

CHAPTER- 1

Introduction

1.1 General background:-

Profit is the return on investment as a return of hard work or the return of labor exercised over business enterprises. Profit is the primary measure of success of any business organization. To sustain in a competitive environment a business firm must take a proper profit. But merely investment or hard work doesn't just happen profit rather profit should be planned. Usually profit doesn't just happen profit managed. Whenever an enterprise is operated the basic objective is to earn 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 longer period.

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 logical 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 very large and small company it is necessary to know the importance of PPC. The concept of PPC is a management process that includes planning, organizing, staffing, leading and control. 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. Accounts define it as the excess of the firm revenue 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 expects the management follows planning, effective co-ordination and dynamic control.

“Business managers are continuously involved in organizing, planning and controlling the operation of both large and small business organization. Profit planning is one of the most important aspects of management. It is a tool which plan and control business operation”.¹

Planning is the first essence of management and all other function are performance within the framework of planning. Planning is a method of course of action throughout in advance. Planning is the process of developing enterprise objectives and deciding in advance what is to be 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 management in respect of the various aspects of the business.

Thus planning includes (i) establishing enterprises objectives (ii) developing premises about the environment to be accomplishing (iii)

Selecting a course of course of action to accomplish the objectives (iv)

Initiating activities necessary to translate plan into action (v) current se-planning to current event deficiencies.

The competitive environment and consumer oriented philosophy laid emphasis to the important of budgeting and profit planning. "Changes and regulation 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 changes 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 thought and planning".²

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 long term strategic plans are prepared. Tactical plans are about one years or less than a year. Generally, for a product manufacturing concern following budget plans 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 planning or formulation starts from sales foresting. Business foresting is an important element of budgetary 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 capability 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.

PPC means the development and acceptance of objectives and goals and moving an organization efficiently and effectively to achieve the objectives and goals. But there is no such separate technique that will help in operating independently of the total management rather it entails an integration of various managerial approaches & techniques and sales forecast, capital budgeting. Cash flow analysis, cast-volume-profit analysis, variable budget, standard costing, strategic production planning and control, inventory control, management by objectives, organizational planning, manpower planning and so forth.

2 A W Willsmore. "Business & Budgetary Control" 4th edition, ,(pp-1)

In this connection, it will not be an unimportant matter that PPC is the latest invention/finding in the field of modern management.

The time dimension is another important consideration in budgeting. Strategic long range budget is prepared for more than a year (5 years to 1 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”.³

“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 received as the enterprise changes. 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 occurs when a system developed in one another enterprise is literally transplanted without change. It is doubtful that any two profit planning and control should be identical because so two companies are identical”.⁴

1.2) Brief introduction about Development of industries in Nepal:-

Industrialization is a comparatively new phenomenon in Nepal. Handicraft and cottage industries in Nepal are in existence from the very ancient days, but the development of modern industries is of recent origin. In 1935 A.D, an industrial board, named “Udyog parishad” was formed with a view to producing goods under medium and large-scale industry. The first company act was formulated in 1936 A.D. and in the same year, Biratnagar jute mill, Nepal’s first joint company came into being. On the year that followed, industrial growth was accelerated. Industries like the Morang cotton mills (1941), The Morang sugar Mill (1946), The Raghupati jute Mill (1946) and the Juddha Match Factory (1946) were set up in Biratnagar in collaboration with Indian businessmen.

The outbreak of the second world war gave added impetus to this trend. Due to extreme shortage of essential consumer goods in the world market, the promoters of these industries could reap windfall profit within a very short period of time. Within a period of 10 years, as many as 63 industrial units were opened in the country with a total capital investment of Rs. 72 million was invested by Nepalese businessmen.

The early industrialization was thus the result of exogenous forces. Industrial units were founded in areas, which ensured an abundant supply of raw materials. With the return of business situation to normal after the war, most of these mills were liquidated. They could not sustain the post war necessary effects and much of the foreign capital was withdrawn. The short lived industries were thus war-time bodies whose demise caused a big set back to the process of industrialization.

3 A W Willsmore (Opcit pp-5)

4 Glenn A Welsch fourth edition Opcit pp -584

Industrial Development in Nepal, however, started getting regular attention of the government under the aegis of development plans after the drawn of democracy in 1951. Several industries were established in the public sector mostly with the financial and technical assistance of the USSR and China. This process continued till the end of the sixth plan. As a result, Nepal witnessed the developed of quite a large number of manufacturing industries in the public sector, particularly, in areas like leather, sugar, paper, cigarette, brick and tiles, agricultural tools and textile. Also, the government on its investment set up factories in sectors like cement and sugar. The industrial development strategy of the government, however, changed after mid-1980s. The government then shifted its development strategy from state-led development to market-led open economy. As a result, many of the public sector industrial units were privatized in the early 1990's.

The central bureau of statistics undertakes the census of manufacturing industries in an interval of every five years. The first census, 1260 industries were established were 14397 persons were employed. Similarly, in second census 1972/73, 2434 industries were established and 47638 persons were employed in 1981/82 census. 4903 industries were established and 81050 persons were employed. In 1986/87 census, 9359 industries were in operation where 152579 persons were engaged. In 1991/92 census, 3557 industries were undertaken were 196708 persons were employed. In the context of agro and forest based industries, there were 142 medium and large agro based industries in operation and 27 were under construction by the year 1998-99.

Agro based industries have great significant in the field of economic development of Nepal because more then 81% people have been employed in agriculture sector where the agricultural contribution to the GDP is nearly 66%. Agro based industries are highly labor intensive, have wide employment-generation potential, can be undertaken with modest capital and skill, and are mostly located in rural areas where here are no other activities other than agriculture. Therefore, the promotion of agro-enterprises should be a critical element of the growth strategy I Nepal because they have contributed great potential to uplift economic and serial status of the agriculture sector and reduces import, which help to save foreign currency of the country.

1.3 A Brief Introduction to RJML:-

Nepal is an agriculture country. Among different agriculture production jute is also one of the main productions of our country. Jute plays a vital role in the field of agriculture industry and foreign trade. The economy of Nepal is being based mainly upon agriculture. In this phenomenon from the angle of convertible foreign currency earning, jute and jute products occupy a significant role. Jute industries is a traditional industrial sector in Nepal, developed in the period of Rana Regime itself and since then these industries have dominated the industrial posture of the country.

Jute industries are centralized at Biratnager because town of Biratnager is located in the centre of jute growing areas. Indian railway station Jogbani is also very near to Biratnagar, which has provided easy transportation facilities.

The success of Biratnagar jute mill bossted up the morale of investors to invest their capital toward industries. The Profit earned by the first enterprises and the post-war inflationary situation of market trend, encouraged few other businessmen from India to establish other jute mills. As a result RJML was set up in 1946 A.D. with plan to install looms numbering to 1000 with an authorized capital of Rs. 16 million and paid up capital of Rs. 13 million. It stared production lately in 1954 A.D. The members of the board of directors

of this company were mostly of higher class of people from Kathmandu who seldom visited the industry. Most of the shareholders never attended the annual general meetings. The representative of the Nepalese shareholders had no executive authority and even whatever authority they had, was not properly managing agents dominated the whole show. The management deficiencies hit its smooth operation and as a remedial measure Nepal government had no other option except to purchase the majority shares of the managing agents for keeping control over management in 1959 A.D. Since then the condition of the mill proved satisfactory to some extent for few years.

The mill was undergone through re-organizational program with a specific modernization plan of the mill with new equipment and the Asian Development Bank had provided the funds for modernization program.

The average production of capacity of this mill was about 26 metric tonnes per day. But the production increased from the year 2032/33 after partial modernization of the factory with the assistance of Asian Development Bank.

After this the company made progress for some years. But due to different internal problems, corruption, lack of raw materials and lack of market facilities, company had to suffer a great loss so the company remained closed for many years. In the mean time Biratnagar jute mill was also closed due to the same reasons. More than 4500 people of that area remained unemployed due to closing of the factories. The economic condition of the people gradually became worse. Therefore the government had to take necessary steps in the interest of people of the area. As a result, the government adopted the policy of privatization to boost up the company and for the solution of economic problem of the people. Hence in 2053-4-30 the company went in to privatization.

In this privatization Arihant Multifibers purchased 65% shares, Nepal government 33.62% shares and 1.38% by general shareholders. After handed over the company to the Arihant Multifibers, the company started its production from 2053-6-1.

In the year 2053/2054 the company was successful to sale its products of 3.35 crores in the country and 4.47 crores in the foreign countries. Even then in this period the company suffered from net loss of Rs. 73.03 lakhs. In order to increase the production in the year 2053/2054 and 2054/2055 the company installed other machineries and equipments valued Rs. 3.61 crores. As a result the company was able to utilize 56% of the capacity of the installation and supplied 80% at the total production in foreign countries.

Table -1

Metric Tonnes

<u>Name of the products</u>	<u>Production</u>	<u>Sale</u>
Sutali	2247	2266
Sailcing	7506	7991
Haisiyan	2320	2310
Carpet	-	-
Total	12073	12567

In FY 2061/2062 company transition of 48 million 24 lakhs and 44 thousand and before interest and depreciation company become able to earn 2 million, 61 lakhs and 41 thousand. Even after deducting 75 lakhs as interest and 1 million 35 lakhs as deprecation, it earned net profit of Rs.50 lakhs 11 thousand. According to the records company income was in increasing phase but in FY year 2062-2063 company suffered from huge loss.

1.4) CAPITAL STRUCTURE OF SRJM L.T.D

The debt equity mix of a firm is called its capacity structure. The optimal capital structure is such a combination of debt and equity which maximizes overall profit and minimizes overall cost of capital. Its beginning and existing capital structure is as follows:-

<u>Items</u>	<u>Beginning</u>	<u>Existing</u>
Authorized capital	16000000	450000000/-
Issued capital	-	250000000/-
Paid up capital	136000000	1806966000/-
Long term debt	-	-
From Nepal Bank Ltd		40000000/-
Through hypothecation loan		
) From Nepal Bank Ltd		
Through Arihant Multifibers Ltd corporate security		50000000/-
Total		700000000/-

1.5 COMPOSITION OF BOARD OF DIRECTORS:-

- (i) Mr. Mahendra Kumar Golchha- Arihant Multifivers Ltd, Biratnagar.
- (ii) Mr. Rajkumar golchha – Arihant Multifivers Biratnagar.
- (iii)Mr. Keshav Ram Dahal – Arihant Multifivers Ltd, kathmandu.
- (iv)Mr. Shankar Raj Pathak – from ordinary shareholders, Katmandu
- (v) Mr. Diwakar Godchha- from ordinary shareholders, kathmandu.
- (vi)Mr. chandan kumar golchha – from ordinary shareholders KTM.

But this company is now under Mr. Diwakar Golchha and Mr. Kumar Golchha. This company is producing new different types of fabric jute carpet, Hessian woven sacks, yarms etc and suppliers these material in India.

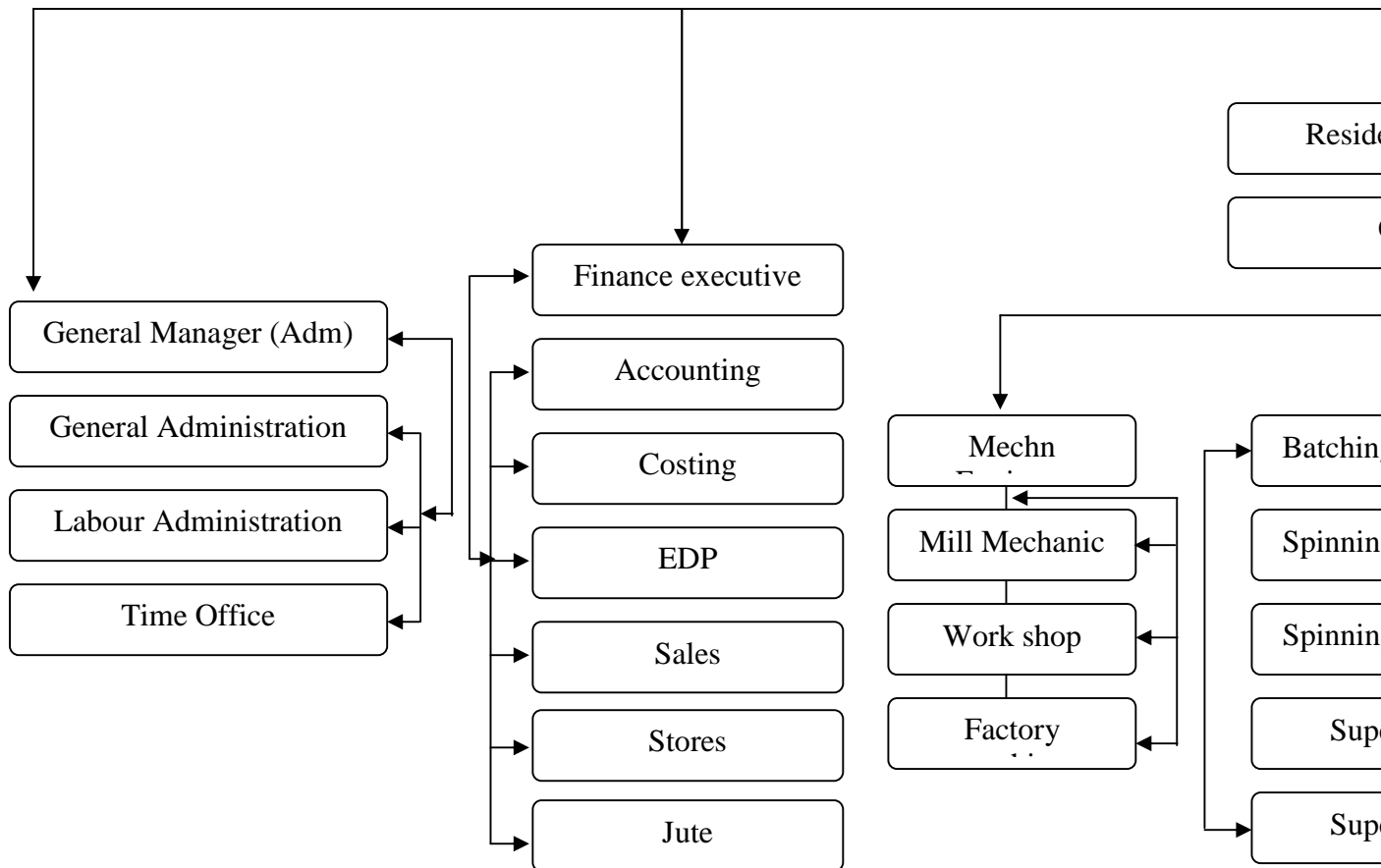
1.6 ORGANIZATIONAL STRUCTURE:-

The board of directors is a full-fledged body of power. The executive chairman and general manager assistant by Deputy General Manager and seven-division head does day to day management works. The General Manager is on top level in the organizational hierarchy. There are several levels as follows:-

<u>Level</u>	<u>No. of personal</u>
ML1	1
ML2	3
ML3	2
JML1	5
JML2	8
JML3	10
AML1	10
AML2	15
AML3	20
OL	5
CL1	5
CL2	10
CL	25
Permanent workers	350
Causal workers	1300

1.7 Organizational Chart of SRJML

Organizational Chart of SRJML Executive Director



1.8 COMPARISION OF PRODUCTION AND SALES:-

SRJM produces and sells jute goods like Hessian, sacks and Twine. The annual production and sales from FY 2058/59 to FY 2062/63 are as follows:

Table: 2

Year	2058-2059		2059-2060		2060-2061		2061-2062		2062-2063	
Products	Sales	Prod	Sales	Prod.	Sales	Prod.	Sales	Prod.	Sales	Prod.
Hessian	1699	1755	2125	2226	2261	2308	2266	2320	2150	2226
Sacks	5662	5937	5903	5903	7318	7435	7992	7506	7507	7675
Twine	3952	3971	3522	3544	1797	1797	2310	2247	1581	1574
Total	11313	11723	11550	11673	11376	11540	12567	12073	11238	11475

Source: - Annual report of SRJM, from FY 2059/59 to 2062/63.

The table shows that there is a major gap between the production and sales of different jute products in subsequent year. It means that production and sales are fluctuating which need proper and efficient management for satisfactory result.

1.9 EXPANSION OF CAPACITY AND ITS UTILIZATION:-

By privatization of Golchha organization, SRJML was modernized in 2053 B.S after the modernization of mill, the production capacity increased up to 40 metric tons but actual production remains constant. The total number of looms was also increased. The expansion of capacity is as follow:-

1.9(a) EXPANSION CAPACITY:-

<u>Machine</u>	<u>Before expansion</u>	<u>After expansion</u>
Batching & preparing	-	41
Spining	-	40
Winding	-	40
Beaming	-	39
Weaving	-	38
Finishing	-	38

Now most of the machines are absolute and some are scarped. In the other words the machinery used in production are very old and rudimentary which badly affect the quality production cost at high ratio.

1.9(b) Capacity utilization:-

<u>Capacity (IDLE)</u>	<u>Full</u>	<u>Actual</u>	<u>Difference</u>
Production per day	40	36	6
Shift per day	3(A/B/C)	3(A/B/C)	-
Worker per shift	(1200/800/700)	1200/800/600	0/0/100
Plant used in prd ⁿ	2	-	-
Annual prd ⁿ (tones)			

(Source: SRJM, Annual Reports and interview with production Authority)

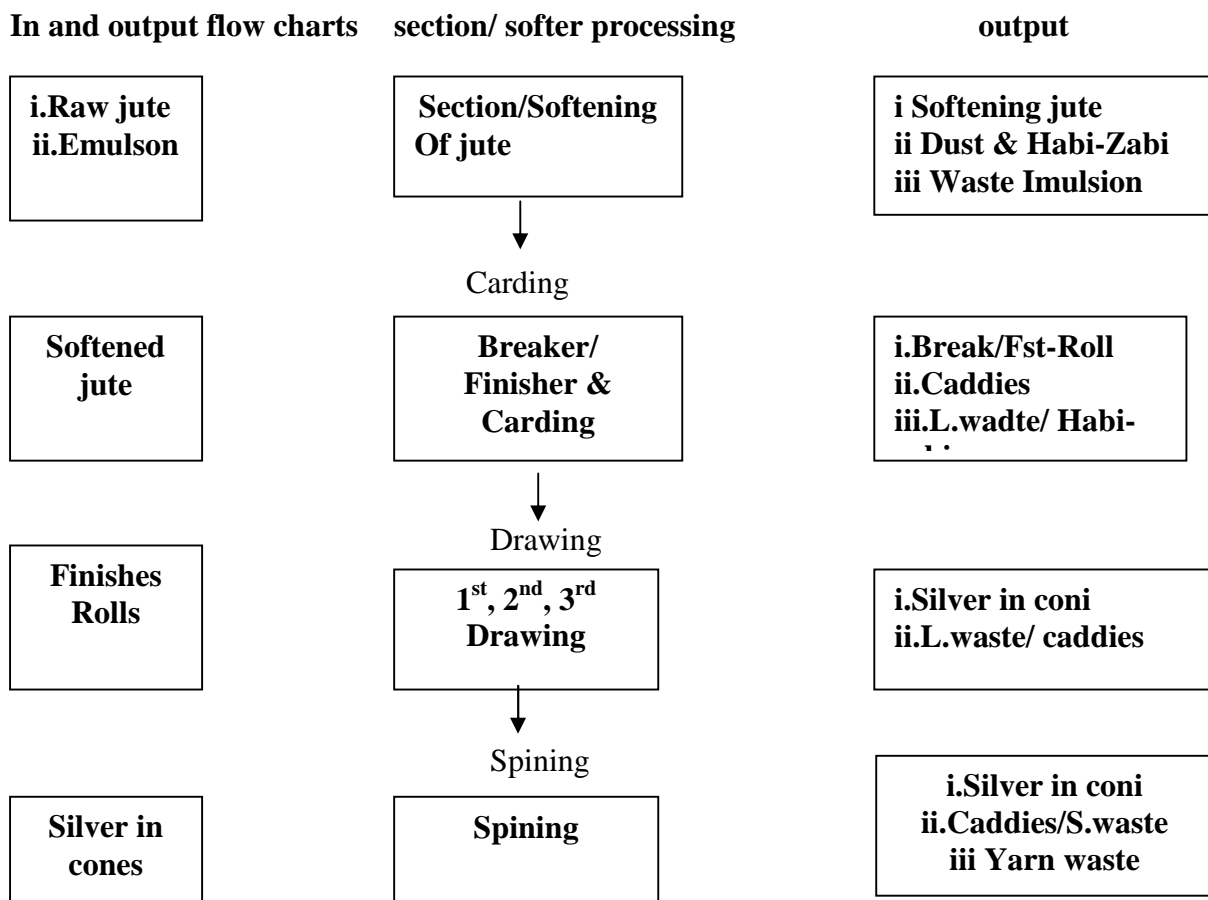
The table shows that such idle capacity can be used for more production. It needs proper and tactful management and marketing policy for overall development of a company. The problem of over staffing of also administrative expenses worthlessly.

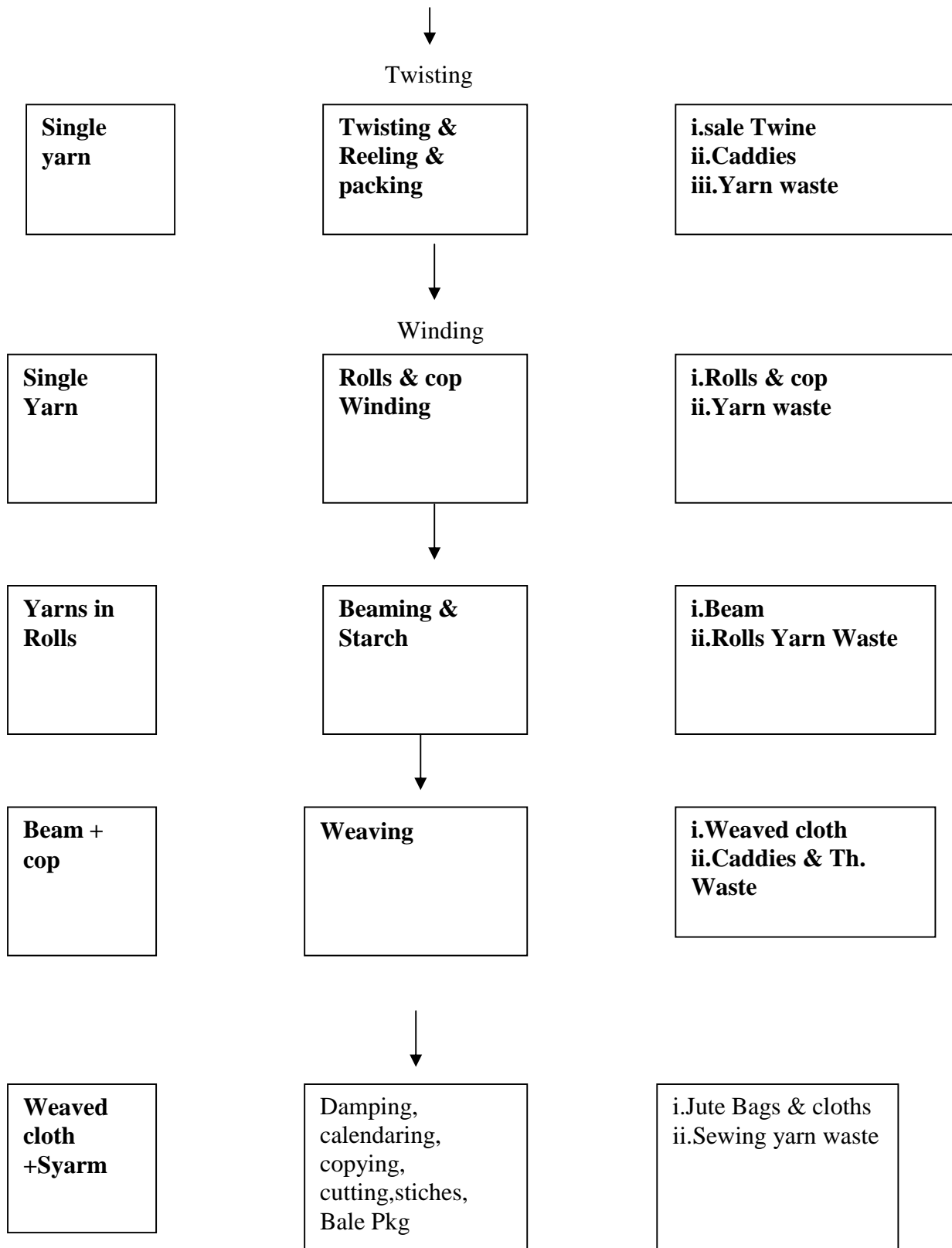
1.10 PRODUCTION PROCESS AND LAYOUT:-

a. Production Process: production process of SRJM is as follows:-

Fig.2

Sri Raghupati jute Mills Ltd.
In and Output Flow Charts.

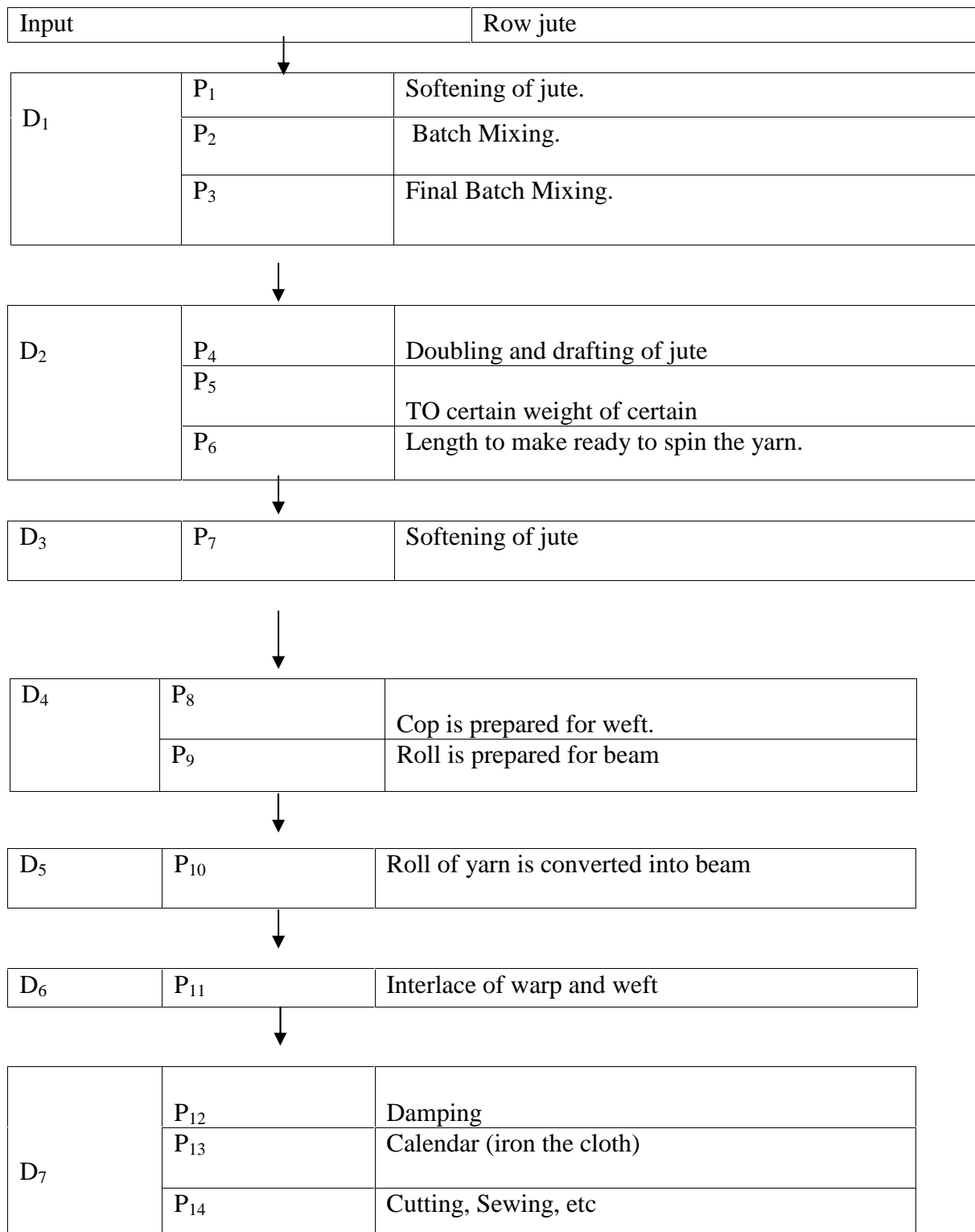




(Source: production Autonomy and Administrative Department)

Fig. 3

1.10 (b) Production Layout:-



Where,

P = Process

D= Department

(Sources Production Authority)

1.11 STATEMENT OF THE PROBLEM:-

Success of any business enterprises is measured by capacity of surplus generation but the financial performance of manufacturing company in Nepal are quite dismal and have not been able to contribute towards the generation of surplus. Most of the manufacturing companies are operated in loss and even conditions of manufacturing company have constraints the economic growth of Nation.

Profit plan is one of the most 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 capital expenditure plan. Profit planning is a systematic and formalized approach for performing significant phase of management planning and control system. Generally, a manufacturing enterprise prepares different plans and budgets in following headlines like sales plan, production plan, purchase plan, material plan, labor plan cost budget, etc. it is very essential for manufacturing company but its depends upon the flexibility and size of the firm. In PPC, budgets are to specify a clear cut process to develop a formal approval policy. In some special circumstances, it is said that the 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 of profit planning of SRJM. It has been attempted to see whether SRJM has made long range forecast of short range forecast to prepare its budget regarding its 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 occurred in PE's.

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 of SRJM. 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 following are its comments:-

- 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 PPC in each and every enterprise of Nepal.
- Profit plans will be effective only if all responsible executive exert continuous and aggressive efforts towards their accomplishment, it won't occur automatically but our management has no interest in all the estimates and schedules. To formulate the PPC, management must participate in its implementation in proper way.
- Budgeting places great demand in management time, especially to revive budget constantly. Too much paperwork is required.
- It is not realistic to write out and distribute out goals, policies and guidelines to the entire supervisor.

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

The study here has tried to answer the following research questions:-

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

1.12 Objective of the study

The basic objective of this research is to examine how far the different functional budgets are being applied for profit in SRJML. Other main objectives are listed below.

1. To analyze the various functional budgets those are prepared by SRJML.
2. To sketch of profit & loss.
3. To evaluate the functional variance between targeted and actual.
4. To examine the practice and effectiveness of profit planning.
5. To recommend measures and suggestions to encounter with the identified profit planning problems.
6. To recommend suitable suggestions to improve the budgeting and profit planning process applied by SRJML.

1.13 Needs and importance of the study:-

Nepal has many agro-based industries, which are suffering from poor performance, and financial conditions, which are not satisfactory. Most of the industries are looking in loss. So this study analysis profit planning on the basis of predictable difficulties and gives recommendation by focusing on the case study of SRJM.

Profit planning is such a tool, which helps to predict the future and to minimize future risks and maximize output from the scarce resources and means and also helps in the field of managerial decision making in business enterprises. So profit planning is important for manufacturing industries.

This study evaluates the use of different type of functional budgets and co-operate planning system for effective implementation of profit planning and control system of SRJM. This study is also designed to describe the purpose of different types of budget used, how they are prepared and how these budgets facilitates to prepare policies and making financial control.

This study also focuses of the budgeting as a key factor of profit planning position of SRJM. So, it will help specially to SRJM management and shareholders, entrepreneurs, general public and future researchers.

1.14 Limitation of the study:-

This study concerns only to the budgeting and profit planning of SRJM Ltd. So the study has following limitations.

- i. This study covers five to nine years trend and data analysis.
- ii. This study has focused only the accounting and financial aspects of SRJM Ltd.
- iii. The accuracy of the study is based on the data provided by the management of SRJM Ltd.
- iv. The SRJM Ltd is only its fundamental base study.
- v. This study focuses mainly with short-term profit plan.
- vi. This study is for the partial fulfillment of M.B.S. program, so it may not be useful for other purposes

1.15 Plan of the study:-

This research study is divided into five chapters. They are:-

Introduction, review of literature, research methodology, analysis and presentation of data and finally conclusion findings and recommendations.

Chapter – 1(Introduction)

This chapter consists of introduction of research study, which explains about the focus of study, statement of the problem, objective of study, importance of study and limitation of study.

Chapter- 2(Review of Literature)

This chapter includes the review of related literature written by different authors and researchers as well as the finding of various articles to study.

Chapter- 3(Research Methodology)

In this, chapter research methodology for profit planning of the SRJM Ltd. Has was included. It consists of introduction to research methodology, research design, nature and sources of data, population and sample of the study, data collection procedure, processing of data and tools and technique for analysis.

Chapter – 4

(Presentation and Analysis of data)

In this chapter the data required for research study are presented, analyzed and interpreted by using different financial and statistical tools and presented in suitable table and figures and other various budgets are developed.

Chapter – 5

(Conclusion, finding and recommendation)

The last chapter consists of conclusion, which states the results of the whole study in concise form. Appropriate suggestions for improving future performance of the SRJML have been recommended.

Finally an extensive appendices and bibliography are presented at the end of this study.

Chapter -2

REVIEW OF LITURATURE

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 imports 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 people themselves are able to establish the industries. Seventh periodic national plans were implemented into the nation by the past government. Such periodic plans were targeted towards national development and creating infrastructure for stable economic growth, but the result is not satisfactory and the government establishes only countable industries. On the other hand, private parties are not 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 industrial development. From this cause, more industries are proposed to establish, jointly with the 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 newly industrialized economics and ASEAN countries a spectacular achievement in the industrial front.

Nepal exists in the 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 strategy industrialization will remain in quandary.⁵

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 of skill of labor force, etc is required.

5 Ibid-Madan K Dahal

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 objective of minimizing cost per unit and maximizing the return to the enterprise”.⁶

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

1. Biratnagar jute mill, 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 mill, Morang cotton mill add Raghupati jute mill Ltd.

After the political change of 2007 B.S., Nepal adopted mixed economy where by public and private sectors co-exist. When we glance over the economic development and its history we find the fine your plan has been valued as 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 time your plan emphasized on the investment and Nepal started a planned process of industrialization since then.

2.3 History and Growth of PE's in Nepal:-

Industrialization is comparatively a new phenomenon in Nepal. This historical of the development of modern manufacturing industries is not very old. Biratnagar jute Mills, set up in 1936 marked the beginning if the organized industry in the country. It was established under the company act 1936 which is the first joint stock company of Nepal. Thereafter the Morang Cotton Mills (1941), the Morang Sugar Mills (1946), the Raghupati jute Mills (1946), the Juddha Match Factory (1946) were set up in collaboration with India businessman. Nepal Bank Limited is the first commercial bank of Nepal, which was incorporated in 1937.

Due to the positive impact of the Second World War, It created a huge demand for essential consumer goods in the world market. The promoter of these industries could reap windfall profit within a very short period of the years (during the 2nd World war), as many as 63 industrial units were opened of in the country with a total capital investment of Rs.72 melon, out of which only 2 million was invested by Nepalese businessman. In other words, the periods of the Second World War become a vital factor for boosting the development of these industries and to establish industrial trend in Nepal. After the Second World War, many joint stock companies (established during that period) were closed and foreign capital was withdrawn because they failed to operate successfully due to the negligence of financial and marketing aspect of their industries.

Industrial development in Nepal, however, started getting regular attention of the government under the aegis of development plans after the drawn of democracy in 1951. Several industries in the public sector mostly with the financial and technical assistance of the USSR and China. The government gave much emphasis on the development of the public

6 BIJLIM, Shah, Industrialization is the 3rd world International book trade marks pp-13

Enterprises after the adoption of First year plan in 1956. After 1956 Nepal started planned economic development of the manufacturing enterprises. After 1956 Nepal started planned economic development efforts to obtain rapid economic growth. In our country, various manufacturing companies have been established and developed through government efforts.

The private companies play vital role in the process of industrialization and economic growth of the nation. Due to the establishment of private companies, the government becomes able to reduce its investment in public sectors, which are incurring continuous loss. The overall development of the country depends on the development of manufacturing companies. Now Nepal has adopted the policy of economic liberalization and entered into globalization through the member of WTO. The government is privatizing the public sectors enterprises and there are not any new manufacturing industries established in the public sectors. Government adopts foreign direct investment (FDI) policy to encourage foreign investors. This policy creates positive impact on the private manufacturing companies in industrial development. Nepal has recently got the membership of WTO, so, the role of manufacturing companies to develop the national economy is very important.

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, nor did they develop public sector institutions after the advent of democracy in 1951. The first enterprise to be turned public sector was 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 plywood, 3 match factories 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's were opened. During this plan period, seven PE's 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 saving and investments in productive enterprises and research work in industries were some general objectives of the plan. "Mixed Economy System" remained the basic philosophy for the carrying out economic activities. Major achievement of the plan was as following.

- Tribhuvan Highway linking Kathmandu – Terai – in was construed.
- First industrial Policy 1957(2014 B.S.) was declared which was amended many times with the objectives 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 2003 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 Corporation (NIDC) in 1959 with the aim of providing financial and technical support for private entrepreneurs.

- Patan and Balaju industrial Districts were established. There were the beginnings of some physical and institutional infra-structural development for industry in Nepal. NIDC could provide loan of Rs.12 lakhs, 33 thousand for industrial development at the end of the plan period.⁷

2.3.2 The Second Three Year Plan (1962-1965):-

The “Panchayat System” replaced the democratic system of government in 1961. Nepal had a one year plan holiday in 1962. The three year second plan emphasized.

- i. Completion of on going industrial projects in the public sector.
- ii. Improvement in the conditions of industries operation in the private sector. Employment opportunities for trained persons.

Thapa2040

- iii. Setting-up of import- substituting and export- promoting industries, especially cigarette and sugar.
- iv. Targets for financial outlay and outputs in the industrial sectors, including tourism.

Achievements:-

- i. The industrial policy of 1960 was amended to attract foreign investment and to facilities financing of hotels by Nepal industrial Development Corporation and to provide tax incentives to industries.
- ii. Government financial support was provided to industries Raghupati jute Mills was the recipient of such support.
- iii. An agreement was reached with the Birla Group of India to establish a modern textile industry. But the project faltered.
- iv. Patan industrial District was established. Work progressed of the construction of Hetauda industrial District.
- v. Birgunj Sugar Factory and Janakpur Cigarette Factory were established in the public sectors.

2.3.3 The Third Five Year Plan (1965-1970):-

The plan emphasized development of industries in both public and private sector. Tax and other incentives for the private sectors were given continuity. Priority was given to the establishment of the following industries.

- i. Impact substituting industries using local resources, such as saw mill, plywood, paper, sugar, cement, lime, mica, steel and resoling foundry.
- ii. Export promoting such as jute, tea.
- iii. Basic industries, such as fertilizer, agricultural tools.
- iv. Subsidiary industries, such as textiles, edible oils, etc.

Cement, lime, mica and fertilizer industries were reserved for the public sector. Targets were set for the industrial production.

Achievements:-

In the private sectors, stainless steel and synthetic textile industries which had no priority, emerged with high growth. Not much progress was achieved in setting-up of industries by the private sectors.

The gap was pronounced in the targets and achievements of industrial production.

- i. The growth of cottage and village industries remained virtually standstill.
- ii. In the public sector, new industries established were:
 -) Agricultural tools factory at Harisiddhi, Kathmandu
 -) Brick and tile factory at Bansbari, Kathmandu
- iii. Hetauda industrial District was established.
- iv. Work started on the survey of forest, soil and mineral resources.

2.3.4 The Fourth Five Years 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 sectors at least for the initial period. NIDC had a providing credit and share investment of Rs. 13 crores, 12 lakhs 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 procession plant was installed. Two major achievements of the plan were amendment of industrial Enterprises Act 2018 B.S. and the enforcement of New Industrial Enterprises Act 2030 B.S. the other achievement was establishment of industrial service center (ISC) which is presently known a national productivity and economic development center (NEPDC) to support industries technical service for private sector industries e.g. consultancy services, feasibility study, quality control, etc.

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

2.3.5 The Fifth Five Years Plan (1975-1980):-

This plan emphasized people-oriented production and maximum utilization of manpower. It adopted a regional approach to the development of industrial development were:-

- I. Increase industrial production and productivity.
- II. Increase industrial employment.
- III. Mobilize local capital, skill and resources.
- IV. Achieve self-sufficiency in essential consumer goods and construction materials.

Programme:

Cottage and small industrial were reserved for Nepali nationals only. Priority was given to medium and small industries.

The industrial development programme in public sector consisted of.

- i. Improvement of existing public sector industries.
- ii. Completion of industries under construction: Textile, agriculture lime, vegetable ghee, brick factory at Bhaktapur, vegetable oil.
- iii. Setting up new industries for:-
 - Rosin and turpentine
 - Magnesite
 - Paper and pulp
 - Cement
- iv. Establishment of an institute of standards.
- v. Strengthening of industrial districts.

For the private sector, 127 possible industries were identified.

Achievements:-

- i. During the plan period, industrial production increased by 6.7%. Hetauda Textile, Bhaktapur Brick and Tile, and agriculture lime industries were established in the public sectors.
- ii. Private sector participation in industrial development remained poor.
- iii. Capacity utilization by industries remained low at 56%.
- iv. The institute of standard was established.
- v. Butwal industrial District was established.

2.3.6 The Sixth Five Year plan (1980-1985):-

The overall objectives of this plan were:

- i. TO increase production at higher rate.
- ii. TO increase opportunities for productive employment.
- iii. To fulfill basic minimum needs of people.

The objectives of industrial development were;

- i. Shift agriculture labor to industrial employment.
- ii. Self sufficient in essential goods and construction materials.
- iii. Promotion of export-oriented industries to improve balance of payments.

Programme:-

The plan had a target to increase industrial productions by 10%. Development of cottage and small industries was emphasized. So was the creation of environment to attract private investment. Public sector environment was allowed only in those industries where private sector was not forthcoming. Export processing zone was also proposed.

The priority for industrial development was fixed as follows:

- i. Cottage and small industries.
- ii. Export-oriented industries.
- iii. Construction materials-oriented industries.
- iv. Daily necessities good-oriented industries.

In the sector, new industries proposed were:-

Udaypur cement, Orind and Magnesite, Ganesh Himal metal and Bhrikuti paper. In the private sector, 168 industries were stated for promotion

Achievements:-

- i. The growth in industrial production during the plan period was satisfactory at 10%. The performance of public sector industries was mixed. Janakpur Cigarette, Bhaktpur Brick and agriculture tools exceeded their targets. All the remaining public sector industries were underachievers.
- ii. None of the industries planned in the public established.
- iii. In the private sector, out of 168 planned industries, only 57 were promoted.

The country became almost self-sufficient in biscuits, confectionary, vegetable ghee, laundry soap, polythene pipe. Wheat flour, sugar, noodles, cigratte, matches, soft drinks and paints.

- iv. Bhakatpur and Surket industrial Districts were established.

v. The industrial policy of 1981 was announced. Excepting defense, it opened up all the sectors of the economy for private investment, including foreign investment. It also aimed to increase the efficiency of industrial. It provided stimulus to locate industries in remote areas. The industrial Enterprise Act, 1982 and foreign investment Act 1982 were also enacted.

2.3.7 The seventh Five Year plan (1985-1990):-

This plan had the overall objectives of increasing productive employment, increasing employment opportunities and fulfilling the basic needs of the people.

The objectives of industrial development were:-

- i. Increase contribution of industrial sector to Gross Domestic product.
- ii. Expand and develop industrial sector to meet people's basic needs.
- iii. Emphasize cottage industries to increase to increase productive employment.
- iv. Promote export and substitute impost.

Programme:

The industrial sector was given higher priority in resources allocation. The preparation of a long term plan for the development of the industrial sector was proposed.

- i. The plan set performance targets for industries operating in the public sector. Expansion plan for selected industries was specified. Industries expected to go into production were:

-) Nepal Orind and Magnesite
-) Nepal Metal Company

-) Bhrikuti Paper Company
-) Lumbani Sugar Mill
-) Butwal Thread industry
-) Nepal Paper Factory (Nepalgunj)

- ii. A total of 159 industries were proposed for promotion in the private sector.
- iii. Privatization of selected public enterprises was proposed.

Achievements:

- i. A long term industrial development plan was prepared. The industrial Enterprise Act, 1987 was implemented.
- ii. The capacity utilization of public sector industries increased to 65% privatization of public enterprises did not materialize.
- iii. Nepal Orind and Magnsite, Bhrikuti paper and Lumbni Sugar were established.
- iv. A new industrial policy was announced in 1987.
- v. Rajbiraj industrial District was established. Work continued on the construction of Dhankuta industrial District.

2.3.8 The Eighth Five Year plan (1992-1997):-

The overall objectives of this plan were:-

- i. Sustainable economic growth.
- ii. Poverty alleviation.
- iii. Reduction of regional imbalances.

Objectives for industries:-

The objectives for the development if industry were:-

- i. Generate extra income and employment by enhancing interrelations between production oriented industrial sector and other economic activities.
- ii. Promote medium and large industrials to substitute imports and fulfill internal demand by improving cottage and small industries using locally available resources.

Programme:

This plan laid down sub-sectoral programme and targets for:

-) Food, beverage and tobacco
-) Textile and garment
-) Chemical
-) Mechanical engineering
-) Electrical and electronic

The targeted growth rate for industrial sector was 12.4%. various projects related to industries were specified, espcially:-

-) Foreign investment in 200 projects
-) Registration of 26000 cottage and small industries.

Achievements:

- i. The eighth plan was instrumental in creating added infrastructure for industrial development in the following ways:-
 - Legal: industrial policy 1992; industrial Enterprise Act, 1992; Foreign investment and Technology Transfer Act, 1992; Company Act, 1996; privatization Act, 1994.
 - One window facility secretarial was set up.
 - National productive Council was established.
 - Industrial Enterprises Development insptitute was setup to serve as a center excellence to develop industrial human resources.
- ii. Industrial production increased by 5.23% compared to the target of 12.4% .
- iii. A total of 1443 medium and large industries were registered. Similarly, 40790 cottage and small industries were registered. Also, 238 foreign direct investment projects were promoted.
- iv. An industrial pollution unit was created in the Ministry of industry.

2.3.9 The Ninth Five Years Plan (1997-2002):-

The plan is on- going and has adopted poverty alleviation as its main objective.

- i. Increase contribution of industrial production in domestic production and diversify markets with the co-operation of the private sector.
- ii. Increase production of export-oriented and import substituting commodities.
- iii. Increase production of processed commodities.
- iv. Increase non-agricultural rural employment through cottage and small industries.
 - The target set for growth in industrial production is 11 to 15 percent.
 - The key policies are privatization of public enterprise, encouragement to foreign investment, leading role to private sector, reform in legal framework and encouragement to clean technology, etc.

Programme:

The programme for industrial development consists of:-

- i. Technology transfer and development
- ii. Technology park development
- iii. Productivity promotion
- iv. Industrial pollution control

Achievements

- i. The contribution of industrial production to Gross Domestic product increased by 9.7% compared to 14% target.
- ii. Industrial employment was created for 151000 person (43% of target)
- iii. Industrial production growth was 13.2%. The target was 13%.

The plan is on going and has adopted purity alleviation as its main objective:

- i. Increase contribution of industrial production in domestic production of the private sector.
- ii. Increase production of exports oriented and import substituting commodities.

- iii. Increase production of processed commodities.
- iv. Increase non-agricultural rural employment through cottage and small industries.
 - The target set for growth in industrial production is 11 to 15 percent.
 - The key policies are privatization of public enterprises, increase agreement to foreign investment leading sole to private sector reform in legal framework and encouragement to clean technology etc.

Programme:

The programme for industrial development consists of:-

- i. Technology transfer and development
- ii. Technology park development
- iii. Productivity promotion
- iv. Industrial pollution control
- v. Energy efficiency and development

Achievements:

- i. The contribution of industrial production to Gross Domestic Product increased by 9.7% compared to the 14% target.
- ii. Industrial employment was created for 151000 person (43% of target).
- iii. Training was provided to 112676 persons for the promotion of cottage and small industries.

2.3.10 The Tenth Five Year Plan (2002-2007):-

The objectives of industrial development in this plan are:

- i. Increase industrial production through encouragement and participation private sector.
- ii. Increase employment opportunities in rural areas through cottage and small industries.
- iii. Increase industries competitive capacity by attracting foreign investment and technology transfer.

Programmers:

- i. Increase industrial production by 7-8% per annum.
- ii. Attract a total of Rs. 40 billion for industrial investment.
- iii. Create employment for 250000 persons in industrial sector.

Achievements:

The plan is under implementation.

All plan-Govind Ram Agrawal

Plan	Public Enterprises	Year of the Establishment
1 st plan (1961-1964)	1. Aahaya Kalyan Kendra	1957/58
	2. Balaju Vanalrasala(p) Ltd	1959/60
	3. Ragupati jute Mill Ltd	1959/60
2 nd plan (1962-1965)	4. Timer corporation of Nepal	1959/60
	5. Nepalise Corput (cp) Ltd	1959/60
	6. Birgung sugar factory Ltd	
	7. Janakpur Cigarette factory	1964/65
3 rd plan (1965-1970)	8. Bansbari Leather & shoes factory Ltd	1964/65
	9. Chandirwari textile industry (P) Ltd	
	10. Nepal tea development corporation Ltd	1964/65
	11. Agriculture tools factory Ltd	1966/67
	12. Harisiddhi Brick & Tile factory Ltd	1966/67
	13. Himal cement industries Ltd	1968/69
	14. Dairy Development Corporation	1967/70
4 th plan (1970-1975)	15. Balaju Textile industry Ltd	1967/70
	16. Ratriye Chamal Kathmandu Ltd	1967/70
	17. Royal Drugs Limited	
	18. Nepal Livestock Co.(P) Ltd	1970/71
	19. Agro Lime Industry Ltd	1970/71
	20. Vegetable Ghee industry	1972/73
	21. Hetauda Textile industry Ltd	1972/74
5 th plan (1975-1980)	22. Nepal Chiuri Ghee industry	1974/75
	23. Bhaklapur Brick factory Ltd	1974/75
	24. Hetauda Cement industry Ltd	1975/76
	25. Hetauda Leather factory	1976/77
	26. Nepal Orind & Magnesite Ltd	
	27. Nepal foundry industry Ltd	1979/80
6 th plan (1980-1985)	28. Hub production & processing co.	1978/79
	29. Bhrikuti Paper industry	1979/80
	30. Lumbini Sugar factory Ltd	1981/82
	31. Udaypur Cement factory Ltd	1982/83
7 th plan (1985-1990)	32. Nepal Bitumen and Bariel co Ltd	
	33. Nepal Lube Oil Ltd	
	34. Nepal Rorik and Turpertine Ltd	1986/87

2.3.11. Performance and Control of Manufacturing Enterprises:-

The resultant picture of Nepalese manufacturing enterprises is not very bright “An appraisal of Manufacturing Enterprises financial performance their 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 high 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.⁸

“Manufacturing sector cannot always survive without financial consideration. Being enterprises of commercial nature, they can depend on government subsidies”.⁹

Puskar Bajracharya refers the following recommendation to improve the efficiency and profitability of Nepalese Manufacturing Enterprises.

The mission, goals and objectives of manufacturing Enterprises should clearly and adequately startd. There is virtually no spell out of these objectives in manufacturing

Enterprises therefore must have properly spilled out objectives in specific and clear terms.

Manufacturing Enterprises should function in the line of private sector organization with due consideration to business and economic motives.

Government policy regarding manufacturing enterprises should be clear and specific.

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.¹⁰

“it impels the outright mismanagement of scarce natural resources. Above all, it is a clear indication that these enterprises have utterly failed in effective mobilization of internal resources for accelerating the countries place of development”.¹¹

“Effective control, is essence, is concerned with making the performance conform to time, quality, costs and other specifications”. Control implies some standard of performance, which can sense as a norm or target or form of reference for comparing actual results, standards are set in advance. They indicated desired out come. The actual outcome is compared with the desired outcome and appropriate adjustments are made to correct the deviations so that the gab between the two can be reduced”¹²

8 P. Shresha P 83

9 Puskar bajracharya. (PP 169-171)

10 Puskar Bajracharya Opcit (pp-172)

11 Dr. Govindram Agrawal "Management control system for public enterprises in developing countries " CEDA. TU 1984 (PP-30)

12 RN. Anthony and J. Derlon "Management control system " (PP-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 process. More precisely it is a crucial part of the information on which planning decisions are made concerning the forward affairs of an organization.¹³

Defining future is 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, recruitment and so on and involve the future values of variables like output demanded, wage rates, consumers income and the likely state of technology.¹⁴

Forecasting is indispensable in planning. Forecasts are statements of expected future conditions, definite statements of what will actually happen are patently impossible.¹⁵

Prediction, estimation or expectation of future situations 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.¹⁶

"Forecasting and estimation are two related terms. The strength or weakness of a profit planning programme depends to a large degree of the accuracy within which the basic estimates are made".¹⁷

It should be realized that budgeting is not merely forecasting although forecasting is the basis 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 a maximum of two years in the future. Short-term 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 consumer and business intentions, nor can he extrapolate long term trends, nor is he in a particularly good position to rank the importance of qualitative factors. In particular, intermediate forecasts must consider the problems of cyclical fluctuation if they are to be meaningful".

13 Jons Harry and Twiws , Brah C . Forecasting technology for planning press ltd. Honkong 1978, Pg-17

14 Reekie W duncan crook, Jonathan N Marginal of Economics, Heritage publishers , 1993,Pg-73

15 Puskar Bajracharya Opict (pp-172)

16 Dr. Govindram Agrawal . "Management control system for public enterprises in developing countries" cfda. TU 1984 (PP-30)

17 Glen A , Welch : Fifth edition opcit (pp-551)

“A long term forecast many indicate the volume of investment necessart in plant and equipment. Forecasts are frequently made in the form of long range projection that compares an economic situation with minimum of five years into the future with present circumstances on with those of the relevant past. Typically, long-range aggregate projection has 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”¹⁸

2.4.3. Planning Vs Foresting:-

The reason for foresting is not so much to predict the future but to be prepared to meet it when it when it comes in the future. Forecasts involve a careful look at the future in term of what is thought likely to happen which plans is the embodiment of what is to be attempted to meet the future. These plans are reflected in budget that show the expected costs of reaching selected goals and it is important that budget should be seen in these way as the shadow of plans and so as the shadow of forecast. Nevertheless, the more reliable forecast the more dependable the plans, so, that every possible step should be taken towards ensuring accuracy in forecasting.¹⁹

“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 team. And since future possibilities depend on future circumstances, planning is inextricably bound up with forecasting.”²⁰

Some planning goes on in every company even through the plans my consist of little more than a few ideas in the chief executive head based on an informal forecast derived from past experience known facts common sense and a few hunches. Planning of that needs no explanations; everyone does it in his daily life.”²¹

The distinction between fore casting and planning is not given the extra by anyone. Waster gives-to plan as the definition for forecast. Forecasting is the best thinking about what will happens 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 distant between sale forecast and the sales plan primarily because the internal technical staff should not be expected or in every sales plan”.²²

Knowledge of fore casting techniques 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 comprehensive future oriented continuous process of management, which is implemented within a formal

19 Wills more, A W Accounting for Management control -1991 Pg-117

20 Dale Earnest, Management theory and practice - 1996 Pg-316

21 bid page-316

22 Glan A Welsch, Fifth edition (pp-172)

framework and which is responsive to relevant change in the external environment. It is concerned with both strategic and operational plans and through participation develops plans at the appropriate levels within the organization. It includes method of monitoring and control and is concerned with both the short and long term.”²³

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.

-) Embodiment of goals and objectives in the Enterprise.
-) To formulate realistic and attainable objectives.
-) Achievement of objectives.
-) Clarity and adequacy of goals and objectives.
-) 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 organization environment.
 5. Forecasting future performance based in the first phase on the result of 3&4.
 6. Analysis of the gap between the results of 2&5.
 7. Identification and evaluation of strategic 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 practice in Nepal suffer from a number of institutional set backs emerging both from governmental and corporate levels which must be paralyzied to make the practice effectively. Corporate planning and profit planning has close relationship in the business plan. Profit planning is apart 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 General Concept of profit planning:

Profit planning is a modern concept of management planning designed for controlling business costs and expenses at different levels of operations. Here, before discussing, about comprehensive profit planning in detail, it is tried to explain about the basic related terms profit and planning.

23 Hussey, D.E and Langham Mj corporate planning the human London , page-19

2.5.2 Profit

Profit is the blood of an organization. Every business organization runs after profit without which organization cannot survive for long time. Therefore, the primary goal of an enterprise is to earn maximum profit for operating every organ successfully.

There is controversy as to the definition of the term profit itself. Ordinary, the term profit is defined in term of accounting concept. According to accounting definition-“profit is the residual of sales revenue minus the explicit (accounting) cost of doing business”. This profit is the amount available for ownership of equity after payments are made to all other factors used by the firm. “ An economist views that profit is the reward for entrepreneurship for risk taking. A labor leader might say that it is a measure of how efficiently labour has produced and that it provides a base for negotiating a wage increase. An investor will view it as a gauge of the return on his or her money. An internal revenue agent might regard it as the base for determining income taxes. The accountant will define it simply as the excess of a firm’s revenue over the expenses of producing revenue in a fiscal period.

Whatever it is and whoever views it may be, but it is very important to have sufficient profit to run an organization in long term. It is also said that “profit do not just happen, they are to be managed.” Profit is first targeted and then managed and finally achieved.

Profit is the primary measure of business success and firms or industries 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 different between the economist and accountants approaches center around (1) The cost, 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.”²⁴

“profit is the reward of the entrepreneur, rather of the entrepreneur function. Profit differs from the return other factors in three respects(a) profit is a residual income as in the case of other factors (b) there are much greater fluctuation in profit than the reward of the other factors (c) profit may be negative award as rent, wages and interest must always be positive.”²⁵

The word “profit” implies a comparison of the business between two specific dates, which are usually separated by an interval of one year. In order to optimize those corporate sources of wealth of which national prosperity depends those 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 profit within socially acceptance limit implies that a proper regard to public interest has been paid. No company can service long without profit, profit is the ultimate measure of its effectiveness and in a capitalist society there is no future for a private enterprise, which always incurs losses. 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 products but also of the development of the market for it.

2.5.3 Planning (The Basic Foundation Profit Plans)

Planning is the primary function of management. It is called forward function of management. It may be defined as deciding in advance, what is to do, when it is to be done, how it is to be done & by whom it is to be done.

“Planning is the first management function among the first alternative proceeds alternative precedes organizing, directing, coordination and con-trolling. It is continuous function of management, which includes establishment of organization objectives and selection of best course of action to achieve predetermined objectives. It provides the basic for performing the other functions of management i.e. organizing, staffing, directing and planning process is the most crucial component of the whole system. It is both the foundation and the bone for other elements because it is thought the planning process by which we determine what we are going to do, how we are going to do and who are going to do it.

Planning is continuous function the passage of time depends both planning and pre-planning making new plans. Current feedback necessitates newly planned actions to correct performance deficiencies.

Planning is a process which includes following phases:-

1. Establishment of organizational goals and objectives.
2. Developing planning premises about the environment of the organization.
3. Developing alternative courses of action.
4. Evaluation of alternative course of action.
5. Making decision for the selection of best course of action.
6. Inciting action to alternative the plans.
7. Evaluating performance feedback for 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 course of action a perspective, a frame of reference established for current decision. In the 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 deference between success and failure, profit and loss, depends upon the outcome of well laid plans. Planning is an integral part of our 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 step.
- 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 implement.
- g. Establishment of time schedule for individual parts of the agreed plan i.e. relative calendar time scale.²⁶

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 an 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 held accountable.²⁷

Planning is a systematic and also a rational way of perceiving how business industrial of 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 course of actions a prospective, a frame of reference is established for current decision. In this process, planning examines the involves chains of cause and effect likely to result in the future and respectively, exploit or combat them as the case may be.

2.5.4 Meaning and definition of profit planning

“Profit planning is one of the most important management tools to plan and control business operation. Budget or plans are financial plan prepared is a guide to and control of future operations”.²⁸

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

Profit planning is a part of an overall planning process and area in which finance function plays a major role. “The success of each enterprises in realizing its optimum profit in each year will be determined by the extent to which it establishes objectives, develops co-ordinate plans, to meet those objectives and exercises control of all facts of its activity so as to have actual results reach or exceeds those planned. This entire process constitutes the budgetary planning and control program”. He further stand that profit planning and control has the ultimate objectives of attaining the optimum profit²⁹.

Profit planning can be broadly divided into two groups as a functional plan and financial plan. Function plan includes sales plan, production plan, raw material plan, direct labour plan and capital expenditure plan, projected income statement and projected balancesheet. 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.

27 C.E. Grace "Management control " New York Mareidick Mitchell and company 1964

28 Holmes , Author W. Meier, Robert A & Pobst Accounting for control and decisions taxes pages-682

29 Skillen , Isal Wayne and ferrara William I - management accounting for profit planning and control

“The essence of profit planning is managerial determination and control of the long range destiny of the enterprises. The overriding concept implies that objectives and responsibilities must be definitely determined, critically evaluated as to their potential impact levels of management.”³⁰

“Matz and Milton described the profit planning is a well throughout operational plan with its financial implications expressed at both long and short range profit plans and budget in the form of financial statements, including balance sheet, income statement and cash and working capital projection.”³¹

“The profit planning and control means the development and acceptance of objectives and goals and moving an organization efficiently to achieve the objectives and goals. Other term used in the same context of comprehensive profit planning and control are business budgeting managerial budgeting and budgeting.”³²

“Profit planning in fact is a managerial techniques and a profit plan is such a written respect to definite future period and included. It is a formal 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 a guide to current operations as a partial base 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.”³³

“Profit planning fits with the total system concepts that integration all the functional and operational aspects of an enterprise. Integrates and inter-relationship 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 from all the subdivision of the enterprises. It covers the entire organization from the chief executive officer-right up to front line supervisor.”³⁴

Profit planning is most recognized that it is not a separate technique that can be thought of and operated undependably of the total management process. The broad concepts 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, variable budget time and motion study, standard cost accounting, strategy planning, production planning management by objectives, organizational planning, manpower planning and cost control.”³⁵

30 The micro economic policy and action -Nili wc

31 Matz and Milton

32 Welch 5th edition - "profit planning and control"

33 S.P. Gupta - Management Accounting, Agra Sahitya Bhawan, 1992-pg-521

34 Welsh, Glenn A, Hilton Ranald W & Gordon-pg-34

35 Welch, Glenn A, Page-14

2.5.5 Basic Assumptions Limitations of profit plan

There are many assumptions of using profit planning programs. Firstly, the basic of a business must be measured in term of money. It there is to be any 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 every aspect to establish optimum profit goals. Thirdly, profit planning is preplanning not merely what to do if things workout forecasted but also what to do if things work out different form the forecast.

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

- i. The profit plan is based on estimates.
- ii. Profit planning and control program must be continually adopted to fit changing circumstances.
- iii. Executions of a profit plan will not occur automatically.
- iv. 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 benefit is derived from the plans as rendered.

2.5.6 Budgeting, a tool of profit Planning:-

“Budgeting is a summery of all phase of a company’s plans and goals for the future. It sets specific target for sales production distribution and financing activities and it generally culminates in projected statement of net income and a projected statement of cash position.”³⁶

“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 instruments, for it relates also to quantities of product and to operations and consequently servers as a complete program of business activities in the period to which it relates. In a word, budgeting is planning the conduct 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 serve as a check upon the plan.” “The applies to the over all the planning of the whole business and the detailed planning of the operations in individual department.”³⁷

“Budget as a tool of planning and control is closely related the boarded system of planning and control in an organization. In operational terms if involves the step of making objectives, specifying goals, formulation strategies and expressing budgets.”³⁸

36 Garrison, Ray H , Management Accounting: concept for planning, control and decision making Business publication, 1985, page-297

37 Sukal , M.C. Business organization & Mamt. S. chand & Co. Ltd. 1978 page -459

38 Khan & Jain "Management Accounting " M C graw hill bub. co. Ltd. New Delhi (pp-296)

“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 whole or for any sub unit. Budgeting includes sales, production, distribution and financial aspects of and organization. Budget programmed and designed to carry out a variety or functions, planning, evaluating, performing, coordinating actives, implementing plans communicating, motives and authorizing actions. Charles T Hunger further sated that it is a quantitative expression of plan of action and an aid to coordination and control. Budgets are forecasted financial statements formal expression of managerial plans. They are targets that encompass all phase of operations-sales, production and financing.”³⁹

“A budget is a mechanism to plan for the firms all operations or activities, which generally covers the area of revenues and expenditure. The budgets 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.

- i. It is comprehensive and co-ordinate plan.
- ii. It expressed in financial terms.
- iii. It is a plan for the firm’s operations and resources.
- iv. It is plan for a special period.

) I.M Pandey “Financial Management”^{3rd} edition

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 ideas and the actual. Here the ideas are the budget period begins. So, the actual performance is compared with the standard performance and such compression given an idea about the degree of success because of the actual performance.⁴⁰

2.6 FUNDAMENTAL OF PPC:-

“Basically, comprehensive profit planning and control offers a systematic and proverb approach to management process. Concepts of profit planning and control is frequently minimized or completely over looked in much of the literature and decision the subject”.

2.6.1 Fundamental of PPC

- a. The mechanics of PPC: it includes matter related to design of budget schedules, critical 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.

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.

39 Horn green Chanters T. "Cost Accounting Management Emphasis" (pp 120-123)

40 Jakholiya , G.P. Budgeting & Budgetory Control New Delhi, 1990 page-2

2.6.2 Managerial involvement

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

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 system 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.”⁴¹

2.6.4 Full Communication

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

“Communication is a necessary activity in all aspects of management. Communication can be broadly defined as an interchange of thought of information to bring about mutual understanding between two or more parties. It may be 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 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 are affected modified and energized. Too often communication is taken for granted, consequently information follow in inadequate. There must be three primary information in an entity, downward upward and laterally in the organization.”⁴²

41 Glenn A Welch - 4th edition

42 Ibid 5th edition (pp-41)

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 responsibility likewise enhances the degree of communication essential to sound management."⁴³

2.6.5 Realistic Expectation:-

To determine the profit planning and control purpose or enterprises objectives and specific budget goals should represent reality expectations. It 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 to many expectations is a given enterprise, therefore should be related to many variables, such as size of the enterprise characteristics of the managers, leadership characteristics maturity of the enterprise, sophistication of the management, nature of operation and behavioral management. Finally this discussion of the definition of realistic expectation emphasizes the premise that manager 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."⁴⁴

2.6.6 Time Dimension in PPC

Whether an individual and entity remains idle or busy time pass at the same rate. The problem of the manager in one hand is to accomplish the planned activities in a given time and on the other hand. Is to prepare the plan itself. Phases of the planning are of two types.

1. Timing of planning horizons:- it refers to the period into the future for which management should plan. In practically all situations, a need exists for a number of deference planning horizons. For any enterprise, there are many planning horizons to maintain the continuity of planning activity. The decision made by the manager for future activities reflects the managerial planning. In other words, managerial decisions, which reflect planning activities, always use to have effects on future activities only. It does not use to have any effect on present or past. Major decision should be made on the basis of supporting study analysis and evaluation. For effective implementation of planning, management of any enterprises must establishment a definite time dimension for certain type of activities.

43 Ibid page 37-38

44 Ibid page-54

2. Timing of planning activities:- Each activities related with planning would be given definite time for implementation, followed by others activities. From the viewpoint of time dimension a manager should maintain clear-cut destination between historical and futuristic consideration because the result derived from historical activities should be considered as plate from for deciding plan.

For futuristic activities plan can be divided in to periodic and project plan. Project planning meets the specific requirement for an enterprise within certain time limit. Periodic plan denotes the plan for the activities to be accomplished within a certain given time. Evaluation of project plan is done on the basis of degree of activities where as the periodic plan needs evolution on the basis of calendar years, month and days.

In conclusion, we can say that planning activities and implementation must be careful to accomplish the activities in time.

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 jakets” are not imposed and all favorable opportunities are seized even through” they are not covered by the budget”.

“The main aim of end of the management is to utilize the resources in most effective way to achieve high form investment. For this purpose, the comprehensive profit planning and control program administrative in a sophisticated manner permits greater freedom at all management level. This effects is possible because all levels of management are brought into the decision making process then plans are developed.”⁴⁵

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

2.6.8 Behavioral viewpoint

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 are the behavioral effects of such budgetary pressure on effect is that employers may consciously; strive not to exceed budgeted performance in order to lesson the likelihood that the budgeted performance level will ultimately be set even higher. More over 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 intercity in recognition that here much, unknowns, 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 to these behavioral problems into sharp focuses. A sophisticated view of profit planning focuses

on a positive approach to resolve. Certain behavioral problem but many respects it can provide one effective to their partial solution.”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 allowed to buildup 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 goal and the reporting of that measurement in performance report. This measurement and the reporting extend to all areas of operations and to all responsibility centers in the enterprise. It involves reporting (1) actual results (2) Budgeted as planned results and (3) the difference between the two. This type of reporting represents an effective application of the well-recognized management exception principle. The exception principle holds that the manager should concentrate. Primarily on the exceptional items that appear daily, weekly, and monthly reports, there by leaving sufficient managerial time for overall policy and planning concentration. The “out of line” items need immediate managerial alternation 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 the procedures must be adopted to call the managers attention to the out of control items. Conventional figures with no basis for calling attention to the unusual items. Conventional figures with no basis for calling attention to the unusual or exceptional items.”⁴⁷

2.6.10 Follow up

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

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 provide of a transfer of knowledge to similar operations.
3. To provide a basis for better planning and control in the future.⁴⁸

2.7 PROFIT PLANNING AND COTROLE:-

“An enterprise should take establish a sound formulation for initiating a profit planning program. The planning process involves 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.”⁴⁹

46 Ibid opcit . page 46

47 Willmore A W 4th edition optic (pp-146)

48 Willmore A W 4th edition optic (pp-49)

49 Glenn A Welch 4th edition (pp-33)

2.7.1 Evolution of Relevant variable

“In order to implement profit planning and control efficiency 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 consideration of variables that are non controllable and there that will have a direct and significant impact on the enterprises.”

2.7.2 Development of Board of the Enterprise.

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

“Development of the board objective of enterprises is a relevant variable and an assessment of the strength and weakness of the organization executive management can specify this phase of profit planning. The statement of board objective should express the mission identify, continuing of purpose and definition.”⁵⁰

2.7.3 Development and Establish Specific Goals for the Enterprise:-

“The purpose of this step is to bring the statement of board objectives into sharp focus and at the same time to move from the realm of general information to the confines of internal management. This component of comprehensive profit planning and control program detail specific short range and long-range goals for the enterprise. This step provides definite and measurable goals for the whole enterprise and for each of the major sub division.”⁵¹

Further, it provides both narrative and quantitative goals that are defined and measurable such goals should define such operational goals as expansion and for contraction of product and service line, geographic areas, share market, growth trends, productions 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 strategic is the basic trust ways and practice that will be used to attain planned objective and goals.

“Strength focus on the “how” they represent the plan of action. In this step, the issues are determinations interrelate and overlap with the other component. In the development of basic identification of 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 variable and their future potential impacts.”

50 Ibid opcit 64

51 Ibid opcit 65

2.7.5 Preparation of planning premises:-

“When the objectives for the periodic plans are developed the executive management should provide with the certain instructions and guidelines to the lower management in order to develop the profit plan of the other respective responsibility centers. Thus, the instruction and formal guidelines as communicated by the top management at this point in the planning process have to be generally identified as the statement of planning premises. It is simply a communication stop form executive management to the lower level management.”⁵²

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 plans 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 has a unique time dimension. Project plans 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 anticipated life span of the project. The preparation and evaluation of current and future project plans are essential planning phases.”⁵³

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 from the top management, the executive 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 emphasis should be on the participation principle 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. These for these two steps envision that upon receipt of the planning premises and procedural instruction each manager in charge of major responsibility center will immediately initiate activities within his own. Functional sphere to the develop a strategic long range profit plan and harmony with five year plan, a tactical short range profit plan.

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. A subordinate in the accomplishment of enterprise objective and goals, communication is an especially important aspect of direction. However, a comprehensive profit planning and control program may and substantially in accomplishment is this function. Plan strategies and policies developed through meaningful participation along the lines described in course of profit planning established foundation for effective communication.”⁵⁴

52 Ibid opcit 66

53 Glenn A Welsch Ronald Hilton.

54 IBID (pp-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 Welch 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 (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 made between external and internal financial reports. Internal reports can be further classified as (a) statistical reports that give the basic quantities internal statistic about the operations of the enterprise (b) special managerial reports about non-recurring and special problems (c) periodic performance reports which is focused on dynamic and continuous control tailored to the assigned managerial responsibilities.”⁵⁵

2.7.10 Follow up procedure:-

“Follow up action is an important facet 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 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 (i) to determine the effectiveness of the prior corrective actions, and (ii) to provide a basis to improve future planning and control procedure.”⁵⁶

2.7.11 Line staff Responsibilities Related to PPC:-

The chief executive has ultimate responsibility for profit planning. However, there must be a concentrated 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 position in learning out their basic responsibilities. They should view the plan as their own and they must assume full responsibility for attaining them.

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

55 Glenn A Welsch, Fulton Ronald N Gordon, Paul , fifth edition opt. Cit (p 85)

56 Glenn A Welsch, Fulton Ronald N Gordon, Paul , fifth edition opt. Cit (p 91)

“The chief financial officer should be assigned over all 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 of the individual and respect through out the firm.”⁵⁷

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 decision 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 were impossible to assess the future revenue potentials of a business, there would be little incentive for investment in the business initially of 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 such management decisions as objectives, goals strategic and permission. These translate into planning decision about planned volume of goods and services, prices, promotion and selling efforts. There are certain objectives of planning 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 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 judgment about such related items as sales volume, prices, sales plan when management judgment, planned strategies, commitments resources, and 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 planned, and the man power requirements, the production level and other important operational aspect depend on the volume is 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 plan. Many management decisions commit a large amount of resources involving a life span of many years' basic strategies and major move often involves irreversible commitments of resources and longtime span.”⁵⁸

“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 after means is that he wants a plan he wants to make something happen and he uses the plan as a target for people in this his organization.”⁵⁹

57 Welsch Glenn fifth edition page -91

58 Glenn A. Welch 4th edition (pp 140)

59 Armstrong j. Scott -1978, page no-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.”⁶⁰

The preparation of sales plan is based upon the sales for cast. It should be broken down not only in periods but also into geographical or responsibility areas by the use of sales quarter. The budget is usually presented both in units and in dollar of the sales revenue of sales volume. The sales plan/budget should be realistic. It is not realistic most other parts of overall profit plan also are not realistic. Therefore, managements 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 future. These 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 not as the shadow of forecast. Nevertheless that more reliable the forecast the more dependable the plans, so that every possible step should be taken towards ensuring accuracy in forecasting.”⁶¹

“It is important to make distinction between sales planning and forecasting because they are often confused. A forecast is as statement of feature conditions about a particulars 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.”⁶²

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. In addition, future possibilities depend on future circumstances, planning in 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 know facts common sense and a few hunches. Planning of that type needs no explanations; everyone does it in his daily life.”⁶³

2.8.1(b) Strategic and Tactical Sales Plan:-

In order to develop comprehensive profit planning both strategic ling term and tactical short-term sales plan must be developed. Strategic sales plan may cover the time span of five years to ten 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.

60 Author W. Holmes, Robert 'A ' Mir Donald F Pabst, Accounting for control and decision. Page 687

61 Wills more, A W Accounting for management control -1991, page-117

62 Glenn A. Welch fifth edition, op. cit (pp 172)

63 Ibid , page -316

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 major 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."⁶⁴

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 detail 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 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."⁶⁵

2.8.2 Production Plan:-

After developing the comprehensive sales plans, 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 periods this production plan can be represented in this way, production requirements = sales volume \pm 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, the first step to establish policies relative to inventory levels, the next step is to be manufactured during the budget period, the third step is to schedule or operate this production to interim periods. In developing production budget, the first step is to establish policies relative to inventory levels; the next step is to be manufacturing operations. When should be submitted to the executive committee for

64 Glenn A Welch, Hilton, Ronald N and Gorodon, Paul N. fifth edition Opt. Cit (pp 173)

65 Gleen A, Welch fourth edition , op, Cit (pp155)

appraisal and then to the president for tentative approval prior to its use as a basis for developing materials, and factory overhead budget.”⁶⁷

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 responsibility for the planning and control of these functions. With respect to production planning, the managers must plan an optimum coordination between sales, inventory and production levels. An efficient and co-ordinate production plan is necessary for economical manufacturing of products. Therefore, there must be co-ordination between sales plans, production plans and inventory policies. The production budget and provide the basis for obtaining these issues. To develop a long-range plan (say 7 to 10 years in the future) board estimates of production levels are necessary to plan capacity requirement and (involving capital additions) factory cost structure and personnel requirements and cash flows. The short-range production plan should be 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.”⁶⁸

Mathematically, we can understand production planning as under planned sales unit + desired final inventory level of finished goods beginning inventory of finished goods = total requirement of production.

2.8.3 Material Plan/ budget:-

Once the firm has established in sales and production a purchase budget can be prepared. It involves planning and controlling of raw material and sales involved in production process. In other word, material budget is a co-ordinate of the required raw material 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(a) Material and parts Budget:-

This budget specifies the planned quantities of each raw material 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(b) Materials and parts Purchased Budget:-

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

66 Gresimam. Bernard (PP 375)

67 Glenn A . Ewlsch fourth edition, op, cit (PP 185)

68 IBID (PP 193)

2.8.3© Materials and parts inventory budget:-

The budget specifies the planned levels of raw material 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(d) Cost of material and parts budget:-

This budget specifies the planned cost of the material 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 operation can be conducted on a day to day bases depend to a large degree on 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 effect by pin point responsibilities, careful thought is required to anticipate and iron out difficulties that otherwise might not become apparent until after actual operations starts, resulting un delays, mix-ups and consequent high costs materials and parts planning avoid the accumulation of excess inventories and inventory shortages, both of which can be extremely costly.

2.8.3.1 Factoring considering inventory policy for material budget:-

The primary consideration in setting inventory policies for materials and parts are as follow.

1. Timing and quantity of manufacturing needs.
2. Economics in materials and parts.
3. Availability of materials and parts.
4. Lead-time (delivery lime).
5. Permissibility of materials and parts.
6. Storage facilities needed.
7. Capital requirement to finance in inventory.
8. Cost of storage.
9. Expected change in the cost of materials and parts.
10. Protection against storage.
11. Risk involved in inventories.
12. Opportunity cost.

2.8.3.2 EOQ Model for Purchasing Policy:-

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

$$EOQ = \sqrt{\frac{2ao}{c}}$$

Where, A= Annual requirement

Q= Ordering cost

C= Carrying cost

By using re-order controlling labor costs involves major and complex problems areas (a) personal need (b) Recruitment (c) Training (d) job description and evaluation, (e) performance measurement (f) Union negotiations. Effective planning and control of ling term and short-term labour costs will benefit both the company and its employee's. To plan and control labour costs effectively the deferent types of labour costs must be separately

considered labour as a manufacturing cost is defined as these labour 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 labour 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 labour 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 cost of each product unit and investment direct labor chief executive, production manager and financial manager.

The responsibility for preparing the direct labour 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 labour hours and cost by responsibility by time and by product. The personnel function can be more efficiently performed because a basic is provided for effective planning recruitment training and use of personnel though effective planning of direct hours and costs.

2.8.5 Planning and Controlling Expenses:-

Expenses planning and controlling are necessary to maintain reasonable expense level 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 Behavior:-

1. Fixed Expenses:- Those expenses that are constant in total, form month to month within relevant range of out put and gives set of conditions. For example, salaries, property taxes, depreciations etc.
2. Variable Expenses:- Those expenses that change in total directly with.
3. Semi-variable expenses:- There are those expenses that are neither fixed variable. These expense changes in the same direction as output changes but not in production to the changes in output.

2.8.5(b) Planning Manufacturing as 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 problem in the allocation of these costs to products. It will be recalled that a manufacturing must have production departments, servicing department in the factory. Accordingly, factory overhead expenses budget for the manufacturing vice president must prepare each department. It turns to establish a policy requiring each department supervisor to develop his, own proposed factory overhead budget. There are two distinct types of responsibility center productivity and service. Producing centers are those manufacturing departments that work on the product directing on product

manufacture. However, services departments do not work on the product directly rather they furnish services to the producing department and to 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 Distributors Expenses:-

Selling and distribution expenses include all costs related to selling distribution and delivery of products to customers. Careful planning of each expenses effects 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 costs related to selling, distributing and delivery of products to cuts. Top marketing executive has the direct responsibility for planning are optimum balance between (1) Sales budget (2) Advertisement budget and (3) The distribution expenses budget. Therefore sales, advertisement and distribution expenses are these 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 in 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 Administrative Expenses:-

Administrative 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 enterprises 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 expense. The head of each of administrative, accounting (including director of profit planning) departments submitted an expenses budget of consideration and 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) asset. 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 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.”⁶⁹

“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 problem 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.”⁷⁰

Usually following methods are popular for evaluating investment proposals.

(a) Simple and Traditional Method:-

Pay-back-period:-

Pay back period is the minimum time required to recover the initial cash outlay from the annual cash inflows. Mathematically,

$$\text{Pay-back-period} = \frac{\text{Initial investment}}{\text{Annual profit}}$$

Average rate of return:-

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

$$\text{Average rate of return} = \frac{\text{Earning Average (AT)}}{\text{Initial investment}}$$

(b) PV (Net present value) method:-

NPV is the excessive of present value of cash flow over the present value of cash out lay
 $\text{NPV} = (\text{Total present value} - \text{Net cash outlay})$ of cash flow.

Average rate of return:-

Average rate of return is that rate which equities the present value of NOC and flow NPV.

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 outflows.

69 I.M Pandey page 63

70 Chries N. Green, Everest Adamir, Ronald Jebert and others -1985

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 and control the cash flows.

“A cash budget shows the planned cash inflows outflows and ending position by interim periods for a specific time plan. The short-term cash budget included two parts, (1) The planned cash receipts, (2) The planned cash disbursements. Planning cash inflows and outflows gives the planned beginning and ending each 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.”⁷¹

The primary purpose of the budget is to,

1. Give the probable cash position at the end of each period because of planned operations.
2. Identify cash expenses or shortages by periods.
3. Establish the need for financing and or the availability of idle cash for investment.
4. Coordinate cash with (a) total working capital (b) Sales revenue, 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. These three statements’ summarized and integrate the detailed plans developed by management for the planned period. They also report the primary impacts of the detailed plans of the financial characteristics of the company. Prior to distribute the completed profit plan, it is generally distracted to re-state certain budget schedules should be assembled in logic order, reproduced and distributed before the first day of the planned budget 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.”⁷²

71 Glenn A Welsch fifth edition op. cit (PP 438)

72 IBID Op. Cit pp 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 participations establish the foundation for effective communication.

It is desired that the distribution of profit plan includes a “Statement of planning premises”. Form the top executive that emphasized performance, challenge and positive motivation. After distribution of the profit plans, a series of profit plan conference should be sheeted. These conferences are intended to build profit consciousness, performance orientation and aggressive yet flexible, application of t he plans to attain the objectives. Special emphases be devote to the manner in which anticipated events and problems will be handled at various management levels.

2.12 PERFORMANCE OF 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 preceding accounting to the plans. To be effective performance reports should be tailored to the plans. To be effective performance reports should be 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 evolution is an important phase of control process. There are lots of techniques and criteria for the evaluation of performance of business enterprise but in the context of Nepalese Public Enterprises, there is no use of such techniques and they also do not have a systematic and in depth approach to performance evolution 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 evolution techniques to measure the performance of SRJM

1. Financial ratio.
2. Identification of cost variability and C-V-P analysis.
 - a. Flexible Analysis.

2.12.1 Management Follow Up Procedure

Better-managed companies issue monthly performance reports covering all aspects of operation. 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 statistic and (2) To give recognition to those responsible for high performance and (3) Possible to transfer some “known-how” to other sub-division of the company.

Important aspect of follow up procedure is that resulting action is strictly a line responsibility rather than a staff responsibility. The budget director, controller or other staff officer should not undertake, not be assigned, the responsibility for enforcing the budget.

2.12.2 Analysis of Budget Variance:-

A basic feature of performance report 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. These are numerous ways to study or investigative 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.

Variances are analyzed in the following areas:-

- 1) Raw material variances.
- 2) Labour variances.
- 3) Overhead variances.
- 4) Sales variances.

Profit variances.

Following are the basic steps in analyzing variances:-

- 1) Setting standards.
- 2) Measurement of performance.
- 3) Analyzing variances.
- 4) **Take corrective Action.**

Variances 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 through 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 industry 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 enterprise in Nepal,(A comparative study of Himal Cement Company Limited and Heatuda 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-year trend. He has used the relected data of financial and statically tools based in his data presentation and their analysis, the most remarkable finding has been presented below

- 1) Nepalese manufacturing public enterprise is suffering from the problem of inadequate skill, which has seriously constrained the production of high quantity product and use of sophisticated process.
- 2) It has found that the cost of production in manufacturing enterprises is very high but it is also noted that the quantity 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 major material problems faced by both the enterprises.
- 5) Actual production of HCIL is more fluctuation than that of HCCL.

Recommendations:-

- 1) HCCL and HCIL have not practiced preparing systematic long term and short-term production plan. Therefore, it is suggested that they should prepare short term as well as long term production systematically.
- 2) There should be a continuing flow of information among various levels of management and various groups of employees. The goals, objectives, and strategies of these enterprises should be carefully communicated to the low level of 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. Manpower planning should be hired and existing manpower should be well trained to develop and implement the profit plan more efficiently.

B) Mr. Umesh Shrestha

He has submitted on the topic of profit planning in Nepal (a case study of Himal Cement Limited). The main objective of the study was to examine the practice and effectiveness of profit planning in HCCL. The data were taken from the financial records of HCCL for five years FY 049-050 to FY 054-055. 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 strengths and risks of the company.

Strength:	(a)	NO problem of sales.
	(b)	Experienced staffs.
Risk:	a.	competition with international and national market.
	b.	Raw materials are imported from overseas.
	c.	Lack of skilled work force.
- 2) Objectives of Nepalese public enterprises are not clear. There is conflict between social and profit objectives, which are hindering the profit planning program of PE's. Similarly, HCCL have not any effective program to increase profitability.

- 3) HCCL has not any objectives to create and maintain optimum enterprises environment that motivated all employees. Similarly. No fair reward and punishment system for employees on the basic of their work performance.
- 4) Further more, this company has no an major problems to accomplish formulated objectives and to implement to continuously and increase the expertise of management at all levels and to take full advantage of the latest techniques and innovations as they are developed.
- 5) 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 cannot analyze company's internal and external environment.
- 6) 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.
- 7) HCCL have no any making research program and no marketing specialist so this enterprise is unable to develop alternative marketing policy for sales expansion.
- 8) HCCL have not any statement of specific goals about research and development, factory productivity, capacity utilization and cost control.
- 9) HCL 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.
- 10) Distribution system of HCCL is not adequately. HCCL mainly dependents on National Trading Limited and mainly concentrated on Kathmandu valley.
- 11) Traditional pricing system is main features of Nepalese PE's usually cost plies pricing methods in applied to determine price.
- 12) Another main problem is the low productivity of manpower, which is due to lack of motivation and incentive, and over staffing by political pressure.
- 13) HCCEL have not any policy about cash flow plan and have no any advance programs o f utilizing the excess funds that is likely to generate in course of operation.
- 14) HCCL has not 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 managers is made accountable for significant variances.

In this study, hen recommends the following options to improve profit planning in manufacturing PE's like HCCL.

1. The HCCL and all PE should adequately identify and evaluate the external variable 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 products or by expanding current products. New sales deposit should be established within domestic market.
4. Volume of inventories should be maintained to optimum level on the basic of following consideration.
 -) Demand fluctuation
 -) Carrying cost 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 causes. Production plan should be disseminated among all the enterprises.
6. Strict supervisor is necessary to watch and control the wastage working hours of the employees.
7. Discounted cash flow techniques should be applied to evaluated the proposals while expenditure planned.
8. The company should develop the systematic period 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 variance should be diagnosed and identified as controllable and non-controllable. Particular department and manager should be made responsible and accountable unfavorable variance.
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. Other wise, the HCCL must be hand over to private sector.

C). Mr. Chandra Prasad Rajbangsi

Mr. Chandra Prasad Rajbangsi wrote a thesis about profit planning and control in manufacturing public enterprises of Nepal. "A case study of "ARUN VANASPATI UDYOG LTD. (AVUL)". He has included five years period starting from FY 2056/57 to FY 2060/61. The presentation and analysis 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 from the personal interview.

Based on his research, he has concluded the following:-

1. AVUL has not adopted complete and comprehensive budgeting system. It does not prepare strategic profit plan but only short-term profit plans are prepared in term of budget for each year.
2. There is no research and development work for improving factory productivity, capacity utilization and cost control.
3. Overhead budget is not prepared in a systematic and scientific manner by ADUL. All expenses are shown in general expenditure budget.
4. The raw materials are not available easily from domestic market and should be developed in international market.
5. Although the company is earning little profit from FY 2057/2058, it is fully in heavy loss of previous accumulated loss.
6. Margin of safety ratio for budgeted year 2061/2062 is 42.79% which indicates that the company will be able to earn profit Rs. 452750754.99.
7. Gross profit and net profit both are fluctuating in each year. Net profit ratio in FY 2056/57 has negative caused by high direct as well as indirect cost incurred.
8. 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.

9. Management by objective (MBO) techniques should be followed for planning to maintain co-ordinary, co-operation and self-motivation among departments and employees.
10. HMG intervention should not be made for functional aspect of enterprise. Management should be given full authority, responsibility and accountability for routine and major both operation.
11. The promotion of personnel is necessary to boost up their moral. Time to time training is essential to develop their performing skill and activities.
12. AVUL and other manufacturing public enterprises should try to identify their environment opportunities and threats in order to capitalize such opportunities and to mitigate the threats.
13. Theoretical formula of production plan i.e. planned production (sale plan + desired ending inventory – opening inventory) is not adopted by AVUL.
14. Objective of Nepalese public enterprises is not clear. There is confute between social and profit objectives, which are hindering to profit planning program of PE's. Similarly, AVUL have not any effective program increase profitability.
15. There is no well-developed system of reward and punishment to employees based on their work performance. No programs have been allentions about fair working environment.
- 16. One major problem in Nepalese PE's is behavioral problems that arise in organization.**

Recommendations:-

After the detail analysis of the profit planning system of AVUL, the following suggestion can be recommended based on major finding for effective formulations and execution of profit plans.

1. AVUL should first classify its objectives, which will help to fix the targets and goals.
2. There should be participative management for the formulation and execution of profit planning and control.
3. SWOT (Strength, Weakness, opportunity & threats) analysis should be introduced.
4. The company should use effective policy about inventory management.
5. The company should minimize the fluctuation between budgeted and actual sales as well as budgeted and actual production.
6. The company should use effective policy about inventory management.
7. There should be up to date performance evaluation system to measure poor performance and take corrective actions.
8. AVUL should hire training and qualified work force for budgeting and planning and profit plans effectively. Marketing specialists should be appointed to develop effective marketing policy for sales expansion.
9. AVUL should study the present profit. There should be a good system of dividing cost into fixed cost and variable.
10. Various training and orientation programs within and outside the country should be lunched by the company for all levels of employees to bridge gap between motivation and morale.
11. Flexible budget should be taken into consideration while formulating profit plan.

12. An effective overhead budget should be prepared by AVUL to control expenses, which should be clearly classified as fixed, semi variable and cost in separate headings.
13. Effective program should be introduced for improving productivity of labour and for motivations and incentive plans should be launched.
14. Duties and responsibilities should be assigned to all the departments for creating new ideas to formulate various policies.
15. AVUL should prepare budgeted profit and loss account and balance sheet to show the expected profit for the coming.
16. CVP analysis should be used for fixing the price of products.
17. Finally, AVUL should regulate systematic comprehensive profit planning. It helps considerably to increase the profitability of the company.

D) Shiv Prasad Nepal:-

Mr. Shiv Prasad Nepal has conducted a dissertation on the topic of “profit planning in Nepalese Manufacturing PE’s basically concerned with profit planning system of Lumbini Sugar Mills Ltd. He has tried to present the effectiveness and application of profit planning in LSML and also tried to examine, whether the Nepalese manufacturing public enterprises were able to fulfilling the objectives. The general objective of his study was to appraise the profit plan of LSML and to suggest recommendations based upon it. The period covered by the study was five years from FY 2045/46 to FY 2049/50. Information’s were collected from both primary and secondary sources of data. Mr. Nepal has made several points of finding and among them the main points are:-

1. There is government interference in Nepalese manufacturing public enterprises.
2. There is no executive management planning instruction and effective communication system in Nepalese manufacturing PE’s.
3. Nepalese manufacturing PE’s are facing the problem of raw materials, skilled labour, power cut-off etc.
4. There is a conflict exists between government and PE’s in setting strategies and objectives.
5. Factory prepares their sales plan and production plan at the ad-hoc basis.
6. Implementation aspect of plan or budget is very poor in manufacturing PE’s of Nepal.

Mr. Nepal has recommended some measures based on his study they are:-

1. The top management should apply a clear system in setting goals and participation management system.
2. There should minimum government interference in setting objectives/strategies, price fixation and decision-making.
3. Both short range and long-range profit plan should be formulated.
4. The Mill should develop the flexible budget and cost volume profit analysis as well as systematic periodic performance report.
5. The enterprises should keep or develop separate budget for cash expense center.
6. The mill should adopt the effective cost control techniques and clear system of responsibility accounting.

E) Ms Parmita Dangol:-

Ms. Dangol has written a thesis about profit planning in manufacturing public enterprises of Nepal "A case study of HCIL". She has included five-year period starting from FY 2051/052 to FY 2055/056. The presentation and analyze of data is admirable he has briefly presented the long-range and short-range data and she has described about the weakness as well as conclusion very well. She has used secondary data for unpublished document, magazines and report of auditor's general office and primary data collected from the personal interview.

1. HCIL has no in-depth analysis of company's strength and weakness, which are as under.
 - I. Experienced staffs.
 - II. High quality products.
 - III. Raw materials easily available.
 - IV. Employment opportunities.
Increasing demand of Jute.

Weaknesses of this company are:-

 - I. Lack of autonomy.
 - II. Raw materials, packing material and spare parts are not available in time due to various reasons.
 - III. Either lack of capital or not full capacity utilization of production.
 - IV. Lack of high-grade limestone.
2. Objective of Nepalese public enterprises is not clear, conflict between social objective and profit objectives, all hindering to profit planning program of to increase profitability but these enterprises have a number of social objectives.
3. HCIL has not a practice of systematic forecasting. Sales forecasts are made with previous sales figures and production capacity. This shortcoming is due to lack of skilled experts.
4. Price-cost-volume-relationship are not considered while developing sales plans and pricing strategy.
5. Theoretically, production plan should be based on sales plan. However, due to the production oriented economy, Nepalese public enterprises does not consider sales plan to develop the production plan. There is no proper co-ordination between sales inventories and production.
6. HCIL do not prepare how materials requirement budget and raw materials purchases budget separately. Due to this deficiency, this company is not able to purchase an economical quantity that has a minimum total ordering cost and carrying cost.
7. HCIL has not a system of periodical performance reports so it can be concluded this PE's are not seriously conscious to their poor performance.
8. There is no any systematic and effective practice of profit planning so it is required to have go a good knowledge about the concept of comprehensive profit planning and control then they should equal implement this concept in real practice.
9. The capacity of the production of FY 2054/2055 has most capacity utilized so it is suffering form the underutilization of full capacity.

Her recommendations are as under:-

1. Production should be smooth thus be compatible with sales need.
2. Operation expenses should be reduced substantially to push up the very meager the Net profit.
3. Margin of safety is only 32% it is not sufficient for the competition market condition, so it should try to increase the margin of safety.
4. HCIL should develop the objectives to create and maintain an optimum enterprise environment that maximize the interest and motivation of all employment.
5. CHIL should decide to develop effective program to expand growth rate.
6. Profit planning manuals should maintain proper co-ordination within the organization. Line will considerably help to solve the problem of conflicts between departmental managers.
7. This enterprise should maintain proper co-ordination within the organization. Line and staff authorities and responsibilities should be clearly defined. This will considerably help to solve the problem of conflicts between profit motive and social motive.
8. Long term objectives should be clearly formulated to make a clear distinction between profit motive and social motive.
9. Nepal Government should not be made for functional aspect of accountability for routine and major both operation.
10. The promotion of personnel is necessary to boost be their moral. Time to time training is essential to develop their performing skill and activities.
11. Management by objective (MBO) techniques should be followed for planning to maintain co-ordination, co-operation and self-motivation among departments and employees.
12. To eliminate red-tapism, unnecessary formalities should be corrected and avoided which create delays in decision making and functioning.

End of Second Chapter

CHAPTER-3

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, such as gather information, data, and collection procedure analysis presentation. The basic objective of this study is to highlight the application of profit planning concept in SRJML with respect to efficiency to earn profit and sales. This study is on the profit planning of SRJML 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 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 source 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 though 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 SRJML. 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 SRJML followed by some innovative suggestion.

3.3 Period covered:-

This research study has covered a period of nine years from FY 2054-2056 to FY 2062-2063. Under profit planning of SRJML, five years data is taken for strategies panning and one year data is taken for tactical plan. i.e. FY 2062-2063. Based on the above data analysis, the strength and weakness of managerial and financial planning of SJRML. Are identified.

3.4 The population and sample:-

The total number of manufacturing organizations which produces agro based products i.e. jute, jute carpet, jute cloth etc. is the population of SRJML. It is one of the leading organization which manufactures agro based products i.e. jute carpet, Twine, sacking , Hessian oil for employment generation, earning foreign currency, is randomly chosen for the purpose of case study among the total population.

3.5 Nature and source of Data:-

To fulfill this research and to achieve the objective of the study both primary as well as secondary data has been used. Oral and written information from top level management staff and departmental employees are also taken as a source of primary data. Primary data are based on a question are as well as unstructured dialogue and discussion with staff.

An especially secondary source data has been used. Secondary data has been taken from the published and financial statement of SRJML. Other source of secondary data relating to this study is magazine and newspaper, unpublished officials records, publication of Ministry of Finance, Publication of National Planning, Central Bureau of Statistics and other Publication.

3.6 Tools used:-

The collected primary and secondary source of data are managed, analyzed and presented in proper tables and formats. Those tables and formats are interpreted and explained wherever necessary. The financial and statistical tools, CVP analyzes, BEP analysis, ratio analysis, standard deviation, mean, coefficient of variation, graphs, diagrams and flexible budget, variances etc have been used as per necessary.

3.7 Method of analysis and presentation:-

For the analysis of collection data presented in tabular form based on which clear interpretations are given. In detail calculations, which are not possible to be shown in the part of the body, are presented in appendices at the end of this study, and different charts and diagrams and graphs have been used. Finally, summary, conclusions and recommendation are presented.

3.8 Research Variable:-

For the details analysis of this case study, research variables are mainly sales, production, finished goods, capacity utilization, raw materials, cash budgets, profit & Loss account, overhead, capital expenditure, balanced sheet relating to long and short term periods of SRJML, are used.

End of Third Chapter

CHAPTER-4

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 a 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 profit planning is business then is to increase the chances of making a profit. Comprehensive profit planning and control is a nearly 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 developing nations need to make family extensive use of public enterprise as catalytic agent in the process of money towards development oriented economy. PE's 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, entrepreneur ship skills, capable of being bearing risks. Though are some private entrepreneurs who take interest in business possibility they did not have capital.

Manufacturing enterprises were established as a strong means of development in order to prepare infrastructure services, to produce the required goods in the country, further Manufacturing enterprises were 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. ME's the world over 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. ME losses are increasing in most countries. It must not be forgotten that the main reason of the failure of ME to deliver the goods is the government itself. ME's are the only sub-system. The government corporations infant, are in a very poor shave, virtually majority of Nepalese public enterprises are running a loss. The picture of public enterprise in Nepal thus shows a poor and critical position. How long there enterprises can survive by government subsidy?

This is serious matter of thinking profit planning technique can considerably contribute to improve the present poor performance of Nepalese Manufacturing Enterprises.

Shree Raghupati Jute Mills Ltd. Partially HMG owned manufacturing company, which is running at a profit but the profit amount is not much satisfactory. According to the profit and loss account, it has been shown that its profit trend approaching to decline. Being as partially HMG owned enterprise accounting year of SRJML begins from its of Shrawan to the Ashadh strategic long range plans generally are prepared in advance for following Nine 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 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 an estimation of sales in uncertain period of future when the actual sales are not far from the planned sales than it is known as a good sales plan. The efficiency of a good planner or planning expert can be evaluated from the comparison between actual and planned sales.

Following tables show the picture of long-term sales trend (Sales targets and sales achievement) from FY 2055-56 TO FY 2062-2063. The picture shows that achievements are always below the targets and the percentage of sales are different.

Table-3

Fiscal year	Target Sales	Achievement	Percentage
2055-2056	8000	6743	84.28
2056-2057	8000	7879	98.48
2057-2058	10000	8947	89.47
2058-2059	12000	11403	98.00
2059-2060	12000	11441	95.34
2060-2061	15000	11376	75.84
2061-2062	15000	12567	83.78
2062-2063	15000	11238	74.92

Sales achievement is usually below the target 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 in 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. Target sales may derive on ad-hoc basis without any analysis. So, they need to analyze first to derive the target sales and the top management should gather strength and generate co-ordination among the employees.

4.1.2 Long-term production plan.

The long-term production level, use of production facilities and 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 sales plan must be translated the supporting activities of other major functions. In the case of manufacturing enterprise, the sales plan must be converted to production plan. We can understand the production planning mathematically as under,

$$\text{Production unit} = \text{Planned sales} + \text{Final Inventory} - \text{Initial Inventory}$$

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 labour.
- 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 its productions plan appropriately and efficiently.

Generally, long-term production plan is made for five to ten years SRJML also used to prepare a long-term production plan for coming ten years. The responsibility of production planning of SRJML goes to production development.

Production of SRJML depends upon the capacity of the plant or machine. SRJML has 24455 MT capacities to produce different types of jute, 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 material and sales trend. Till now the sales and production of SRJML has not been satisfied on achievement of his production. There are same reasons for not achieving the desire production for FY 2062-2063.

- I. Frequent breakdown of pant and machinery (mainly cooler) in the plant site.
- II. Snapping of the track of ropeway.
- III. Non-availability of raw material in India.
- IV. Disruption in the quarrying activities due to early heavy rainfall.
- V. Frequent interruption in electricity in the month of Baisakh, Jestha and Ashadh.

Following table shows the long-term production target and achievement of SRJML from FY2054-2055 to 2062-2063.

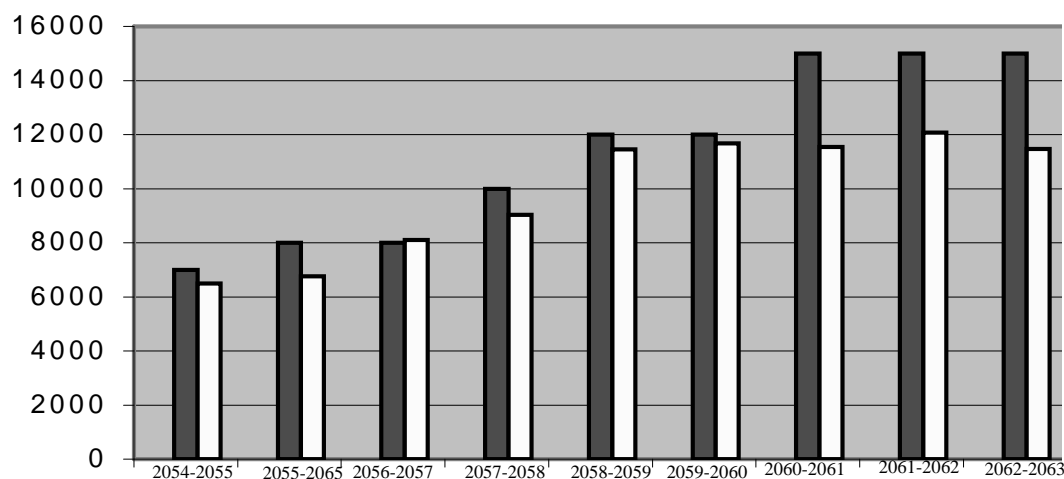
Table-4: Production Target and Achievement in MT

Fiscal year	Target Production	Achievement Production	Percentage %
2054-2055	7000	6500	92%
2055-2056	8000	6759	84%
2056-2057	8000	8096	101.2%
2057-2558	10000	9027	90.27%
2058-2059	12000	11452	95.433%
2059-2060	12000	11671	97.25%
2060-61	15000	11540	77%
2061-2062	15000	12073	80.48%
2062.-2063	15000	11475	76.5%

The table of long term production targets and achievements show that progresses are varying 45% to 101%. The actual production and target production of SRJML of FY 2054-2055 to 2056-2057 can be represented in the bar diagram as follows:-

■ Target Production
□ Achievement production

Fig. 2 Production Target and Achievement in Mt



4.1.3 Inventories of Shree Raghupati Jute Mills Limited:-

The Production budget is important when the objective is both to sale and to store. The budget sales and the inventory affects 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 increased. 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.

SRJML has adopted unstable inventory and production policy. SRJML 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 from FY-2054-2055 to FY-2062-2063.

Table-5: Finished goods inventory on Trade Amount

Fiscal year	Opening Inventory	Closing inventory
2054-2055	27107636	26806399
2055-2056	26806399	38035235
2056-2057	3035235	31759274
2057-2058	31759274	38562960
2058-2059	38562960	48059096
2059-2060	48059096	54436204
2060-2061	54436204	54562414
2061-2062	54562414	58565821

2062-2063	58565821	61759274
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Source:- SRJML Document

The above table shows that the closing inventory of SRJML has been fluctuating or increasing year by year. It has been fluctuated from 26806399 to 61759274. It is clear that SRJML is unable to reduce the inventory in FY 2061-2062 (58565821) as compared to FY 2062-2063 (61759274). The inventory is increased by 5.45% in FY 2062-2063 than FY 2061-2062. It can be clearly observed that SRJML has not any adequate and appropriate policy regarding the inventory of Raw materials. Nevertheless, in real practice slight inventory is held. SRJML keeps one-month production for inventory to keep next year production and sale smooth. But because of some interval management problem and other circumstances make in inventory increase day by day.

Actually, SRJML has not involved the timing and quantity needs by the factory shortage facilities involved and protection against shortage etc.

4.1.4 Raw Material Budget of SRJML

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 firms expenses in manufacturing enterprises. Raw material budget is prepared after the completion of production budget. Production budget specify the quantity of products to be produced and on the bases of that, material requirement is calculated 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. Directly material is generally defined to include all material that constitute and integrate part of finished product and can be directly identified with the cost of finished products. Direct material cost is usually viewed as variable cost that is a cost that varies in proportion the change in production output or volume. Indirect material is generally defined as material used in the manufacturing process but not directly traceable to each product.

In the concern of Shree Raghupati Jute Mills, it use yearly raw material as follow:-

Table-6: Yearly Raw Material Requirement

Description	Material	Quantity
Raw Material used (jute used)	12848467	Kg
Yarn Used	405	Kg
<u>Other direct material</u>		
<u>Emolson:-</u>		
Diesel	55000	Litre
J.B.O	232500	Litre
P. 40	756	Kg
Finishing packing of Direct material:-		
(a) Bailing hoop	30323	Kg
(b) Bailing Backed	5903	Kg
© Bailing pin	2250	Kg
(d) Polythin bags	5800	Kg

Source:- Document of SRJM

In order to produce jute materials SRJML uses the given materials. In FY 2061-2062 company used above materials to produce different types of finished Jute product.

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 SRJML prepares the sales budget monthly, 4 monthly, ½ yearly and yearly. While developing sales SRJML has not a practice and approaches to identify the external variables and to forecast systematically the future sales rather by month, quantity in FY 2062-2063. from the trend, it is observed that there is gap between monthly sales plan and monthly sales achievement.

When we observe on 4 month measuring, the 1st four month have 98.75% achievement. That is the highest achievement and the months included are Shrawan, Bhadrea, Ashwin, Kartik.

The table and graph shows that in the month of Ashwin the sales achievement is highest i.e. 102% of target and unit is 1124MT. the target achievement percentage is in the month of Jestha i.e. 75% of target. It is due to summer season.

4.3 TACTICAL PRODUCTION PLAN:-

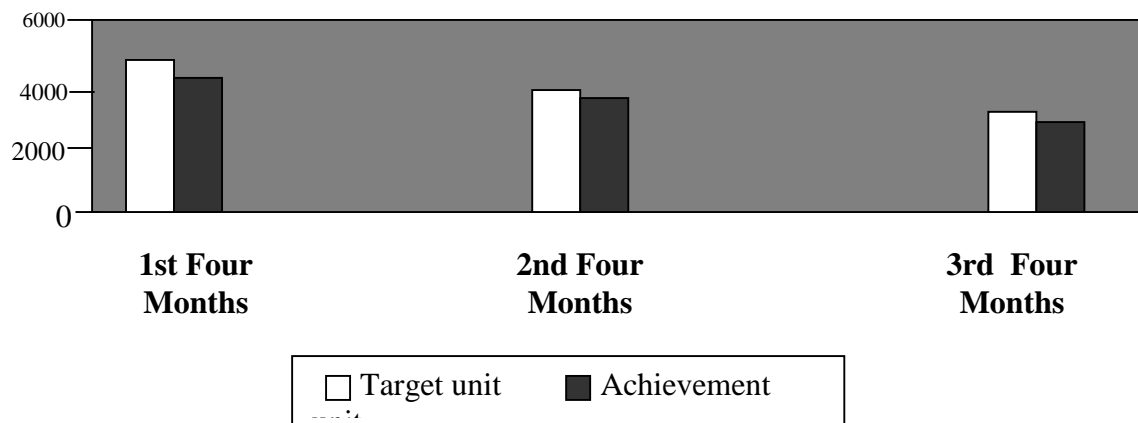
The production planning refers the development of policies about efficient production level, use of production facilities and inventory levels. The responsibility of developing production plan in SRJML upon planning managers. Theoretical concept of production plan can not match with the practically in SRJML. Production plan is primary stem 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 volume 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 SRJML for FY 2062-2063 classified by period of a year into three four month's period.

Table 7: Tactical production plan for the year 2062-2063

Month	Target unit	Achievement	percentage
Shrawan	1170	1076.4	92
Bhadra	1300	1235	95
Ashwin	1560	1607	103
Kartik	1040	936	90
1 st four months	5070	4854.4	95
Mangsir	780	601.38	77.10
Poush	910	884	97.13
Magh	1560	1182	75.77
Falgun	1300	1433	110.23
2 nd four months	4550	4100.38	90.06
Chaitra	1040	911.04	87.60
Baisakh	780	618.306	79.27
Jestha	1300	1246	95.85
Ashad	780	750	96
3 rd four months	3900	3525.346	90
Total in a year	13000	12073	275.06%

Source: SRJM Document

When we absorbed on months measuring, the second four month have 95% achievement. That is the highest achievement and the months included are Shrawan, Bhadra, Aswin and Kartik



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 optimal level of capacity utilization, lower utilization of capacity increase per unit manufacturing cost. However, over utilization of capacity reduce working life of machine.

SRJML has complex and serious problem of under utilization of available capacity. Earlier year i.e. before 2063-2064 capacity of plant was to produce 45MT jute per day. Its yearly capacity was 17500MT. the company before 2063-2064 utilizes its 80% of capacity. From 2063-2064 company utilizes its 90% of capacity and produces 60Mt per day of jute.

Table:-8: capacity Utilization

Fiscal Year	% of capacity utilization
2055-2056	%
2056-2057	80%
2057-2058	80%
2058-2059	80%
2059-2060	80%
2060-25061	80%
2061-2062	80%
2062-2063	90%

Note:- Capacity Utilization 100%

$$\frac{\text{Actual Production}}{\text{Total Capacity}} \times 100$$

Above table shows that company is operating under high capacity. But not 100%. From FY 2055-2056 to 2062-2063 company has utilized 80% of capacity. After that company has made expiation by adding new machinery and utilized 90% of its capacity in FY 2063-2064. It is clear that more than 50% capacity has been utilized in average during the period of analysis. The main causes of utilization of capacity are adequate available of raw material, skilled work force, well management, etc. But also company is not operating on full capacity. If company will utilize its all capacity then it will be very beneficial for company. Hence, we can conclude that SRJML is suffering from utilization of full capacity.

4.5 PLANNING OF EXPENSES:

Planning for expenses is necessary to maintain reasonable expenses for the necessary objective 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 manufacturing enterprises, they are attempting to reduce expenses without rational planning or without considering the adverse affects on benefits. Among few commitment, sufficient resources to the maintenance of assets such as plant and machinery, equipment and building. Inevitably, such short range soon cause even higher costs because of break down in efficient machines, frustrated employees faculty machine tolerances, major repair cost and power shortages etc. there short of thing are also and transparent expenses planning policies regarding various type of expenses. SRJML is suffering from complex problem of profit planning.

Some expenses like administrative expenses, manufacturing expenses and depreciation are allocated there in the following table.

Table:9: Expenses Trend of SRJML

Fiscal Year	Manufacturing Expenses	Administrative Expenses	Depreciation
2055-2056	59729595	11156597	9392085
2056-2057	78473438	12735841	10041388
2057-2058	95159507	14261995	10884259
2058-2059	131183823	15896079	20396765
2059-2060	129473740	15370330	12855037
2060-2061	138926549	14490641	12856959
2061-2062	153305938	15149208	13539139
2062-2063	163973740	15135966	14053351

On trend of SRJML expenses here we have segmented the expenses in three categories i.e. factory expenses, administrative expenses and depreciation. Factory expenses of SRJML trend are flexible.

The expenses overall can be seen in an increasing trend, this may be due to the rise in market cost of goods, services, labour etc.

Manufacturing Expenses are increasing until FY-2058-2059, but reduced by 6% in FY 2059-2060, but again increased by *% in FY -2060-2061. similarly, in case administrative expenses, it has been increasing and decreasing thought the study period and in concern of depreciation, it is completely in the increasing trend, form FY 2055-2056 to FY 2062-2063.

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 labour cost occupies a significant position of total production cost therefore; the labour cost needs systematic planning and control. The basic reasons for preparing, a separate direct labour budget are to provide planning data about the direct labour hours requirement, number of direct labour employees needed, labour cost of each product unit and investment requirement. Labour is a major elements of production, without it company cannot operate, so effective planning and systematic control of labour cost are essential to achieve the organization's objectives.

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

SRJML has total 150 employees out of whom 130 are assistant rank, and 20 are in officer rank. In SRJML around 3000 laborers usually work per day and payment to all labour is made based on time, piece the position of work force of SRJML.

Table-10: personnel Chart FY 2062-2063

Ranking Grade	Officer	Assistant	Total
Technical	11	69	80
Non-technical	9	61	70
Total	20	130	150

Source: SRJM document.

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 revenues, losses and operating expenses incurred in carrying on the business and in selling and distributing the goods for the particular accounting period.

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

**Table-11: Profit and Loss Account for the year ended
FY2061-2062 and FY2062-2063**

Particular	2061-2062	2062-2063
Sales	482443670	477861630
Cost of sales	428979975	457261853
Gross Profit	53463695	20599795
Other business income	-	-
Insurance	840000	-
Total	54303695	20599795
<u>Business expenses:-</u>		
Distribution expenses	3125274	13013220
Administrative expenses	15135966	15249208
<u>Operating profit</u>	26141267	2338555
Banking interest expenses	75634599	6397215
Depreciation expenses	13539139	14053341
Loss accrued during sale of assets	56382	
Profit before adjustment	5011147	(18112011)
Net profit/(loss)	(5011147)	(18112011)
Profit (Loss) up to last year	8150076	13161223
Remaining profit & Loss Adjustment to balance sheet	13161223	4950788

In the comparative profit and loss account of SRJML, which been shown above clearly, we can see that it keeps record of revenues after 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 in advance. At the end of each accounting year, the financial department prepares income statements to know the profit and loss position of the SRJM.

Since in FY 2058-2059 SRJM has been operating of profit because the operational efficiency of industry is increasing. At the end of the Ashadh 2061. it earned net profit Rs. 7169890 and at the end of Ashadh 2056, it earned net profit amounting to 19855433.96, which were 1.2928% and 1.03870% of net sales respectively. In the Fy 2062-2063 there has been operating loss by Rs. 18112011. however there is still problem of excess burden of other administrative and fixed expenses and under utilization of available capacity.

The analysis clears that capacity utilization is not only the main factor of production. Major determinant of profitability is the productivity of plant and manpower. 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. SRJM is suffering from this problem common size of profit and loss accounting showing.

Table-12: comparative common size, profit & Loss Account

Particular	2062 Amount	2062 %	2063 Amount	2063 %
Net Sales	482443670	100%	477861630	100%
Less: Cost of sales				
Gross-profit add: Other business income Insurance	53463695 840000	11.08%	20599795	-
Business Exp. ⁿ	54303695		20599795	
Less: distribution expenses	13013220		3125274	
Less: administrative expenses	151433208		15135966	
Operating profit	26141867	5.42%	2338555	0.489%
Less: Interest	7534599		6397215	
Less: Deprecation	13539139		14053351	

Less: Loss on sale of Assets	56382			
Net profit/loss	5011147	1.038%	18112011	3.79022%

Cost of sales in FY 2062 was 89% where in FY 2063 it has reached up to 95.683% of sales. Main weakness of this cause is internal management system regarding cost effectiveness of SRJML. To omit the situation and to maximize its profits, 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 SRJML.

Table- 13: Profit and Loss trend of SRJML

Fiscal Year	Amounts (Rs)	Percentage
2056-2057	603314	0.2235%
2057-2058	941648	3.1914%
2058-2059	5337183	1.2636%
2059-2060	4770248	1.2928%
2060-2061	7169890	1.875%
2061-2062	5011147	1.038%
2062-2063	(18112011)	13.790%

Form given table, we can see that profit trend of SRJML is fluctuating. In FY 2056-2057 profit is 0.2235% of sales, and increased to 3.1914% in FY 2057-2058. There after in positive form profit is flaunting from FY 2058-2059 to FY 2061-2062. In FY 2063-2064, SRJML 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 shoes 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 FY 2061-2062 and 2062-2063.

Table-14: Balance sheet of SRJML

Particular	FY 2062-2063	FY 2061-2062
<u>Capital & Liabilities</u>		
Share capital	180696600	180696600
Profit/Loss account	(4950788)	13161223
security	90924674	5311790
Net total Liabilities	26670486	246975733
<u>Assets:-</u>		
Fixed assets	320857650	224500432
<u>Current assets:-</u>		
Inventory	8036548	58565821
Account receivable	47701946	32917939
Bank balance & cash	1033642	1156327
Paid in advance	7602514	7913325
Total	136654650	100553412
Other current		
Liabilities & provisions:-		
Account payable	190881814	78078111
Total	190881814	78078111
Net current assets	(54227164)	22475301
Net total assets	966670486	246975733

The given balance sheet shows that the fixed asset is 70.1335% and 58.52165% of total assets at the FY 2062-2063 and 2061-2062 respectively. Current assets of FY 2061-2062 were 26.21% of total assets and in the FY 2062-2063 the total current assets 29.86% of total assets. The current assets of FY 2062-2063 are higher than FY 2061-2062 by 3.66%.

In the liabilities side of balance sheet includes loan, account payable, share capital, profit and loss account, and security or capital reserve. Total current liabilities of FY 2062-2063 were 266670486. The long-term of FY 2061-2062 is 63833453.

Balance sheet of FY 2058-2059 to FY 2062-2063 has been shown in the appendix-6

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 basic 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 financial is important in all enterprises. Cash flow provides the explanation of cause of 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 equivalents.

The methods of developing cash flows starts with items income adjustments to net income are made for non-cash items effecting accurate basis net income. Essentially net income is converted from the accrual basis to a cash basis. (e.g. cash flow from operating). The other inflows and outflows are estimated for non-operating items such as sales of fixed assets, capital additions and payments 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 in 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 payments process to slow down the payments of cash and investment policies for the immediate investment of idle cash balance to minimize interest earnings. By considering these above objectives, if SRJML try to improve this current cash flow position. At last, SRJML 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-15:
Cash flow statements for the year ended 31st Ashadh 2062-2063

Particular	Amount
Cash from operating activities:	
Income tax and ungeneral income & Expenses	
Net income	(18112011)
<u>Adjustments:-</u>	
(i) Depreciation	14053314
(ii) interest expenses	(63272153)
(iii) income in current assets	36223923
(iv)increase in current Liabilities	112803703
<u>Net cash from operating activities:-</u>	78918335
Cash from investing Activities:-	
(i) increasing in Fixed Assets	(110450569)
(ii) Sale of fixed	-
<u>Net cash flow from investing activities:-</u>	(110450569)
Cash from financing activities	
(i) Loan term debt paid	37806764
(ii) interest paid	(6397215)
Net cash flow financing activities	31409549
Gross increasing of decrease in cash	(122685)
Opening stock of cash & bank balance	1156327
Closing cash & bank balance	1033642

4.10 PERFORMANCE EVALUATION

A performance report constitutes an important part of internal management control procedures. These reports serve to motivate managers to perform in conformity with expectation. More over, they signal upper management where operations are not proceeding 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 techniques and criteria for the evaluation of performance of business enterprise, but in the context of Nepalese manufacturing enterprises, there is no use of such techniques and they have not a systematic and in depth approach to performance evaluation.

SRJML is partially Nepal Government 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 SRJML .

Financial Ratio
Identification of cost variability and
C-V-P analysis
Flexible Budget
Variance Analysis

4.10.1 Financial Ratios of SRJML

An arithmetic relationship between two figures is known as ratio. It is computed by divided 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 interpretation of financial statement. To evaluate the performance of an organization by creating the ratio from the figure of different accounts consisting in balance sheet and income statement is known as Ratio Analysis.

Here, some important ratio are presented,

$$1. \text{ Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

2. Quick Ratio or Acid Test ratio or Liquid Ratio

$$= \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

$$3. \text{ Debt Assets Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

$$4. \text{ Inventory Turnover Ratio} = \frac{\text{cost of goods sold}}{\text{Average inventory}}$$

$$5. \text{ Debtors Turnover Ratio} = \frac{\text{Sales}}{\text{Debtors}}$$

$$6. \text{ Fixed Assets Turnover} = \frac{\text{Sales}}{\text{Fixed Assets}}$$

$$7. \text{ Current Assets Turnover} = \frac{\text{Sales}}{\text{Current Assets}}$$

$$8. \text{ Gross profit Ratio} = \frac{\text{Gross Profit}}{\text{Sales}}$$

$$9. \text{ Net profit margin} = \frac{\text{Net profit}}{\text{Sales}}$$

$$10. \text{ Return on total Assets} = \frac{\text{Net profit after tax}}{\text{Total Assets}}$$

$$11. \text{ Average collection period} = \frac{\text{Days in a year} \times \text{Debtors}}{\text{Sales}}$$

The following table shows the comparative financial ratio of SRJML for seven years.

Table- 16
Comparative Financial Ratio of SRJML for six years.

SN	Ratios	units	2058	2059	2060
1	Current ratio		1.576	1.3871	1.7077
2	Quick ratio		0.5629	0.5591	.49112
3	Debtors assets ratio		0.495	.9569	1.0027
4	Inventory		13.150	6	11.57
5	turnover		15.716	15.03	6.7356
6	Debtors turnovers		1.2696	6.788	1.6178
7	ratio		4.9192	1.8246	4.7986
8	Fixed assets turnover				
	Current assets		0.14062	5.246	0.14039
9	turnover		0.0035	0.1448	0.01424
10	Ratio Gross profit		0.0086	0.0145	0.0139
11	margin		23.22	0.0195	12.126
	Net profit margin		Days	19.98	Days
	Return on total assets			Days	
	Average collection				
	period				

SN	Ratios	Units	2061	2062	2063
1	Current ratio		1.356	1.4927	0.7159
2	Quick ratio		0.43271	0.6233	0.2952
3	Debt assets ratio		1.4762	1.3047	0.6159
4	Inventory turnover ratio		8.2721	8.53238	5.6932
5	Debts turnover ratio		21.57	14.635	10.0176
6	Fixed assets turnover ratio		1.6844	2.148	1.4891
7	Current assets turnover		4.7723	4.7723	3.4968
8	Gross profit margin		0.1333	0.1108	0.0431
9	Net profit margin		0.07875	0.103870	0.039157
10	Return on total assets		0.0289	0.1945	0.04089
11	Average collection		17 days	24	7.89513
	period			days	days

4.10.2 Identification of cost variability:-

Identification of the variability of cost is necessary in planning and control of the cost. This, 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 answers the output incurred to produce that output.

According to the behavior of the costs can be broadly classified in three ways. First fixed costs remain constant in output or volume of operation. The examples of such costs are rent, property tax, depreciation, supervisor's salary, advertising etc. second variable cost that changes in total directly with change in output, volume or operation but remain constant in per unit.

Semi variable expenses increase or decrease 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.

Nepal's public enterprises have not maintained any clear cut boundaries about cost classification cost behaviors is only limited in variable and fixed components. SRJML has also classified its cost heading in only fixed and variable. There is no information about semi variable cost in SRJML accounting report.

The following table shows the cost classification in SRJM of 2060-2063

Table:-17
Shree Raghupati Jute Mills Limited, Production cost of jute

Particulars	Segment	Amount
Raw material purchase	Variable	248771089
Transportation of jute by road		
Other materials	Variable	24547
Jute loading expenses	Variable	22651094
	variable	4095
Total variable cost		271450825
Salary & wages		
Employee welfare		
Gratuity	Fixed	5298270
Fuel & wages	Fixed	5272351
Repair & maintenance	Fixed	17265
Insurance	Fixed	1967033
Electric power	Fixed	1047967
Other Administrative exp. ⁿ	Fixed	831377
Depreciation	Fixed	112620
Amortization	Fixed	15149208
Interest on loan	Fixed	102936061
	Fixed	126704
Total Fixed Cost	Fixed	7534599
		140293395

Production cost of jute for FY 2057-2058 to 2062-2063 has been shown in the appendix-6.

4.10.3 cost-volume-profit Analysis

Profit planning depends upon cost, volume profit and sales mix in case of multi product firm cost, volume and profit are the ingredients of profit planning. There is a close relationship between these ingredients of profit planning. Cost-volume-profit analysis is an analytical tool for study the relationship between cost, sales volume and profit. C.V.P. analysis is techniques used to study the relationship between cost volume and profit at different level of activity.

Break-even point may be defined as that level of sales where total cost equals to total revenue. In other words, the sales level where operating profit (EBIT) is zero is known as break-even-point, there will be a profit. But when sales are less than break-even-point, the firm suffers from loss. Break-even-point can be determined by using following methods (i) graphics methods (ii) Algebraic equation method.

There are three factor 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 greater helpful

in managerial decision-making, especially cost control and C.V.P. analysis, and it is accepted as the cost significant tool of profit planning and control.

CVP analysis of SRJML is based upon the following assumption.

1. Cost volume structure is based in the accounting data of FY 2056-2057 for SRJML.
2. The selling price of SRJML does not change as unit sales changes.
3. There is only one products 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 enterprises.
7. The basic management polices about operation will not change materially in the short run.
8. The efficiency and productivity per-person will remain essentially unchanged in short run.
9. Cost-volume-profit analysis of SRJML

Some formulas of break-even analysis are given below:-

- a. Variable cost = $S - (S \times P/v \text{ ratio})$
Variable cost ratio = $1 - p/v \text{ ratio}$
- b. For sales

$$S = \frac{CM}{P/V \text{ ratio}}$$

- c. For contribution margin
 $CM = S \times P/V \text{ ratio}$
- d. For calculation of fixed cost

$$FC = S \times P/V \text{ ratio} - \text{profit}$$

- e. For BEP:

$$\text{BEP in Rs} = \frac{FC}{P/V \text{ ratio}}$$

Where,

- S = Sales
- VC = variable cost
- FC = Fixed cost
- BEP = Break even point

1. variable cost volume ratio (V/V ratio)

$$\begin{aligned} \text{V/v ratio} &= \frac{\text{Total variable cost}}{\text{Sales in Rs}} \\ &= \frac{271450825}{428979975} \\ &= 0.632 \end{aligned}$$

2. Profit volume ratio =(P/v) ratio

$$\begin{aligned} \text{P/v ratio} &= 1-\text{v/v ratio} \\ &= 1-0.632 \\ &= 0.368 \end{aligned}$$

3. Break even in Rs.

$$\begin{aligned} &\frac{\text{Total Fixed Cos}}{\text{P/v ratio}} \\ &= \frac{140293395}{0.368} \\ &= 381, 232051, 6 \end{aligned}$$

4. Margin of safety ratio for budgeted year 2061-2062 =

Budgeted sales quantity for 2061-2062 is 14137.875 and selling price is 38390. So that budgeted sales will be 542753021.3

$$\begin{aligned} \text{MOS} &= \text{Budgeted sales} - \text{B.E sales} \\ &= 542753021.3 - 381232051.6 \\ &= 161520969.7 \end{aligned}$$

5. Margin of safety ratio for FY 2056-2057

$$\begin{aligned} \text{MOS Ratio} &= \frac{\text{Margin of safety}}{\text{Budgeted sales}} \times 100\% \\ &= \frac{161520969.7}{542753021.3} \times 100\% \\ &= 29.75\% \end{aligned}$$

6. Budgeted profit for the FY 2061-2062

$$\begin{aligned}\text{Budgeted profit} &= \text{MOS} \times \text{P/v ratio} \\ &= 161520969.7 \times 0.368 \\ &= 59439716.85\end{aligned}$$

4.10.4 Flexible Budgeted

Flexible expenses budget is complementary to tactical profit plan. They help to provide expenses plans adjusted to actual output for comparison with actual expenses in periodic performance report. A flexible budget estimates 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 level of volume this means that all costs must be identified as to how they behave with a change in volume whether they vary or remain fixed. Flexible expenses budget is also called dynamic, activity or output adjusted expenses budget. For planning and controlling purpose flexible budget formula can be developed for each expenses in each responsibility center.

$$(\text{Budgeted allowance} = \text{FC} + \text{UVC} + \text{LA})$$

By this, company can determine the operation level by taking into consideration of the cost and profit at different level of utilization. A flexible estimate 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.

SRJML does not prepare its flexible budget, based on cost and other data of FY 2061-2062; a flexible budget of SRJML has been prepared below. Variable cost changes proportionately with the change in level of activity but fixed. SRJML capacity utilization of FY 2062-2063 is 80%. So, that the following table represents the flexible budget of SRJML at 60 to 120%.

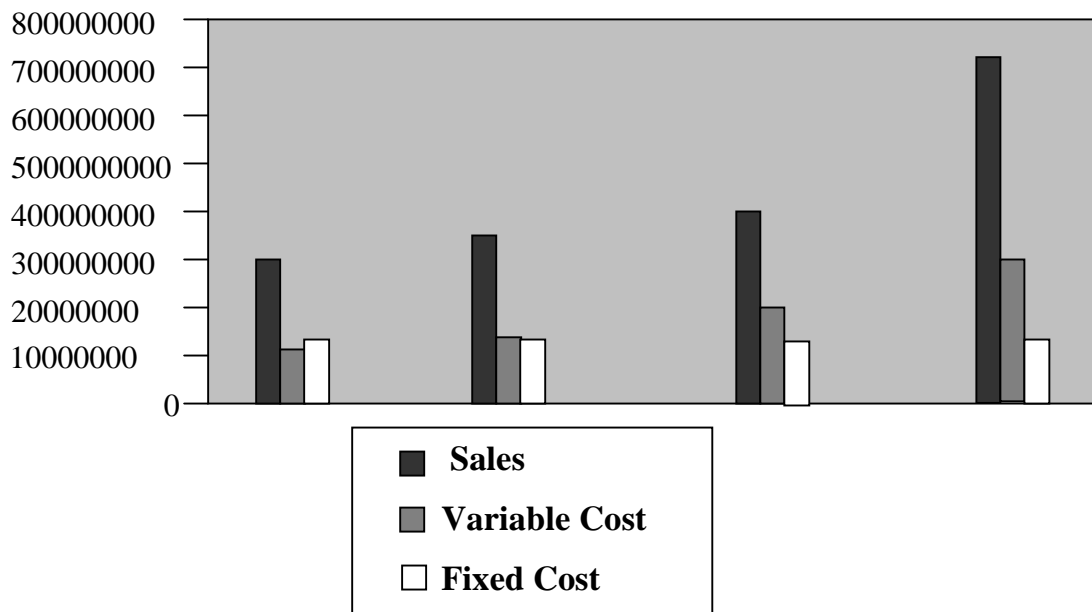
Table-18

Shree Raghupati jute Mills Limited, Flexible Budget Activity Levels

Description	60%	80%	100%	120%
Sales	289466202	385954936	482443670	723665505
Less: V.C	10710244947	142803326.3	178504158	267756237
Contribution margin	182363707.3	303939512	303939512	455909268
Less: fixed Cost	125678000	125678000	125678000	125678000
Operating net Profit or Loss Before tax	56685707.3	1174736097	178261512	330231268

Fig.5: Flexible budget at different

Activity level



This analysis shows that SRJML has average amount of fixed cost and variable cost. The flexible budget cost. The flexible budget of SRJML finds the following points.

Maximum portion of fixed cost includes administrative and office operating expenses in SRJML. If it utilizes full capacity efficiently, the net operating income will considerably increase. So it, should be minimize the manpower and utilize the capacity.

4.10.5 Variable Analysis

A variable 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 result, and to institute corrective action. Generally, when the actual cost is greater than standard, at that time the 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.

$$\text{Actual Coat} = \text{standard cost} + \text{Variance}$$

Variance can be either plus or minus depending in 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 (i) standard be carefully set, realistic and attainable (ii) variance reflect clearly and correct by the causes for deviations of actual and planned or budgeted goals.

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

- 1) Direct materials variance.
- 2) Direct labour variance.
- 3) Overhead variance.

Here are the lots of variance should be calculated in variance analysis. It is impossible for the contest of SRJML because it does not have well-developed system of predetermining standards regarding variance expenses and profit. Most of the Nepalese public enterprises have not a well-developed system of predetermining standards for material, labour, overhead, fields, sales and profit.

Comparison of actual results with planned or budgeted goods has been emphasized as an internal part of the control process. A basic feature of performance report is 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, labour and overheads, yield sales and profit.
- 2) Comparison between actual result and standards should be made to final variances.
- 3) Causes should be analyzed to related center and authorized personnel should be made accountable for controllable causes of unfavorable variances.

- 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.

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

Table-19:

Shree Raghubati Jute Mills Ltd. Sales variance

For FY 2055-2056 to 2062-2063

Year	Target sales In MT	Actual sales In MT	Variences	Remarks
2055-2056	8000	6743	1257	Unfavorable
2056-2057	8000	7879	121	Unfavorable
2057-2058	10000	8947	1053	Unfavorable
2058-2059	12000	11403	597	Unfavorable
2059-2060	12000	11442	558	Unfavorable
2060-2061	15000	11376	3624	Unfavorable
2061-2062	15000	12567	2433	Unfavorable
2062-2063	15000	11238	3762	Unfavorable

The above table shows that the sales variance of every fiscal year found unfavorable. In the fiscal year 2062-2063 the most unfavorable sales variance seems, but in the FY 2056-2057 we can see the less unfavorable sales variance. For the unfavorable sales variance, concern departments are responsible and they should take the corrective actions to minimize the above impact of such unfavorable variances.

After analyzing the yield variance table, we found that except one year another every FY yield variance 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 month of Baisakh, jetha & Ashadh. And the main cause of unfavorable yield variance of the enterprises is under utilization of available capacity and wastage of human resources. SRJML should take corrective action to their respective responsibility center to overcome and control these unfavorable variances.

4.11 The above analysis of some accounting financial aspects shows the SRJML has suffered from a number of internal and external problems in formulating and implementing the profit plans. Capacity utilization of SRJML is good, but not very good. The future picture of the company from the view of point of profit is also so bright unless and until it can increase

capacity utilization and decrease fixed cost. In the study the budgeting practice, cost volume situation, financial and capital structure ratios have been analyzed. Based on analysis the number mentioned findings have come up.

- 1) Sales of SRJML are quite erratic of flexible, which might have been caused by unstable trend in production.
- 2) The operating cash flow, which is the indication of SRJML ability to meet its commitment, is not satisfactory.
- 3) The company has so many week point same of them are lack of authority, scarcity of raw material, packing materials, spare parts of machinery and lack of high-grade limitation.
- 4) SRJML used the sales variance and yield variance to measure performance. The analysis shows that the variance of the company has not met the target so it is not favorable.
- 5) It has not used any promotional media for advertisement.
- 6) Lack in co-ordination among department and there are role conflicts between department managers.
- 7) No application of any effective sale forecasting techniques, efficiency.
- 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 responsibility of the employees.
- 10) The payment system of the company is mostly in monthly basis but in case of labour used, it is in daily basis.
- 11) The decision making power in the manufacturing PE's are concentrated only in top-level management.
- 12) Most of the Nepalese ME's have unnecessary and unproductive expenditure and investment, which leads the ME's to run in loss.
- 13) The company is not able to use the plant total capacity. It is using only 80% of its capacity.
- 14) It has no inventory policy in planning process. However, in the end of the year it keeps one- month production as inventory for last year.
- 15) The sales revenue is below budgeted sales and above BE sales. The margin of safety is 29.72%. this is not as equate in view of competition market of jute.
- 16) Costs are not classified in will manner.
- 17) Net profit margin of the company is very unsound. In the FY 2062, its net profit margin is 0.01875, which is too low. In FY 2063 company has net loss is Rs.18112011.
- 18) Current ratio is also fluctuating. The standard of current ratio is 2:1 but calculation shows ratio is below 2.
- 19) Company is operating in loss in the study period FY 2062-2063, which is Rs.18112011.
- 20) Salary and wages expenses are 63% of total administrative expenses. It shows the over staff working in SRJML.
- 21) The company mostly uses the cost plus pricing policy but in rate cases, only it uses the government pricing policy.
- 22) The working environment is not good.

End of Forth Chapter

CHAPTER-5

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 every new public enterprise was for the development of the nation. Development in the sense that it helps the population of the nation to acquire goods and services in the cheapest and easiest means. The government in the easiest & cheapest means especially in the remote areas supplies is especially the basic needs, where goods and services are in scarcity. The government provides such items to its population at the cost of its loss. However, a majority of public enterprises fail to achieve financial capacity and work efficiency and still depends on government grants.

Profit planning in artistic work and one of the most important management tools to plan business operation. The effective operation of a business concern resulting into the access of income over expenditure fully depends upon as to what extent the management follows proper planning and effective co-ordinations. The primary purpose of planning and effective coordination in business is to increase the changes of techniques and procedures; 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 enterprises there. The public enterprises do not strictly follow the profit procedure due to various reasons.

According to time dimension and objective of the organization, profit planning can be divided into two groups. They are as follows.

- 1) Long-range profit plans.
- 2) Short-range profit plans.

Long-range profit plans also called strategies plans and it covers time span of 5 to 10 years. A short-range profit plan, which is also called tactical profit plan and covers the period of one fiscal 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 of plan or budget according to recent event which effects the operation of business is necessary to activate the desire goals.

The present study has analyzed and examines the practice and implementation of profit planning in NME of Shree Raghupati jute Mill Limited has been taken as representative manufacturing enterprises, the period taken here is of eight or nine year starting from FY 2054-2055 and ending at FY 2062-2063. SRJML was established in 1946 A.D. in the public sector as an undertaken of Nepal Government company act 2021. It is the largest industrial establishment of the country and is located near Jogbani on the side of indo-Nepal boarder as Rani Biratnagar sub Metropolitan City ward no. 22 Morang. It covers hector of land. It is six kilometer far from Biratnagar center. The basic of objective of the present study is to highlight the current practice of profit planning and it is effectiveness for fulfillment of the objectiveness of SRJML. This study is significant in the sense that a

periodic change required collecting the approach and practice to highlight the board and facts to related filed. It has emphasized about the application of detailed and systematic approach of profit planning in Nepalese public enterprises.

As we know the fact, that profit planning is a very important and necessary for every business organization, so this study of profit planning will be very helpful to entrepreneurs, decision-makers 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 board and specific facts to related fields. In context of Nepal, very studies have been made in the field of profit planning and so this study may be for and additional help.

The scope of study is limited to manufacturing enterprises 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, summery, Conclusion and Recommendations. To analyze the collected data, mean, time-series, C-V-P analysis, flexible budget, funds flow analysis etc. used as financial and statistical tools. The collected data has been presented with the help of table and diagrams.

CONCLUSION

After analyzing in detail the present practice of profit planning in SRJML, the following conclusion can be highlighted.

- 1) SRJML has not adequately considered controllable and non-controllable variables affecting the company. This strength are such some strength & weakness of this industry. These strength are such as-experienced staff, high quality product, local raw material, employment opportunities, increase demand of the jute, suitable sales environment, company can able to increase its production as required. And the weaknesses of industries are-lack of autonomy in the management raw material, packing material and spare parts are not available of production, lack of high-grade jute.
- 2) SRJML, up to till now has not been able to develop the systematic reward, and punishment regarding its employee. Hence, no employee is motivated for the better performance of their work.
- 3) SRJML has not achieved its targeted goals because of following reasons.
 - a. Scarcity of raw material at right time at right place and in right quality.
 - b. Low productivity.
 - c. More burequeatic attitude of Nepal Government sales and purchase.
4. The company has not followed board objective to operate with a positive and Dynamic Philosophy of management, which is vital for a competitive and growing Company.
5. SRJML has been suffering from the departmental and staff conflict. It has been found that the line and staff responsibility has not been clearly defined.
6. Behavioral problems is looked as a major problems in the organization. The factor to some extent has obstructed the growth of the business.

7. SRJML has been suffering from under utilization of available capacity. If such capacity is utilized effectively, more goods and service can be extended to the customer and there by business firm can earn more profit.
8. Red tapism is an another main obstacle in decision-making and implementation of plans and programs. Every function requires unnecessary formalities, which create delay in decision-making firm can earn more profit.
9. in lack of budgeting experts and skilled manpower plans & programme are formulated on traditional haphazard basis.
10. SRJML has not clearly started its specific goals about research and development, factory productivity, capacity utilization and cost control.
11. Planning department of SRJML is seemed not fully free to implement there own ideas and plans for improving the condition of the business enterprises.
12. Distribution system of SRJML is not looked satisfactory. It has simply followed wholesale channel of distribution and sometimes, it distribution directly to specific customer.
13. SRJML has not such policy about cash flow plan and has not advance program of utilizing the excess funds that is likely to generate courage of operation.
14. Pricing system of Nepalese Manufacturing Enterprises is not looked scientific. NME's adopts traditional pricing methods. Usually cost plus pricing methods applied to determine price. Certain products are being priced below cost as per Nepal Government instruction.
15. C-V-P relationship has not been considered while developing sale plans and pricing policy.
16. Another main problem is the lower productivity of manpower, which exists due to lack of motivation and incentives and over staffing in management.
17. Theoretical formula of production plan i.e. planned production (sales plan + desired ending inventory –opening inventory) has not been properly adopted by SRJML.
18. Theoretical formula production plan i.e. planned (sales + desired ending inventory –opening inventory) has not been properly adopted by SRJML.
19. Although there is a big competition with international market but SRJML has no such problem of selling its product in Nepalese market.
20. There is no such 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. It should follow this concept in real practice.
21. Management by objective (MBO) techniques should be followed for planning to maintain co-ordination, co-operation and self-motivation among departments and employees.
22. SRJML has not a system of preparing periodical performance reports. So, it can be concluded these enterprises is not serious or conscious about its poor performance.
23. SRJML intervention should be made with required to functional aspect. Management should be given full authority, responsibility and accountability in day-to-day functioning of the business affairs.
24. SRJML and other manufacturing public enterprises should try to identify their environment opportunities and threats in order to capitalize such opportunities and threats in order to capitalize such opportunities and to mitigate the threats.
25. SRJML should have to develop effective program to avoid existing problems and to accomplish formulated. It should also implement them effectively.

26. The promotion of personnel is necessary to boost up their moral. Time to time training is essential to develop their performing skill and activities. It will ultimately increase efficiency on th part of employees.
27. Duty, responsibilities and power of each level of employee should be clearly defined and assigned. This will significantly helps to maximize the misunderstanding among the employees.
28. Many of the employees are appointed under political pressure such employees have very less knowledge and skill about the operation of SRJML.
29. The percentage of margin of safety is not looked higher. So, to meet the objective of profit, it should keep in mind the promotion of sales.
30. In the last, we can conclude that SRJML makes practice of profit planning and control in ad-hoc basis and it does not take it seriously.

Recommendation is 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 same concept should be applied in case of production plan.
2. The management of the company needs to increase in production and sales volume for the better utilization of available capacity of the paln.
3. Control should be made, number of employee should reduce and expenditure, salary and wages also should be reduced.
4. There should be continuous flow of information among various labels 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 employee to increase the moral of the employee. This will help to increase the working efficiency of the employee.
6. Margin of safety is only 29.72% it is not enough for the competitive market condition, so the management for improving margin of safety position should make effort.
7. SRJML should introduced and effective program to expend growth rate.
8. the company is suffering from excessive burden of fixed cost. Therefore, it should make an effort to reduce the unnecessary amount of fix cost and other unproductive expenditure. This concept of cost effectiveness will promote the profitability position.
9. The concept of cost on such as controllable and non-controllable fixed and variable should be classified for improving the accounting standard of the business enterprises.
10. SRJML does not have suitable and durable maintenance system. In the circumstances, the preventive maintenance and breakdown maintenance of plant and machinery should be seriously considered. The management should pay proper attention to minimize the problem of breakdown of plant and machinery.
11. In order to boost up the moral and efficiency of the staff, management is suggested to introduce some more effective system so promotion and training problem to improve the profitability of the company.
12. Duties, responsibility and power of each level of employee should be clearly defined. This will help to remove misunderstanding and confusion among the employee.

13. SRJML should prepare strategic and tactical profit plan show that more defaulted information about manpower, inventory and raw material planning, capital expenditure planning, sales planning and production planning etc. can be achieved. It will help to improve the performance of the enterprises.
14. SRJML should also follow marginal cost pricing in addition to cost plus pricing adopting marginal cost pricing, SRJML can retain all potential customers.
15. The concept of cost classification such as controllable and non-controllable fixed and variable should be emphasized for implementation.
16. Management by objective (MBO) technique should be introduced for planning ti maintains co-ordination, co-operation and self-motivation among employees.
17. In order to face the market competition and boost the sales, every effort needs to be made to improve the quality of the products.
18. After a careful research of market, an appropriate product mix should be made for promotion of the sales.
19. in order to reduce the unit operating cost and increases the rate of return or working capital employed the Mill needs to harness full installed capacity.
20. The Mill needs a suitable cost system for controlling the operation cost and there by providing a reasonable return on working capital employee.
21. The owner's funds need to be injected into the mill with a view to strengthening the liquidity and enhancing the profitability of the mill.
22. Efforts need to be made from all concerned to promote the jute cultivation in the neighboring district of the mill (Udaypur, Siraha, Saptari, Sunsari, Morang and Jhapa) with a view to avoiding the transportation cost of row jute imported from India.
23. In order to increase the demand jute products in internal market production and supply of non-perishable polythene products polluting the environment should be banned.

End of Chapter Five

Appendix – 1

Calculation of mean, standard deviation, coefficient of variation, Correlation, probability of error of target sales and actual sales.

FY	Target sales (x)	Actual sales (y)	(x-x) a	(y-y) b
2058-2059	12	11.403	-1.8	-0.2022
2059-2060	12	11.442	-1.8	-0.1632
2060-2061	15	11.376	1.2	-0.2292
2061-2062	12	12.567	1.2	0.961
2062-2063	15	11.238	1.2	0.3672
N=5	69	58.026	0	0

ab	(x-x) ² a ²	(y-y) ² b ²
0.36396	3.24	0.04088
0.29376	3.24	0.0266
-0.27504	1.44	0.05253
1.15416	1.44	0.9252
-0.44064	1.44	0.1348
1.0962	10.8	1.17981

1. A.M of target sales

$$\begin{aligned} \bar{X} &= \frac{\sum x}{N} \\ &= \frac{69}{5} = 13.8 \end{aligned}$$

i.e.13800

2. A.M. of actual sales

$$\bar{y} = \frac{\sum y}{N}$$

$$= \frac{58.026}{5}$$

$$= 11.6052$$

i.e. 11601.52

3 Standard deviation of x

$$x = \frac{\sum a^2}{N} = \frac{108}{5} = 4.65$$

4. Standard deviation of actual sales

$$y = \frac{\sum b^2}{N} = \frac{1.17981}{5} = 0.4857$$

5. C.V of target sales

$$= \frac{\sum X}{\bar{X}} \times 100 \%$$

$$= \frac{4.65}{13.8} \times 100 \%$$

$$= 33.69 \%$$

6. C.V of actual sales

$$\begin{aligned} &= \frac{Y}{y} \times 100 \% \\ &= \frac{0.4857}{11.6052} \times 100 \% \\ &= 4.1857 \% \end{aligned}$$

7. Coefficient of correlation (r^2)

$$\begin{aligned} r &= \frac{ab}{a^2 + b^2} \\ &= \frac{1.0962}{108 \times 1.17981} \\ &= \frac{1.0962}{10.39 \times 1.06} \\ &= \frac{1.0962}{11.25} \\ &= 0.097 \end{aligned}$$

8. Probable of Error

$$\begin{aligned} PE(r) &= \frac{0.6745 \times (1-r^2)}{n} \\ &= \frac{0.6745 \times \{1-(0.126)^2\}}{5} \\ &= \frac{0.66379}{2.23606} \\ &= 0.29685 \end{aligned}$$

Appendix-2

Calculation of mean, standard deviation, coefficient of variation, correlation, probability error of target production sales and actual production.

FY	Target Pro.	Actual Prod.	x-x	y-y
	X	y	a	b
2058-2059	12	11.452	-1.8	-0.988
2059-2060	12	11.671	-1.8	-0.769
2060-2061	15	12.540	1.2	0.1
2061-2062	15	13.073	1.2	0.633
2062-2063	15	13.475	1.2	1.035
	x=69	y=62.211	0	0.011
N=5				

FY	ab	$(x-\bar{x})^2$ a ²	$(y-\bar{y})^2$ b ²
2058-2059	1.7784	3.24	0.976144
2059-2060	1.3842	3.24	0.591361
2060-2061	0.12	1.44	0.01
2061-2062	0.7596	1.44	0.400689
2062-2063	1.242	1.44	1.071225
	5.2842	10.8	3.049419

1. A.M. of target production

$$\bar{X} = \frac{\sum x}{n}$$

$$= \frac{69}{5} = 13.8$$

2. A.M. of actual production

$$\bar{Y} = \frac{\sum y}{n}$$

$$\frac{62.211}{5} \\ = 12.442$$

3. Standard deviation of target production.

$$\begin{aligned} X &= \frac{a^2}{n} \\ &= \frac{108}{5} \\ &= 4.65 \end{aligned}$$

4. Standard deviation of actual sales

$$\begin{aligned} y &= \frac{b^2}{N} \\ &= \frac{1.17981}{5} \\ &= 0.4857 \end{aligned}$$

5. C.V of target Production

$$\begin{aligned} &= \frac{X}{\bar{X}} \times 100 \% \\ &= \frac{1.4696}{13.8} \times 100 \% \\ &= 10.64921 \% \end{aligned}$$

6. C.V of actual Production

$$\begin{aligned} &= \frac{X}{y} \times 100 \% \\ &= \frac{0.7809}{12.442} \times 100 \% \\ &= 6.27 \% \end{aligned}$$

7. Coefficient of correlation

$$\begin{aligned} r &= \left(\frac{ab}{a^2 \times b^2} \right) \\ &= \frac{5.2842}{10.8 \times 3.049419} \\ &= \frac{5.2842}{32.93372} \\ &= \frac{5.2842}{5.7387} \\ &= 0.92078 \end{aligned}$$

8. Probable of Error

$$\begin{aligned} \text{PE (r)} &= \frac{0.6745 \times (1-r^2)}{n} \\ &= \frac{0.6745 \times \{1-(1.0551)^2\}}{5} \\ &= \frac{0.6745 \times 0.1132}{2.23606} \\ &= 0.03425 \end{aligned}$$

Appendix – 3

Calculation of mean, standard deviation, coefficient of variation, correlation, error of actual sales and actual production.

FY	Target Pro.	Actual Prod.	x-x	y-y
	X	y	a	b
2058-2059	11.403	11.671	-0.2081	-0.815
2059-2060	11.472	11.671	-0.1311	-0.815
2060-2061	11.376	12.540	-0.2352	0.054
2061-2062	12.567	13.073	0.9558	0.587
2062-2063	11.238	13.475	-0.3732	0.989
N=5	<u>x=69</u>	<u>y=62.211</u>	<u>0</u>	<u>0.011</u>

FY	$(x - \bar{x})^2$ a²	$(y - \bar{y})^2$ b²
2058-2059	0.0433	0.6642
2059-2060	0.01872	0.6642
2060-2061	0.0553	0.002916
2061-2062	0.9135	0.3445
2062-2063	0.1392	1.9781
N = 5	<u>1.16957</u>	<u>2.65394</u>

1. A.M of actual sales

$$\begin{aligned} \bar{X} &= \frac{\sum x}{n} \\ &= \frac{58.056}{5} \\ &= 11.6112 \end{aligned}$$

2. A.M of actual production

$$\begin{aligned} \bar{Y} &= \frac{\sum y}{n} \\ &= \frac{62.43}{5} \\ &= 12.486 \end{aligned}$$

3. Standard deviation of actual sales.

$$\begin{aligned} X &= \frac{a^2}{n} \\ &= \frac{1.1695}{5} \\ &= 0.4836 \end{aligned}$$

4. Standard deviation of actual production

$$\begin{aligned} y &= \frac{b^2}{n} \\ &= \frac{2.6539}{5} \\ &= 0.7285 \end{aligned}$$

5. C.V of actual sales

$$\begin{aligned} &= \frac{X}{\bar{X}} \times 100 \% \\ &= \frac{0.3836}{11.6112} \times 100 \% \\ &= 4.1649 \% \end{aligned}$$

6. C.V. of actual Production

$$\begin{aligned} &= \frac{X}{y} \times 100 \% \\ &= \frac{0.7285}{12.486} \times 100 \% \\ &= 5.8345 \% \end{aligned}$$

7. Coefficient of correlation

$$r = \left(\frac{ab}{a^2 \times b^2} \right)$$

$$= \frac{0.46234}{1.16957 \times 2.65394}$$

$$= \frac{0.46234}{1.7618}$$

$$= 0.2624$$

Appendix – 4
Depreciation of fixed assets for the year ending 2061-2062

Particulars	Total Assets					Depreciation				This
	2061-4-1 Rs	Addition of this year	Sales of this year	Total of 2062-3-31 Rs	Rate of Depreciation	Up to 2061-3- 32 Rs.	Dep ⁿ of this year Rs.	Dep ⁿ of sold assets Rs.	Total Rs.	
Land										
Land user by Factory	18509850			18509850						1850
Section A Building	62584416	1281275		6386569	1/65	7748367	1032643		8781010	5508
Total	62584416	1281275		6365691		7748367	1032643		8781010	5508
Section 'B' Furniture & Fixture	4104729	22661	-	4127390	5/30	1383624	217551		1601175	2536
Communication Equipment	545783		-	549783	5/30	145914	29138		175052	374
Office Equipment	546905	24600	-	571505	5/30	92110	28986		121096	450
Computer	1419619	13300	-	1432919	7/30	550857	103632		654489	778
Total	6621036	60561		6681597		2172505	379307		255112	4129
Section 'c' Vehicles	10300098	750930	313086 313086	10737942	5/30	3214543	545905	126704 126704	3633744	7104
Total	10300098	750930		10737942		3214543	545905		3633744	7104
Section 'D' Machinery & Equipment	201060348	7082160		28142508		7351062			84166880	12397
Measuring Equipment	389179			389197		117797			138423	250
Electric Equipment	17069275	1717634		18782909		2759732			3664192	1511
Total	218514802	8799794	313086	227314596		7638211	11581284	126704	87969495	13934
Establishment Inventory of last Year	316530202	10892560				89523626	13539139			22417 326
Establishment Inventory of this Year		326817		326817						
Total Rs of this year	316530202	11219377	313086	3274364933		89523626	13539139	126704	102936061	22450
Total Rs of last year	303297807	13232395	-	316530202	-	76666667	12856959	-	9523626	22700

Appendix -5

Income statement of Shree Raghupati Jute Mill from 2055-2056 to 2061-2062

Sales	198574147	269822123	295057565	422386985	366663855
Cost of goods sold	177785572	2294850807	268923595	384524408	315169797
Gross profit	2078575	40336052	26133595	37862577	51494058
Add:-other business income	263700	-	-	-	-
Insurance	-	-	-	-	-
Expenses occurred	21052275	40336052	26133595	37862577	51494058
. Distribution expn	45853369	6190648	6087328	10643504	10872555
Administrative expenses	11201037	1277618	8558478	11078821	15370350
Operating profit	5265869	21370216	11487789	16140252	25251173
Interest expenses	9204793	10041388	9196351	8127526	8139191
Depreciation	939205	16162	1092128	192748	11855037
Other investment income	-	16162	3551	3438	3200
Loss on sale of Assets					
Gross profit before	(11331009)	663645	1035813	6088316	5214273
Adjustment Bones	-	60332	94165	578390	474028
Quarter facility	-	-	-	-	-
Special fees	-	-	-	170713	-
Net profit	(11331009)	603314	941648	5337183	4740248

Appendix – 6
Balance sheet of Shree Raghupati Jute Mill from FY 2055-2056 to 2061-2062

Description	2055-2056	2056-2057	2057-2058	2058-5059	2060-2061
<u>Liabilities</u>					
Share capital	180668536	180668936	180668936	180696600	180696600
P/L account	(10642208)	(10038894)	(9097846)	(1760063)	8111111
Secured Loan	40000000	40000000	40000000	70000000	54000000
Unsecured Loan	48158000	42941000	42752962	6949798	45000000
Account payable	22747151	23193901	38046545	57462906	59000000
Other Liabilities & Adjustment	7524781	10398307	-	578390	-
Total	28856660	287163250	292371201	311927631	307000000
<u>Assets</u>					
Fixed Assets	219416242	22677007	232391180	231417227	220000000
<u>Current Assets</u>					
Inventory	38035235	31759274	38562964	48059096	54000000
Accountable Receivable	15342538	27290940	18773489	23121502	170000000
Cash & Bank Balance	475274	155482	578575	386434	100000000
Prepaid expenses	14813325	1050433	2064997	5465464	68000000
Preliminary Exp.	274046	1370024	-	-	-
Total	288456660	330728628	292371201	311927631	307000000

APPENDIX-7
Comparative production cost of jute of Shree Raghupati Jute Mills from FY
2055-2056 to 2061-2062

Particulars	2056-2057	2057-25058	2058-2
1.Factory worker salary & other expenses	54014833	54992842	712558
2. Factory employees salary, allowance & other expenses	-	209176	557457
3.Factory worker and employee provident fund contribution	159891 19478625	123475 21806616	434198 -
4. Electricity exp.	1172185	2371043	136734
5. General fuel exp.	10301133	13274268	208042
6.Stores, Spayers exp.	1725944	-	167893
7.Mobiles fuel storage			859285
8.Factory Building & Equipments insurance	-	-	184689
9.Factory building & Machinery deprecation	437023	656143	481725
10. Maintenance of machinery & equipments (sect. 'D')	1743951	1725944	-
11.Oil & Lubricants	-	-	-
12.Bonus			
Total	78307641	5159507	131183

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Supplementary Questionnaire

Name of the respondent:

Position:

Department:

Sex:

[Please tick as () on the one or more boxes and fill the blanks as requirement]

1. What were the specific goals targeted and achievement for the FY 2055/2056?
 - a. Growth objective (%) []
 - b. Capacity utilization (%) []
 - c. Net profit margin on sales (%) []
 - d. Total cash inflow (Rs.) []
 - e. Others []

2. Where the achievements satisfactory?
3. If no, would you please state the main causes of low achievement?
4. Is your factory on the basis of profit planning or simple budgeting?
5. To what level planning premises are communicated?
 - a. From top to lower []
 - b. From top to middle []
 - c. Top level only []
 - d. From top –middle-lower []

6. Which department have the over all responsibility of profit planning?
7. Is there a participative management system in your factory to set goals?
8. Would you please state the period covered by profit planning in this industry?
9. On which plan your factory gives more attention to fulfill the established objectives?
10. The basis of profit plan is production plan do you agree with this statement?
11. What are the main strength and weakness of the company?

<ol style="list-style-type: none">a. Strengthi.ii.iii.	<ol style="list-style-type: none">b. Weaknessi.ii.iii.
--	--

12. What pricing method has been accepted?
 - a. Cost-plus pricing []
 - b. Marginal cost pricing []
 - c. Subsidized pricing []
 - d. others

13. Is your company's capacity fully used?
14. What distribution channel is used?
- a. Producer-Customer []
 - b. Producer-retailer-customer []
 - c. Producer-wholesaler-retailer-customer []
 - d. Producer-agent-customer []
 - e. Producer-agent-retailer-customer []
15. What approaches are used for sales forecasting?
16. Who evaluate the relevant variances?
- a. Budgeted committee []
 - b. Planning department []
 - c. Top management []
 - d. Consultants []
17. Does your factory prepare long-range plan? If yes, what is the period covered?
18. Is there a post of profit planning director in the company?
- a. Yes []
 - b. []
19. Sales are on
- a. Cash []
 - b. Credit []
 - c. 50th []
20. If credit sales exist, then what is the collection period?
- a. Daily basis []
 - b. Monthly basis []
 - c. Piece of work basis []
 - d. Other []
21. What is the wages payment system?
- a. Daily basis []
 - b. Monthly basis []
 - c. Piece of work basis []
 - d. Other []
22. What production policy has been adopted?
- a. Stable []
 - b. Flexible []
 - c. Seasonal []
 - d. Others []
23. Do you think the profit earned by the company in the past year is adequate?
- 1. Is the duties and responsibilities of the employees clear to each of them?