



# Budgeting and Controlling of Profit

BBS 4<sup>th</sup> Year

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D R E A M L A N D P U B L I C A T I O N



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BBS 4<sup>th</sup> Year

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## **Budgeting and Controlling of Profit**

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# PREFACE

This book is designed to provide a basic understanding in the field of Budgeting and Controlling of Profit. A profit planning and control system (also called managerial budgeting) is widely used in performing managerial planning and control system. Profit planning is a part of overall planning process of an organization. It covers a definite period of time and formulates the planning decision of management. It consists of operational budget such as sales budget, production budget, material budget, labour budget, overhead budget etc. and financial budget such as cash budget, budgeted income statement and budgeted balance sheet.

Tribhuvan University has introduced the course "Budgeting and Controlling of Profit" in the fourth year of Four Year BBS Program. We have written this book according to the syllabus of "Budgeting and Controlling of Profit". This course includes conceptual foundation, sales planning and control, production planning and control, planning of factor of production, planning and controlling of cash, completion of profit plan, zero-based budgeting, planning and controlling of capital expenditure, cost volume profit analysis and performance report for management control.

This book at your hand is an attempt to offer all the contents of "Budgeting and Controlling of Profit" of BBS 4<sup>th</sup> year. This book is organized in 13 chapters. This book has been prepared to facilitate the students for their better results in exam with the broad knowledge and in practical field also. This book is also helpful to the manager for the wise profit planning in the organization.

We have tried our best to keep the book error-free. However, we undertake full responsibility for the errors. We request all the students, teachers, readers and well wishers to provide the suggestions to improve the book for the next edition.

**Authors**  
2016

# ACKNOWLEDGEMENT

This book is the outcome of inspiration and moral support of many people. We are grateful to all of them. We are indebted to all those authors whose works have directly or indirectly influenced in this text book. We have taken a number of references which have been listed at the end of the book. We acknowledge the references used in this book.

We are indebted to **Dr. Ananta Lal Karna** (Professor of T.U.), **Mr. Ramesh Pandey** (Associate professor & Former Campus Chief of Shanker Dev Campus), **Dr. Puskar Bajracharya** (Professor of T.U.) and **Mr. Khagendra Prasad Ojha** (Lecturer of Shankar Dev Campus).

We are also thankful to **Mr. Ratna Man Dangol** (Associate Professor of T.U.), **Dr. Madhav Koirala** (Professor of Public Youth Campus), **Dr. Yadav Raj Koirala** (Professor, Post Graduate College of Biratnagar), **Dr. Bal Krishna Man Shrestha** (Professor of T.U.), **Mr. Navaraj Adhikari** (Mahendra Multiple Campus, Nepalgunj), **Dr. Braham Deo Jha** (R.R.M. Campus, Janakpur), **Mr. Shailendra Labh Karna** (R.R.M. Campus, Janakpur), **Dr. C.K. Singh** (RRM Campus), **Mr. Shibendra Lal Karn** (RRM Campus, Janakpur), **Mr. Bir Bahadur K.C.** (P.N. Campus, Pokhara), **Mr. Kabi Raj Acharya** (P.N. Campus, Pokhara), **Mr. Bhim Narayan Upadhyay** (Bal Kumari College, Chitwan), **Mr. Binod Shah** (Central Department, Kirtipur), **Mr. Balaram Thapa**, Public Youth Campus), **Mr. Dipak Pandey** (Lumbini Banijaya Campus, Butwal), **Mr. Devendra Kumar Deepak**, **Mr. Sakal Dev Shah** (M.M. Campus, Biratnagar) for their co-operation, inspiration and support to bring out this book.

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We would very much appreciate and sincerely acknowledge suggestions from Academic Colleague and readers for improving the quality of the book. We will be happy to acknowledge the support of all the students, teachers and all those who may use this book.

# SYLLABUS

## BUDGETING AND CONTROLLING OF PROFIT

Full Marks: 100

Pass Marks: 35

Lecture hours: 150

### Course Objectives

The objectives of this course are to give students a deeper understanding in the area of budgeting and controlling in a competitive business environment. It also aims to acquaint students with advanced knowledge in the field of accounting in order to formulate business strategies.

### Course Description

This course contains conceptual foundation, sales planning and control, production planning and control, planning of factor of production, planning and controlling cash, completion of profit plan, zero-based budgeting, planning and controlling capital expenditures, application of cost volume profit analysis in profit planning, performance reports for management control.

### Course Details

#### Unit 1: Conceptual Foundation

LH 14

Introduction and purpose of profit planning and control; Overview of PPC; Fundamental concept of Comprehensive profit planning and control; Management planning and control using PPC; Time dimensions in PPC; Organizational adaptation to PPC; PPC processes; Line and staff responsibilities related to PPC; Behavioral implications of a PPC program; Application of PPC in manufacturing and non-manufacturing organizations.

#### Unit 2: Sales Planning and control

LH 10

Concept and objectives of sales planning; Sales planning compared with forecasting; Strategic and Tactical sales plans; Component of comprehensive sales planning; Developing a comprehensive sales plan; Consideration of alternatives in developing a realistic sales plan; Steps and methods of sales planning

#### Unit 3: Production Planning and Control

LH 10

Concept and objectives of production planning; General considerations in planning production and inventory levels; Time dimensions of production planning; Developing production planning; Developing inventory policies; Setting production policies; Just in time (JIT) production; The production budget as a planning, coordinating and control tool

#### Unit 4: Planning of Factor of Production

LH 28

Material Consumption, purchases and material cost budgets; Material inventory and JIT purchase; Merchandize purchase budget of a non manufacturing organization; Open to buy concept and its validity; Planning of direct labour hours, direct labour costs, direct labour budget and control; Overhead cost planning and control; Controllable and non-controllable overhead cost; Cost control and reduction; Manufacturing, administrative and selling & distribution overhead cost planning; Apportionment and reapportionment of planned overhead costs to operating divisions

#### Unit 5: Planning and Controlling Cash

LH 14

Concept and objectives of planning and control of cash; Time horizons in cash planning and control; Estimation of cash receipts and payments; Borrowing and other financial need; Use of financial accounting approach in computing cash collection and cash disbursements.

## Unit 6: Completion of Profit Plan

LH 18

Concept and objectives of completion of profit plan; Completion of the annual profit plan; Alternatives available in developing profit plan; Implementation of the profit plan; Application of profit plan in controlling operation.

## Unit 7: Zero-Based Budgeting

LH 6

Concept, objectives, advantages, limitations and procedures of zero-based budgeting

## Unit 8: Planning and Controlling Capital Expenditures

LH 15

Concept, objectives and characteristics of capital expenditure budget; Project orientation in the capital expenditure budget; Time dimensions in the capital expenditure budget; Benefits of capital expenditures budget; Responsibilities for developing the capital expenditures budget; Methods of measuring the economic value of a capital expenditures

## Unit 9: Application of Cost Volume Profit Analysis in Profit Planning

LH 14

Concept and objectives of cost volume profit analysis; Basic assumption underlying cost-volume-profit analysis; The principle of cost variability as applied to cost-volume-profit analysis; Identification of fixed and variable cost components; Break even and contribution analysis; Application of break even analysis; Cost validity; Sales mix and sales price planning

## Unit 10: Performance Reports for Management Control

LH 11

Classification of reports; Performance report as a communication tool; Essential features of a performance report; The basic format of performance report; Adapt performance reports to requirement of users; Design and preparation of performance report; Time gap between the decision and report; Technical aspect of control reports.

## Project Work

LH 10

After the completion of fourth year concentration classes the students shall have to prepare and submit a project work in the area they have specialized. The subject teachers have to discuss with students on possible topics of the project work, availability and sources of literature, availability of data, data collection methods, appropriate tools of data analysis, etc relevant to the subject within 10 lecture hours.

## Basic Books

Welsh, G. A., Ronald, W. H. and Gordan, P. N. *Budgeting: Profit planning and control*, New Delhi: Prentie Hall of India.

Jones, R. L. and Trentin, G. H. *Budgeting: Key to planning and control*, Mumbai

Jakhotiya, G. P., *Budgeting and Budgetary Control*, Tata McGraw Hill Publishing Company Limited

## Reference Books

Shah, B. and Goel, J. *Profit Planning and Control*, Dreamland Publication, Kathmandu

Ojha, K. P. and Gauram, C. M. *Profit Planning and Control*, Himalaya Books and Distributor Pvt. Ltd.

Fago, G. and Niraula, H. *Profit Planning and Control*, Bhatnagar Academic Enterprises Pvt. Ltd

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