses and soon cause even higher costs because of breakdown in efficient machines, frustrated employee's faculty machine tolerances, major repair costs and power shortages etc. There sorts of things are also transparent expenses planning policies regarding various types of expenses, HCIL is suffering from complex problem of profit planning.

Some expenses like administrative expenses, manufacturing expenses and depreciation are allocated therein the following table,

Table-11: Expenses Trend of HCIL

Fiscal Year	Factory Expenses	Administration Expenses	Depreciation
2061/62	303,337,780.60	82,487,065.88	70,227,176.20
2062/63	352,729,905.30	88,231,177.38	60,804,171.93
2063/64	377,241,274.20	131,238,604.80	53,463,181.24
2064/65	313,116,352.60	132,669,355.10	56,024,624.20
2065/66	368,471,661.20	138,197,897.90	51,273,213.60

On the trend of HCIL expenses here we have segmented the expenses in three categories i.e. factory expenses, administrative expenses and depreciation. Factory expenses of HCIL trend in flexible. The expenses overall can be seen in an increasing trend, this may be due to the rise in market cost of goods, services, labor etc.

Factory Expenses are increasing until FY 2063/64 but reduced by 17% in FY 2064/65 but again increasing by 17.68%. Similarly, in case of administrative expenses, it has been increasing order in the through out, i.e. until F.Y. 2065/66 and in concern of depreciation; it is completely in the decreasing trend, from F.Y. 2061/62 to F.Y. 2065/66.

4.6 HUMAN RESOURCE PLANNING

Human Resource Planning refers the area of personnel needs, requirement, training, job description and evaluation, Performance appraisal, union negotiations and wages & salary distribution.

Direct labor cost occupies a significant position of total production cost. Therefore, the labor cost needs systematic planning and control. The basic reasons for preparing, a separate direct labor budgets are to provide planning data about the direct labor hours requirement, number of direct labor employees needed, labor cost of each project unit and investment requirement.

Labor is a major elements of production, without it company cannot operate, so effective planning and systematic control of labor cost are essential to achieve the organization's objectives.

The direct labor budget includes the estimate of direct labor requirement necessary to produce the types and quantities of output planned in the production budget. In HCIL, there are two categories of employees, first category is administrative and second category of employees is technical.

HCIL has total 892 employees out of whom 888 are permanent and four temporary workers. Payment to all staff is made based on time, not in the basis of productivity of piecework.

Following table shows the position of work force in HCIL.

Table:-12: Personnel Chart FY2065/66

Ranking/Grade	Officer		Assistant		Total	
	Permanent	Temporary	Permanent	Temporary	Permanent	Temporary
Technical	89	0	522	0	611	0
Non-Technical	69	0	208	4	277	4
Total	158	0	730	4	888	4

Detail table of technical and non-technical personnel of HCIL in F.Y. 2065/66 is given in the appendix-3

4.7 PROFIT AND LOSS ACCOUNT

Profit and Loss account shows the conclusion of operation of an accounting year. The traders are not satisfies with the calculation of gross profit earned during the accounting period. He needs to know the eventual profit or loss of the business, with these objectives in view; a profit and loss account is prepared.

Profit and Loss account contains all the items of revenue, losses and operating expenses incurred in carrying on the business and in selling and distributing the goods for the accounting period.

Here in the table below present profit and loss account of HCIL of previous two year comparatively.

Table:-13: Profit and Loss Account.

Particulars	2066	2065
Net Sales	542,170,326.50	586,041,884.00
Limestone Purchase	17,850,141.41	16,537,795.51
Transportation of Limestone by Road	8,267,151.32	9,695,946.43
Other Materials	173,680,414.34	165,704,458.16
Salary and Wages	86,839,528.17	83,568,307.46
Employees Welfare	24,129,653.61	21,911,454.45
Gratuity	12,133,282.43	11,234,079.95
Fuel and Lubricants	19,355,746.28	17,861,456.34
Repair and Maintenance	48,262,029.24	46,704,703.75
Insurance	1,047,833.84	3,062,894.81
Electric Power	100,460,080.55	86,049,366.77
Cement Loading Expenses	596,098.16	562,625.68
Other Administrative Expenses	14,047,596.88	12,892,618.46
Depreciation	43,556,234.28	48,433,443.06
Amortization of Differed Revenue Expenses	7,716,979.83	7,591,181.14
Sub Total	557,942,770.34	531,810,331.97
Inventory Adjustment	(22,073,314.699)	(2,543,039.34)
Cost of Sales	535,869,455.65	529,267,292.63
Operating Profit (Loss)	6,300,870.85	56,774,591.37
Doubtful Debt	0.00	383,653.69
Miscellaneous Income	782,453.34	890,392,16
Profit (Loss) Before Interest	7,083,324.19	57,281,329.84
Interest on Loan	(34,939,420.99)	(37,425,895.88)
Net Profit (Loss)	(27,856,096.80)	19,855,433.96

Provision for worker's Housing Scheme	0.00	(992,771,70)
Provision of Bonus to Employees	0.00	(1,509,012.98)
Net Profit After Housing Scheme and Bonus	(27,856,096.80)	17,353,649.28)
Profit(Loss) up to Last Year-B/F	(702,247,506.33)	(719,601,155.61)
Unapproved Bonus Adjusted to Accumulated Loss	1,186,566.00	0.00
	(728917037.13)	702,247,506.33

In the comparative profit and loss account of HCIL which have been shown above clearly, we can see that it keeps record of revenue with deducting all expenditure accrued for generating profit. Profit and Loss account shows the conclusion of operating of accounting year. There is no practice of preparing projected profit and loss account is advance. At the end of each accounting year, the financial department prepares income statement to know the profit and loss position of the HCIL. The detail comparative profit and loss account from F.Y. 2061/62 to 2065/66 has been shown in the appendix-4

Since in F.Y. 2061/62 HCIL has been operating of profit because the operational efficiency of industry is increasing. At the end of Ashadh 2064, the net profit was Rs. 239,720.63 and at the end of Ashad 2065, it earned net profit of Rs. 19,855,433.96 which was 0.04 percent and 3.39 percent of the Rs. 27,856,096.29. However, there is still problem of excess burden of other administrative earned expenses and under utilization of available capacity.

The analysis of capacity utilization is not only the main factor of production. Major determinant of profitability is the productivity of plant and manpower. Wastage of material, manpower and other resources are the basic elements of poor productivity, which causes to overall profitability of the enterprise. HCIL is suffering from this problem common size of profit and loss accounting showing the percentage of each item from the above Profit and Loss Account, which has been developed in order to show each item conveniently.

Table-14: Comparative Common Size Profit & Loss Account

Particulars	2066	2066	2065	2065
	Amount (Rs)	%	Amount (Rs)	%
Net Sales	542,170,326.50	100%	586,041,884.003	100%
Less Cost of Sales	535,8369,455.65	98.84	529,267,292.63	90.31%
Gross Margin	6,300,870.85	1.16%	56,774,591.37	9.69%
Less selling Expenses	–		–	
Net Operating Profit (Loss)	6,300,870.85		56,774,591.37	
Add: Other Income	782,453.340		1,274,045.85	
Profit & Loss before Interest	7,083,324.19	1.306%	57,281,329.84	9.77%
Less: Interest on Loan	34,939,420.99		37,425,895.88	
Net Profit and Loss (Before Tax and Bonus)	(27,856,096.29)	(5.13%)	19,854,433.96	3.38%

Cost of Sales in F.Y. 2065 was 90.31 where in F.Y. 2066 it has reached up to 99.57% of sales. Main weakness of this cause is internal management system regarding cost effectiveness of HCIL. To omit the situation and the want to maximize its profit, it should reduce unnecessary and excessive amount of other administrative expenses and fixed expenses.

Following table shows the last five years Profit and Loss trend of HCIL.

Table-15: Profit and Loss Trend of HCIL

Fiscal Year	Amount (Rs.)	Percentage %
2061/62	14,386,942.99	2.79
2062/63	12,490,177.06	2.31
2063/64	239,720.63	0.0399
2064/65	19,855,433.96	3.388
2065/66	(27,856,096.29)	(5.137)

$$Percentage\,\mathrm{X}\frac{\mathrm{Pr}\,ofit(Loss)}{Net\,Sales}\,|\,100$$

From the given table, we can see that HCIL has generated positive return in the F.Y. 2061/62. Its profit position has been improving until F.Y. 2062/63. However, in the F.Y.

2063/64 it decreased up to 0.0399 percentages of Net Sales. In F.Y. 2065/66, HCIL has generated negative return, which is not good. If it controls its operating expenses and manpower planning, the company will be able to generate satisfactory level of profit.

4.8 BALANCE SHEET

Balance Sheet is an accounting view and is like a mirror which shows the figure of fixed assets, current assets, current liabilities, long term loan, share capital, accumulated loss and profit etc.

Not only that, but it also shows the cash and bank balance, capital reserve, provisions, accrued and outstanding, inventories etc.

The following table shows the comparative position of assets, liabilities and capital up to F.Y. 2064/65 and 2065/66.

Table -16 : Balance Sheet of HCIL

Particulars	Note	2066	2065
Fixed Assets	1	1,537,543,911.50	1,532,664,338.63
Original Cost Accumulated	2	1,103,261,566.86	1,059,376,296.27
Net Fixed Assets	3	434,282,344.64	473,288,092.36
Okhare Mines	4	61,735,833.00	68,320,629.00
Investment (at cost)	5	1,000,000.00	1,000,000.00
Total Long-Term Assets		62,735,833.00	69,320,629.00
Current Assets	6	261,695,711.32	240,356,855.23
Inventory	7	133,952,501.85	110,191,633.95
Receivables		(3,890,512.35)	12,911,068.47
Cash at Bank			
Total Current Assets		391,757,700.82	363,459,557.65
Total Assets		888,775,878.46	906,068,279.01
Current Liabilities		57,420,682.72	235,243,045.32
Current Maturities and Overdue Loan	8	156,310,155.52	141,040,079.08
Interest accrued and outstanding	9	224,835,542.14	212,682,274.78
Other Liabilities and Provision	10		
Total Current Liabilities		438,566,380.38	588,965,396.18
Total Assets Less		450,209,498.08	317,102,882.83

Current Liabilities			
Long- Term Loan	8	276,659,486.61	116,444,722.68
Net Assets	11	173,550,011.47	200,658190.15
Represented by Share		900,685,000.00	900,685,000.00
Capital		1,782,048.09	2,220,696.48
Capital Reserve		(728,917,036.62)	(702,247,506.33)
Profit & Loss Account			
Total		173,550,011.47	200,658,190.15

The given Balance Sheet shows that the Fixed Assets is 52.23% and 48.86% of total assets at the F.Y. 2065and 2066 respectively. The long-term assets represent it only 7.56% of total assets in F.Y. 2065 and 7.106% in F.Y. 2066. It means there is not so highly decreasing in long term assets. Current assets of F.Y. 2065was 40.11% of total assets and in the F.Y. 2066, the total current assets was 44.08% of total assets. The current asset of 2066 is higher than 2065 by 3.97%.

In the liabilities side of balance sheet includes loan, current liabilities, provision share capital and capital reserve. Total current liabilities of F.Y. 2066 were 438,566,380.38. The long-term loan of F.Y. 2066 was 276,659,486.61.

4.9 PLANNING CASH FLOWS

A statement of Cash Flows reports the cash receipts and cash payments of an organization during the particular periods. In this modern age, the cash flow related to the changes of required cash as a basis financial statement. The planned statement of cash flows is necessarily prepared near the end of the annual planning cycle. The planning and control of the cash inflows& cash outflows and the related financing is important in all enterprises. Cash flow provides the explanation of cause if the item of the balance sheet has changed by providing information about operating, investing and financing activities. The statement of cash flows explains where cash come from during a period and where it was spent. It generally defines changes in cash and cash equivalent.

Basically, the methods of develop cash flows starting with net income adjustment to net income are made for non-cash items affecting accurate basis net income. Essentially net income is converted from the accrual basis to a cash basis (e.g. cash flow from operation). The other cash inflows and out flows are estimated for non operating items such as sales of fixed assets, capital additions and payment of debt and dividends.

Planning the cash flows of a company should included consideration of how to improve cash flow. Improving cash flow involves increasing the amount of available cash on a day to day basis. To accomplish these objectives, the management should focus on the cash collection process to speed up cash collection the cash payment process to slow down the payment of cash and investment policies for the immediate investment of idle cash balance to minimize interest earnings. By considering these above objectives, if HCIL try to improve their current cash flow position honesty, it is sure that they will be able to enhance their liquidity position. At last, HCIL should have an effective system of cash planning and control because of the potential consequences, it is possible for management to make decision or to existing policies so that the cash position is enhanced.

Table -17: Cash Flow Statement for the Year ended 31st Ashad…

Detail	**2065/66**
Add: Net Profit or Los before tax	(728,917,036.62)
Cash from operating activities:	
Depreciation	43,556,234.28
Provision for bonus for employees	
Amortization of Deferred revenue expenditure	7,716,979.32
Provision for workers housing scheme	
Operating Cash Flows before changes in WC	**(677,643,823.02)**
Add: Before adjustment change in WC	
Decrease in Current Assets	
Cash at Bank	16,801,580.82
Increase in Current Liabilities	
Loan	177,822,362.60
Interest accrued and outstanding	15,270,079.44
Other Liabilities and Provision	12,153,267.36
	(455,596,532.80)
Less: Increase in Current Assets	
Inventory	(21,338,826.09)
Debtors	(23,760,867.90)
Decrease in Current Liabilities	

Operating Revenue or Loss	**(500,696,226.79)**
Cash from investing activities:	
Sale of Net fixed Assets	39,005,747.72
Sale of Long term Assets	6,584,796.00
Net Cash from investing activities	46,029,192.11
Cash from financing activities:	
Increase or decrease in share capital	
Total Cash Flow	**(9454,667,034.68)**

4.10 PERFORMANCE EVALUATION

Performance reports constitute an important part of internal management control procedures. These reports serve to motivate managers to perform in conformity with expectations. Moreover, they signal upper management where operations are not processing according to the plans. To be effective performance, reports should be tailored to the organizational structure and simple, accurate and timely and used to facilitate management by exception.

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 evaluation is an important phase of control process. There are lots of technique and criteria for the evaluation of performance of business enterprises but in the context of Nepalese Public enterprises, there is no use of such technique and they have not a systematic and in depth approach to performance evaluation. HCIL is NG owned manufacturing enterprise, its performance evaluation is only limited in identification of cost variability, C-V-P analysis and variance analysis.

It is impossible to evaluate the all techniques of performance report but this research used the following evaluation techniques to measure the performance of HCIL.

Financial Ratio

Identification of cost variability and C-V-P analysis

Flexible Budget

Variance Analysis

4.10.1 Financial Ratio of HCIL

An arithmetic relationship between two figures is known as Ratio. It is computed by dividing one item of relationship with the other. Ratio simply means one number expressed in terms of another.

Ratio analysis is a technique of analysis and interpretations of financial statement. To evaluate the performance of an organization by creating the ratio from the figures of different accounts consisting in balance sheet and income statement is known as Ratio Analysis.

Here, some important ratios are presented,

1. $Current\ Ratio\ \mathrm{X}\dfrac{Current\ \ Assets}{Current\ Liabilities}$

2. $Quick\ Ratio\ or\ Acid\ Test\ Ratio\ or\ Liquidity\ Ratio\ \mathrm{X}\dfrac{Quick\ \ Assets}{Current\ Liabilities}$

   [Quick Assets = Current Assets-Inventories]

3. $Debt\ \mathrm{Z}\ Assets\ Ratio\ \mathrm{X}\dfrac{Total\ Liabilities}{Total\ Assets}$

4. $Inventory\ Turnover\ Ratio\ \mathrm{X}\dfrac{Cost\ of\ \ Goods\ Sold}{Average\ Inventory}$

5. $Debtors\ Turnove\ Ratio\ \mathrm{X}\dfrac{Sales}{Debtors}$

6. $Fixed\ \ Assets\ Turnover\ \mathrm{X}\dfrac{Sales}{Fixed\ \ Assets}$

7. $Current\ \ Assets\ Turnover\ \mathrm{X}\dfrac{Sales}{Current\ Assets}$

8. $Gross\ \mathrm{Pr}\ ofit\ Ratio\ \mathrm{X}\dfrac{Gross\ \mathrm{Pr}\ ofit}{Sales}$

9. $Net\ Pofit\ M\ \mathrm{arg}\ in\ \mathrm{X}\dfrac{Net\ \mathrm{Pr}\ ofit}{Sales}$

10. $\mathrm{Re}\ turn\ on\ Total\ Sales\ \mathrm{X}\dfrac{Net\ \mathrm{Pr}\ ofit\ After\ Tax}{Total\ Sales}$

11. $Average\ Collecteive\ Period\ \mathrm{X}\dfrac{Days\ in\ a\ year\ \mid Debtors}{Sales}$

The following table shows the comparative financial ratio of HCIL for five years

Table –18: Financial Ratio of HCIL

S.N.	Ratios	Unit	2062	2063	2064	2065	2066
1	Current Ratio	Times	0.7288	0.7873	0.6152	0.6171	0.8932
2	Quick Ratio	,,	0.2686	0.2339	0.1707	0.2090	0.2965
3	Debt-Assets Ratio	,,	0.7975	0.8067	0.7972	0.7785	0.8047
4	Inventory Turn-Over Ratio	,,	2.8210	2.2780	2.5994	2.4382	2.0718
5	Debtors Turnover Ratio	,,	6.1440	6.0530	7.0169	5.3184	4.0475
6	Fixed Assets Ratio	,,	0.7910	0.8780	1.0220	1.0800	1.0910
7	Current Assets Turnover	,,	1.7810	1.6010	1.8783	1.6124	1.6839
8	Gross Profit Margin	Percentage	11.4500	9.6200	6.8700	9.6800	1.1600
9	Net Profit Margin	Percentage	2.7900	2.3100	0.0400	3.3900	-5.1300
10	Return on Total Assets	Percentage	2.7900	2.3000	0.0400	3.3000	_
11	Average Collection Period	Days	59.4000	60.2900	52.0100	68.6200	90.1800

4.10.2 Identification of Cost Variability

Identification of the variability of cost is necessary in planning and control of the cost. Thus, the knowledge of cost behavior is very important. Generally, cost behaves in two ways with relation to the volume of output. First, it does not change with the change in output and second it changes proportionately with the change in output. Cost behavior gives us answer as the output in a firm increase or decreases, what happens to each expense incurred to product that output?

According to the behavior, costs can be broadly classified in three ways. First fixed cost remains constant in total for certain period of time say year or month regardless of fluctuations in output or volume of operation. The examples of such costs are tent, property tax, depreciation, supervisor’s salary, advertising etc.

Second Variable cost that changes in total directly with changes in output, volume, or operation but remain constant in per unit basis.

Semi variable expenses increase or decease as output or activity increase or decrease but not in proportion changes in activity base. Semi variable expenses have some of the characteristics of both fixed and variable cost.

Nepalese public enterprises have not maintained any clear-cut boundaries about cost classification. Cost behavior is only limited in variable and fixed components. HCIL has also classified its cost heading in only fixed and variable. There is no information about semi variable cast in HCIL accounting report.

The following table shows the cost classification in HCIL of 2065/66

Table-19: Hetauda Cement Industry Limited, Production Cost of Cement

Details	**Segments**	**Amount**
Limestone Purchase	Variable	17,850,141.41
Transportation of Lime Stone by Road		8,267,151.32
Other Materials		173,680,414.34
Cement Loading Expenses		596,098.16
Total Variable Cost		200,393,805.23

Details	**Segments**	**Amount**
Salary and Wages	Fixed	86,839,528.17
Employees Welfare		24,129,653.61
Gratuity		12,133,282.43
Fuel and Lubricants		19,355,746.28
Repair and Maintenance		48,262,029.24
Insurance		1,047,833.84
Electric Power		100,460,080.55
Other Administrative Expenses		14,047,596.88
Depreciation		43,556,234.28
Amortization		7,716,979.32
Interest on Loan		34,393.420.99
Total Fixed Cost		**391,942,385.59**
Total Cost		**592,336,190.82**

4.10.3 Cost-Volume-Profit-Analysis

The analysis of relationship between cost, volume and profit is known as cost-volume-profit analysis. It is an analytical management accounting tools for studying the relationship between cost, volume, and pride and planning in business. CVP analysis shows which volume or level of activity is necessary to stay at break even or to gain a certain amount of profit.

Cost-Volume-Profit analysis includes both contribution analysis and break even analysis. Break even analysis emphasized the level of output or productive activity at which sales revenue exactly totals costs, that is there is no profit or loess. Break even analysis rests upon the foundation of cost variability separate identification and measurement of the fixed and variable components of costs.

There are three factors of cost volume profit analysis which are interconnected and dependent to each other, like profit depends upon sales, selling price to a greater extent will depend upon the costs and cost depends upon the volume of production. It is great helpful in managerial decision making, specially cost control and CVP analysis, here it is accepted as the most significant tool of profit planning and control.

CVP analysis of HCIL is based upon the following assumption.

1. Cost volume structure is based on the accounting data of F.Y. 2065/66 for HCIL
2. The selling price of HCIL does not changed as unit sales changes.
3. There is only one product or in the case of multiple products, that sales mix amounts the product, which remains constant.
4. While computing the CVP components changes of inventories are neglected.
5. Variable cost volume ratio and fixed cost are assumed to be remaining constant.
6. Activity base is selected in terms of sales rupees for enterprise.
7. The basic management policies about operations will not change materially in the short run.
8. The efficiently and productivity per person will remain essentially unchanged in short run enterprises.
9. Cost-Volume-Profit Analysis of HCIL.

Some formulas of Break Even Analysis are given below:

a. For determining variable cost for a given sales volume:

   Variable cost=S-(S×P/V ratio)

   Variable Cost Ratio=1-P/V ratio

b. For Sales:

$$S \text{ X} \frac{CM}{P/V\ Ratio}$$

c. For Contribution:

   CM= S× p/v ratio

d. For Calculation of Fixed Cost:

   FC=S×p/v ration-Profit

e. For BEP:

$$BEP\,in\,Rs.\ \mathrm{X}\frac{FC}{P/V\ Ratio}$$

Where,

S= Sales

VC= Variable Cost

FC= Fixed Cost

BEP= Break Even Point

1. Variable Cost Volume Ratio (v/v ratio)

$$V/v\ ratio\ \mathrm{X}\frac{Total\,Variable\,Cost}{Sales\,in\,Rs.}$$

$$= \frac{200{,}393{,}805.23}{542{,}170{,}325.50}$$

= 0.3696

2. Profit Volume Ratio (p/v ratio)

P/v ratio = 1-v/v ratio

= 1-0.3696

= 0.6304

3. Break Even in Rs. $= \dfrac{Total\ Fixed\ Cost}{P/V\ Ratio}$

= 392,488,385.59

= 622,602,134.501

4. Margin of Safety for Budgeted Year 2065/66

Budgeted Sales quantity for 2065/66 is 182,000 (MT) and selling price is 45,551,593. So that the budgeted sales will be 829,039,003.043

MOS= Budgeted Sales-BE Sales

= 829,039,003.043-622,602,134.501

= 206,436,868.542

5. Margin of Safety Ratio for F.Y. 2065/66

$$\text{MOS Ratio}= \frac{M\arg in\,of\ Safety}{Budgeted\ Sales} \,|\,100$$

$$= \frac{206{,}436{,}868.542}{829{,}039{,}003.043} \,|\,100$$

= 24.90%

6. Budgeted Profit for the year 2065/66

Budgeted Profit = MOS×p/v ratio

= 2,064,366,868.542×0.6304

= 130,134,801.928

4.10.4 Flexibility Budget

Flexible expenses budget is complementary to tactical profit plan. They help to provide expenses plans adjusted to actual out put for comparison with actual expenses in periodic performance report. A flexible budget estimated costs at several level of activity. The essence of a flexible budget is to the presentation of estimated cost data in a manner that permits their determination at various levels of volume this means that all costs must be identified as to low they behave with a charge in volume-whether they vary or remain fixed. Flexible expenses budget is also called dynamic, activity or output adjusted expense budget. For planning and controlling purpose, flexible budget formula can be developed for each expense in each responsibility center. (Budgeted allowance= FC+ UVC×LA)

By this, company can determine the operation level by taking into consideration of the cost and profit at different level of utilization. Flexible estimated costs at several level of activity. This means that all cost must be identified as to how they behave with a change in volume whether they vary or remain fixed.

HCIL does not prepare its flexible budget. Based on cost and other data of F.Y. 2065/66, a flexible of HCIL has been prepared below. Variable cost changes proportionately with the change in level of activity but fixed cost remain constant for a reasonable period. HCIL capacity utilization of F.Y. 2065/66 is 52.83%. So that the following table represents the Flexible Budget of HCIL at 55% -120%.

Table-20: Hetauda Cement Industry Limited, Flexible Budget

Description	Activity Levels			
	55% (Rs.)	80% (Rs.)	100% (Rs.)	120% (Rs.)
Sales	542,170,325.50	788,611,384.00	985,764,230.00	1,182,917,076.00
Less: Variable Cost	200,393,805.23	291,481,898.52	364,352,373.15	437,222,847.78
Contribution Margin	341,776,521.27	497,129,485.48	621,411,856.85	745,694,228.22
Less: Fixed Cost	392,488,385.59	392,488.385.59	392,488,385.59	392,488,385.59
Operating Net Profit or Net Loss before Tax	50,711,864.32	104,641,099.89	228,923,471.26	353,205,842.63

This analysis show that HCIL is suffering from huge amount of fixed cost. The flexible budget of HCIL finds out the following points.

Maximum portion of fixed cost includes administrative and office operation expenses in HCIL. If it utilizes fill capacity effectively, the net operation income will considerably increase. So it should be minimize the manpower and utilize the capacity.

4.10.5 Variance Analysis

A variance is the difference between standard cost and actual cost. 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. Generally, when the actual cost is greater than standard, at that time that variance will be unfavorable, where as when actual cost is less than standard cost the variance will be favorable. The expression of this relationship is seen in the simple formula,

Actual Cost= Standard Cost + Variance.

Variance can be either plus or minus, depending on whether actual cost is greater or less than standard cost. Since variances can reflect performance, which is, either better or worse than standard. It is clear that they can be the basis for praise or criticism of the managers responsible for the control of the particular cost. Thus it is important that (1) Standard be carefully set, realistic, and attainable (2) Variance reflect clearly and correct by the causes for deviations of actual from standard performance. Performance report is the result of actual and planned or budgeted goals.

Basically there are three main variances, which are as follows:

1. Direct Material Variance
2. Direct Labor Variance
3. Overhead Variance

Here are the lots of variances should be calculated in variances analysis. It is impossible for the contest of Hetauda Cement Industry Ltd. because it does not have well developed system of pre-determining standards regarding various expenses and profit. Most of the Nepalese Public Enterprises have not a well-developed system of pre-determining standards for material labor, overheads, field, sales and profit.

Comparison of actual results with planned or budgeted goods has been emphasized as an integral pert of the reporting of variances between actual results and planned or budgeted figures. Following steps are taken while analyzing variances.

1. Standards should be developed for materials, labors and overheads, yield sales and profit.
2. Comparison between actual results and standards should be made to find variances.
3. Causes should be analyzed and diagnosed as controllable and uncontrollable.
4. Responsibility and accountability should be assigned to related center and authorized personnel should be made accountable for controllable causes of unfavorable variances.
5. Necessary corrective actions should be taken to improve unfavorable variances.

Though, there has not been developed the standards for various expenses and profit pattern but the deviation between targets sales and actual sales, and target production and actual production are ascertained.

Table:-21: Hetauda Cement Industry Ltd. Sales Variances (for 5 years)

FY	Target sales in MT	Actual Sales in MT	Variances	Remarks
2061/62	182,000	126,267	55,733	Unfavorable
2062/63	182,000	124,385	57,615	Unfavorable
2063/64	182,000	136,558	45,442	Unfavorable
2064/65	182,000	128,921.2	53,078.8	Unfavorable
2065/66	182,000	119,023	62,977	Unfavorable

Table-22: YIELD VARIANCE

FY	Target sales in MT	Actual Sales in MT	Variances	Remarks
2061/62	182,000	124,985	57,015	Unfavorable
2062/63	182,000	125,899	56,101	Unfavorable
2063/64	182,000	136,988	45,012	Unfavorable
2064/65	182,000	128,696	53,304	Unfavorable
2065/66	182,000	137,364	44,636	Unfavorable

The above table shows that the sales variance of every fiscal year found unfavorable. In the fiscal year 2065/66 the most unfavorable sales variances seems, but in the F.Y. 2063/64 we can see the less unfavorable sales variance. For the unfavorable sales variance, concern departments are responsible and they should take the corrective action to minimize the adverse impact of such unfavorable variances.

After analyzing the yield variance table, we found that yield variance is also unfavorable.

Due to frequent breakdown of plant and machines (mainly cooler) either plant site, snapping of the track of rope-way and frequent interruption in the electricity in the months of Baisakh, Jestha & Ashad. And the main cause of unfavorable yield variance of the enterprises is under utilization of available capacity and wastage of human resources. HCIL should take correlative action to their respective responsibility center to over come and control these unfavorable variances.

4.11 FINDINGS

The above analysis of some accounting financial aspects shows the HCIL has been suffered form a number of internal and external problems in formulating and implementing the profit plans. Capacity utilization of HCIL is very low. The future picture of the company form the view of point of profit is also so bright unless and until it can no increase capacity utilization and decrease fixed cost. In this study the budgeting practice, cost volume profit volume situation, financial and capacity structure ratios have been analyzed. Based on analysis the under mentioned findings have come up:

1. Sales of HCIL are quite erratic or flexible, which might have been caused by unstable trend in production.
2. The operating cash flow, which is the indication of HCIL ability to meet its commitment, is not satisfactory.
3. The company has so many weak points, some of them are, lack of authority, scarcity of raw material, packing materials, spare parts of machinery and lack of high-grade limitation.
4. HCIL used the sales variance and yield variance to measure performance. The analysis shows that the variance of the company has not met the targets so, it is not so favorable.
5. It has not used any promotional media for advertisement.
6. Lack in co-ordination among department and there are role conflicts between departmental managers.
7. No application of any effective's sales forecasting techniques, efficiently.

8. Planning of budgeting policy of the company is in a very poor condition and there is no system of taking corrective action for preplanning.
9. This company has not defined the clear-cut duties and responsibilities of the employees.
10. The payment system of the company is mostly in monthly basis, but in case of labor used, it is in daily basis.
11. The decision making power in the manufacturing PE are concentrated only in top-level management.
12. Most of the Nepalese PE have unnecessary and unproductive expenditure and investment, which leads the PE to run in loss.
13. The company is not able to use the plant capacity. It is using only 50.29% of its capacity in five-year average.
14. It has no inventory policy in planning process. Planned production=Planned Sales.
15. The sales revenue is below than BE sales. The margin of safety is quite meager of 24.09%. This is not adequate in view of competition market of cement in Nepal.
16. Costs are not classified in well manner.
17. Net profit margin of the company is very unsound. In the F.Y. 2066 its net profit margin is 0.0513, which is negative.
18. Five years average current ratio of the company is 0.728. The standard current ratio is 2:1.
19. Company is operating in loss in the study period F.Y. 2064/65, which is 27,856,096.29.
20. Salary and wages expenses are 62.8% total administrative expenses. It shows the over staff working in HCIL.
21. The company mostly uses the cost plus pricing policy but in rare cases only it causes the government pricing policy.
22. The working environment is not good.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

After all this study, we can picture out that Public Enterprises are strong means for the development of the Nation. That does not mean that every new Public Enterprise is an addition development for the Nation, what we mean is that Public Enterprise was for the development of the Nation. Development in the sense that it helps the populations of the Nation to acquire goods and services in the cheapest and easiest means. The Government, in the easiest and cheapest possible means, especially in the remote areas, supplies especially the basic needs, where goods and services are scarce. The government provides such items to its population at the cost of its loss, via the Public Enterprise. However, a majority of Public Enterprises fail to achieve financial capability and work efficiency and still depends on government grants.

Profit planning is artistic work and one of the most important management tools to plan business operations. The effective operation of a business concern resulting into the excess of income over expenditure fully depends upon as to what extent the management follows proper planning and effective co-ordination. The primary purpose of planning and effective co-ordination in business is to increase the changes of making a profit. Profit planning and control refer to the organizational techniques and procedure, where by long and short range plans are formulated for the development and acceptance of objectives and goals of the organization. However, in developing countries like Nepal, this is not the situation of the country and it is due to the backward position of the business enterprise. Here, the Public Enterprises do not strictly follow the profit planning and control practices and procedures due to various reasons.

According to time dimension and objective of the organization, profit planning can be divided into two groups,

1. Long Range Profit Plans,
2. Short Range Profit Plans.

Long-range profit plan also called strategic plan and it covers time span of 5 to 10 years. Short-range profit plan which is also called tactical profit plan and covers the period of one year. Merely preparation of the plan is not sufficient for the successful operation of the business .In addition this effective implementation and follow up system is very important continuous revisions for functional plan or budget according to recent events which affects the operation of business is necessary to activate the desired goals.

The present study has analyzed and examined the practice and implementation of profit planning in Nepalese PE. Hetauda Cement Industry Limited has been taken as representative Public Enterprises, the period taken here is of five years, starting from 2061/62 and ending at 2065/66. HCIL was established in 2033 B.S. in the public sector as an undertaking of NG under company act 2021. It is the largest industrial establishment of the country and is located in Lamsure, Heatuda within the area of abut 299 Bighas.

The basic objective of the study is to high light the current practice of profit planning and its effectiveness for fulfillment of the objectiveness of HCIL. This study is significant in the sense that a periodic change required collection the approach and practice to highlight the broad and specific facts of related filed. It has emphasized about the application of detailed and systematic approach of profit planning in Nepalese public enterprise.

As we know that fact, that profit planning is a very important and necessary for every business organizations, so this study of profit planning will be very helpful to entrepreneurs, decision-markers and further researchers. This study is significant in the sense that a periodic change required collecting the information about the approach and practice to highlight the broad and specific facts of related field. In context of Nepal, very few studies have been made in the field of profit planning and so this study may be for an additional help.

The scope of the study is limited to the manufacturing enterprise for fulfillment of the objectives of various functional budgets is analyzed in detail. Mainly, primary data has been collected and used. Secondary data have been used whenever necessary. The study has been organized in five main chapters consisting of Introduction, Review of Literature, Research Methodology, Data Presentation and Analysis and Summary, Conclusion and recommendations. To analyze the collected data, mean, time series, C-V-P analysis, flexible budget, fund flow analysis etc. used as financial and statistical tools. The collected has been presented with the help of table, chart and diagrams.

5.2 CONCLUSION

After analyzing in detail the present practice of profit planning process in HCIL, this study concludes the following,

1. HCIL has no adequate controllable and non-controllable variables affecting the company and no in-depth analysis of company's strength and weakness.

Strength:

a) Experienced staffs.
b) High quality product.
c) Local raw material.
d) Employment opportunities.
e) Increasing demand of the cement.
f) No problem of sales.
g) Can increase its production output.

Weakness

a. Lack of capital or lack of capacity for full capacity utilization of production.
b. Lack of autonomy.
c. Raw materials, packing material and spare parts are not available in time to various reasons.
d. Lack of high-grade limestone.

2. Objective of Nepalese Public Enterprises are not clear. There is conflict between social objectives and profit objectives. Similarly, HCIL have not any effective program to increase profitability.
3. There is no well-developed system of reward and punishment to employees based on their work performance. Hence, no employees are motivated for the better performance of work.
4. HCIL have no satisfactory achieved of targeted specific goals because of following reasons,

   a) Inadequacy of right material at right time at right quantity.

   b) Low Productivity

   c) More bureaucratic of NG on sales and purchase.
5. The company has not any broad objectives to operate with a positive and dynamic philosophy of management, which is vital to a competitive and growing company.

6. HCIL has been suffering from the department and staff conflict, due to lack of defining the line and staff responsibility clearly, due to the manger personal ego.
7. One major problem in Nepalese PE is behavioral problems that arise in organization. Such behavioral problems arise in HCIL and are fatal to the enterprise in every aspect.
8. HCIL has been suffering from too much under utilization of available capacity. If such capacity is utilized effectively much more goods and service can be delivered and hence much more profit to the enterprise.
9. Red-tapism is another main obstacle in decision-making and implementation of plan and programs. Every function requires unnecessary formalities, which create delay in decision making and functioning.
10. Due to lack of budgeting experts and skilled planners, plan are formulated on traditional ad-hoc basis. Planners are not appointed on fair basis.
11. HCIL have not any statement of specific goals abut research and development, factory productivity, capacity utilization and cost control.
12. Planning department of HCIL has no adequate authority to decide and create new ideas to formulate various plans.
13. Distribution system of HCIL is not adequate. Mostly, it has followed wholesale channel of distribution direct to the customer.
14. HCIL have not any policy about cash flow plan and have no any advance program of utilizing and excess under that is likely to generate in course of operation.
15. Pricing system of Nepalese Public Enterprises is not scientific. PE adopts traditional pricing methods. Usually, cost plus pricing method applied to determine price. Certain products are priced below costs as per NG circular.
16. C-V-P relationship are not considered while developing sales plans and pricing strategy.
17. HCIL have not a practice of systematic forecasting. Sales forecasts are made with precious sales figures and production capacity. This short coming is due to lack of skilled experts.
18. Another main problem is the low productivity of Manpower, which is due to lack of motivation and incentive and over staffing by political pressure.
19. Theoretical formula of production plan i.e. planned production (Sales plan + desired ending inventory - opening inventory) is not adopted by HCIL.

20. Although there is a big competition with international market but HCIL has no problem of selling their product in Nepalese market.
21. There is no any systematic and effective practice of profit planning so it is required to have a good knowledge about the concept of comprehensive profit planning and control then they should equally implement this concept in real practice.
22. Management by objective (MBO) techniques should be followed for planning to maintain co-ordination, co-operation and self-motivation among departments and employees.
23. HCIL have not a system of periodical performance reports so it can be concluded this PE are not seriously conscious to their poor performance.
24. NG intervention should not be made for functional aspect of enterprise. Management should be given full authority, responsibility and accountability or routine and major both operation.
25. HCIL and other manufacturing public enterprise should try to identify their environment opportunities and threats in order to capitalize such opportunities and to mitigate the threats.
26. HCIL should have to develop effective programmed to avoid existing problems and to accomplish formulated objectives and to implement them effectively.
27. The promotion of personnel is necessary to boost up their moral. Time to time training is essential to develop their performing skills and activities.
28. Duty responsibilities and power of each level of employees should be adequately defined. This will significantly help to minimize the misunderstanding between employees.
29. The percentage of margin of safety is not higher so, to meet the higher profit, HCIL should keep the sales highly significant or more than that.
30. HCIL have not set the programs to maintain an optimum enterprise environment that maximize the interest and motivation of all employees. Further, all the employees have to work in a sweatshop.
31. Many of the employees have been appointed by political pressures that have very less knowledge about HCIL and its goods and services.
32. At last, we can conclude that HCIL practice profit planning and control in an ad-hoc way and do not take it seriously.

The recommendations are as under,

1. Management of the company should try to minimize the gap between planned and actual sales by the application of short range and long range sales plan in practice, similarly, in case of production plan.
2. The management of the company needs to increase in production and sales volume for the utilization of available capacity.
3. Control the excess number of employees, should reduce expenditure, salary and wages.
4. There should be continuous flow of information among various level of management and various groups of employees. The goals, objectives, and strategies of the enterprises should carefully be communicated to lower level management.
5. Good working condition should be provided to the employees so as to increase the morale of the employees that is for motivation.
    1 Margin of safety is only 24.90%, it is not sufficient for the competition market condition, so it should be tried to increase the margin of safety.
    2 HCIL should decide to develop effective program to expand growth rate.
    3 The company is suffering from excessive burden of fixed cost therefore, it should try to reduce the unnecessary amount of fixed cost and other unproductive expenditure should be avoided, this concept of cost effectiveness will promote the profitability position.
    4 The concept of cost classification such as controllable and not-controllable fixed and variable should be emphasized for implementation.
    5 To improve the inventory turnover ratio and to minimize the existing inventory level the company should focus on maintaining inventory policy.

APPENDIX

APPENDIX-1

Calculation of Value of a and b for fitting the Straight Line Trend

Actual Sales in MT '000'

Year	**Y**	**X**	**X^2**	**XY**
2061/62	126,267	-2	4	-252,534
2062/63	124,385	-1	1	-124,385
2063/64	136,558	0	0	0
2064/65	128,921	1	1	128,921
2065/66	119,023	2	4	238,046
	$\sum y$=635,154		$\sum x^2$=10	$\sum XY$= -9952

Straight line Trend YC= a+bx

$$\text{And, } a = \frac{\sum Y}{N}$$

$$= \frac{635157}{5}$$

$$= 127030.80$$

$$\text{And, } b = \frac{\sum XY}{\sum X^2}$$

$$= \frac{-9952}{10}$$

$$= -995.2$$

Therefore, YC=127030.8-995.2X

APPENDIX-2

Calculation of Value of a and b for fitting the Straight Line Trend

Year	**Y**	**X**	**X^2**	**XY**
2061/62	124,985	-2	4	-249,970
2062/63	125,899	-1	1	-125,599
2063/64	136,988	0	0	0
2064/65	128,696	1	1	128,696
2065/66	137,364	2	4	274,728
	∑y=653,932		**$\sum x^2$=10**	**∑XY=27,855**

FY 2063/64 is assumed as based Year,

$$\text{And, } b = \frac{\sum XY}{\sum X^2} = \frac{27{,}855}{10} = 2785.5$$

$$\text{And, } a = \frac{\sum Y}{N} = \frac{653932}{5} = 130786.40$$

And Y= 130786.4+2785.5x

APPENDIX-3

Expenses (Technical and Non-Technical) Chart of FY 2061/62 to 2065/66)

	2061/62	2062/63	2063/64	2064/65	2065/66
a. Factory Exp.					
Limestone Purchase	8,924,696.34	11,227,765.71	15,530,331.38	16,537,795.51	17,850,141.41
Transportation of Limestone by road	6,854,037.18	6,279,107.20	8,971,318.21	9,965,946.43	8,267,151.41
Limestone received from Okhare	10,244,962.72	6,010,548.53	11,413,666.92	-	-
Other Materials	149,780,711.02	179,072,345.37	189,602,886.89	165,704,458.16	173,680,414.34
Fuel and Lubricants	12,250,489.01	13,846,903.05	14,406,580.78	17,861,456.34	19,355,746.28
Repair and Maintenance	40,927,811.14	46,365,353.69	45,559,099.93	46,704,703.75	48,262,029.24
Electric Power	73,958,239.66	89,482,563.44	91,267,753.83	86,049,366.77	100,460,080.55
Cement Loading Exp.	396,833.58	445,318.38	489,636.30	562,625.68	596,098.16
Total Factory Exp.	**303,337,780.65**	**352,729,905.37**	**377,241,274.24**	**343,116,352.64**	**368,471,661.30**
b. Administrative Exp.					
Employee Welfare	9,997,657.53	13,876,624.57	22,024,331.91	21,911,454.45	24,129,653.61
Salary and Wages	53,350,317.32	59,457,474.66	76,758,698.80	83,568,307.46	86,839,528.17
Gratuity	8,209,986.39	3,462,644.31	16,720,535.20	11,234,079.95	12,133,282.43
Insurance	1,973,946.14	1,554,781.59	2,558,274.69	3,062,894.81	1,047,833.84
Other Administrative Exp.	8,955,128.50	9,879,652.25	13,176,764.22	12,892,618.46	14,047,596.88
Total Administrative Exp.	**82,487,035.88**	**88,231,177.38**	**131,238,604.82**	**132,669,355.13**	**138,197,894.93**
c. Depreciation					
Depreciation	68,014,546.20	60,804,171.38	53,463,181.24	48,433,443.06	43,556,234.28
Amortization Differed Revenue Exp.	2,212,630.00	-	-	7,591,181.14	2,716,976.32
Total Depreciations	**70,227,176.20**	**60,804,171.93**	**53,463,181.24**	**56,024,624.20**	**46,273,210.60**
Grand Total (a+b+c)	**456,051,992.73**	**501,765,254.68**	**561,943,060.30**	**531,810,331.97**	**552,942,766.83**

APPENDIX-4

Profit and Loss of FY 2061/62 to 2065/66

Particulars	2061/62	2062/63	2063/64	2064/65	2065/66
A. Net Sales	**515,452,623.77**	**539,680,115.50**	**600,095,539.50**	**586,041,884.00**	**542,171,326.50**
Limestone Purchase	8,924,696.34	11,227,765.71	15,530,331.38	16,537,795.51	17,580,141.41
Transportation of Limestone by road	6,854,037.18	6,279,107.20	8,971,318.21	9,695,946.43	8,267,151.32
Limestone received form Okhare	10,244,962.72	6,010,548.53	11,413,666.92	-	-
Other materials	149,780,711.02	179,072,345.37	189,602,886.92	165,704,458.16	173,680,414.34
Salary and Wages	53,350,317.32	59,457,474.66	76,758,698.80	83,568,307.46	86,839,528.17
Employees Welfare	9,997,687.53	13,876,624.57	22,024,331.91	21,911,454.45	24,129,653.61
Gratuity	8,209,986.39	3,462,644.31	16,720,535.20	11,234,079.95	12,133,282.43
Fuel and Lubricants	12,250,489.01	13,846,903.05	14,406,580.78	17,861,456.34	19,355,746.28
Repair and Maintenance	40,927,811.14	46,365,353.69	45,559,099.93	46,704,703.75	48,262,029.24
Insurance	1,973,946.14	1,554,781.59	2,558,274.69	3,062,894.81	1,047,833.84
Electric Power	73,958,239.66	89,482,563.44	91,267,753.83	86,049,366.77	100,460,080.55
Cement Loading expenses	396,833.58	445,318.38	489,636.30	562,625.68	596,098.16
Other administrative expenses	8,955,128.50	9,879,652.25	13,176,764.22	12,892,618.46	14,047,596.88
Amortization of deferred revenue expense	2,212,630.00	-	-	7,591,181.14	7,716,979.32
Depreciation	68,014,546.20	60,804,171.93	53,463,181.24	48,433,443.06	43,556,234.28
B. Sub-Total	**456,052,022.73**	**501,765,254.68**	**561,943,060.30**	**531,810,331.97**	**557,942,769.83**
C. Inventory adjustment	377,980.43	(13,867,772.82)	(3,127,384.15)	(2,543,039.34)	(22,073,314.69)
D= B+C Cost of Sales	**456,430,003.16**	**487,897,481.86**	**558,815,676.15**	**529,267,292.63**	**535,869,455.14**
E=A-D Operating Profit (loss)	**59,022,620.61**	**51,962,633.64**	**41,279,863.35**	**56,774,591.37**	**6,300,871.36**

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