CHAPTER - V

FINANCIAL PROBLEMS OF PUBLIC UNDERTAKINGS
IN JAMMU AND KASHMIR STATE
Financial Administration is the most important aspect of an organization. It applies to an organization, irrespective of its size, nature of ownership and control or whether it is a manufacturing or a service organization. It applies to any activity of an organization which has financial implications. According to Reymond Chambers, term financial management or administration may be applied to any kind of undertaking or organization regardless of its aims or constitution. Financial management is the operational activity of a business that is responsible for obtaining and effectively utilising the funds necessary for efficient operations. According to Kulkarni, management has been defined as that part of management which is concerned mainly with raising funds in the most economic and suitable manner using these funds as profitably as possible, planning future operations, and controlling current performances and future developments through financial, accounting, cost accounting, budgeting, statistics, and other means. The objective of financial administration/management is to see that adequate cash is in hand to meet the required current and capital expenditures and to otherwise assist in maximising profits. In the words of Prof. Solomon, financial management is properly used as an integral part of overall management rather than as a staff

specially concerned with fund-raising operations. In addition to raising funds, "financial management is directly concerned with production, marketing and other functions within an enterprise, whenever decisions are made about the acquisition or distribution of assets." Although the scope of financial management/Administration is too comprehensive, attention is confined here to a few selected aspects such as financial or capital structure and equity shares, Authorised capital, paid up share capital, working capital, items of expenditure, sources of finance, ploughing back of profits and budgeting.

1. **FINANCIAL OR CAPITAL STRUCTURE**

The financial structure of an enterprise should be such as is adequate to meet the needs offixed and working capital without putting unnecessary burden on the undertakings. It should be elastic so that it can be expanded and even contracted according to needs.

The financial structure considerably depends on the form or organization adopted by the enterprise. If the enterprise is organised departmentally, for instance, all its expenditure will

5. Ibid., p 3.
have to be shown under the demand for grants of the controlling ministry and will have to be voted upon by the Parliament, the field of discretion permitted to such enterprises is very much restricted and as a result they lacks flexibility in planning and ability to take risks without elaborate procedures. The management has to maintain their accounts on receipts and payments basis and is not required to prepare balance sheet and profit and loss accounts which would give an idea of their operational efficiency. The accounts do not present a true picture of their operation. In view of these reasons and the need for putting them on commercial lines, the state undertakings have been entrusted to statutory companies with varying degrees of financial autonomy and sufficient flexibility. Even though the Boards are appointed by the government with a number of restrictions and limitations and are subjected to government directions in regard to policy matters, the corporation as well as company form of organization enjoys greater freedom in day to day financial administration. The boards are required, of course, to seek approval of the government-central or state, as the case may be, for increasing their authorised capital, using un-issued shares, raising loans, issuing debentures, incurring capital expenditure over the specified amount, entering into financial contracts or making or purchases over and above the prescribed limits.

Capital structure, or financial structure as it is sometimes called, refers to the make up of the capitalization, i.e. whether
it consists of a single class of share e.g. several classes of shares with different characteristics, various issues of debentures, a large or small surplus, and the like. To enable the corporation to raise permanent capital with a minimum of effort and cost when it is needed, these elements in the capital structure must be kept flexible. Decisions as to the amount of securities are reflected in the capitalization, decisions as to the kind of securities are reflected in the capital structure. Many factors such as the age of the firm, trading on equity stability of earnings, interest rate, amount of capital required, nature of the assets, capital market conditions, desire for control, investors, preferences and managerial reputation must be considered in determining which is the best form of capital structure for a given enterprise. In fixing the capital structure, each enterprise is an individual case, the greater, the stability of earnings the greater may be the ratio of debentures to shares in the capital structure. The capital structure should be balanced with a sufficient equity cushion to absorb the shocks of the business cycle and to afford flexibility. Both the problems of over-capitalization and under-capitalization can be overcome by a balanced and flexible capital structure. Capital structure is one contributing factor to fair capitalization. Cost of capital return on paid-up equity capital, depends upon capital structure, the funds for financing of public enterprise may be in

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8 Ibid., pp 192-193.
the form of loans, shares provided by the government and internal resources generated by the enterprises. The tables given below shows the capital structure of the JKI and JKM Ltd controlling 25 manufacturing public sector industrial units in the state which have been put into operation.

**Table - 5.1**

**Capital Structure of JKI Ltd**

<table>
<thead>
<tr>
<th>Authorised capital in 1963-64</th>
<th>Paid up Shares Capital 1983-84</th>
<th>Capital Investment Loans as on 31.3.84 (Rs in lakhs)</th>
<th>Interest Accrued in Lakhs as on 31.3.84</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Crores 1275.94 lakhs</td>
<td>1689.97 lac</td>
<td>i) State-309.32</td>
<td>182.52</td>
</tr>
</tbody>
</table>

(Shares for Rs 966.94 lakhs issued while shares for 309.00 lac were to be issued shortly shares for this amount could not be used so far for want of necessary authorisation of the government for raising the authorised capital limit. from Rs 10.00 crore to 20 crores which has not been received.

**ii) Financial Institutions** 25.40

**iii) Central Govt.** 33.00


The authorised capital of the company in 1963-64 was rupees two crores divided into 20,000 ordinary shares of Rs 10.000 each then it was increased to 10 crores. In 1980 the authorized capital of the corporation was Rs 10 crores, divided into 1,00,00 shares of 1000 each. As on 31st March, 1980, the paid up capital was 9.69 crores. contributed wholly by the state government.  

At present the authorized capital has been increased to rupees 20 crores in 1984-85 The paid up capital share was Rs 1275.94 lakhs in 1983-84 shares for Rs 966.94 lakhs were issued of which shares for 309.00 lakhs were assured to be issued shortly. Shares for this amount could not be issued so far, for want of necessary authorization of the government for raising the authorized capital limit from Rs 10.00 crores to Rs 20.00 crores which has now been received. But the total capital investment made in the corporation in 1984-85 was 1689.97 lakhs. The corporation had also got loans from the state government and from other financial institutions on 31.3.1984 and from the Central Government in 1967. The state government gave Rs 309.32 lakhs loans. The total amount got from the financial institutions by this corporation in 1984 was 146,00 lakhs. The Central Government gave Rs 33 lakhs as loans to this corporation. The interest accrued out of these loans from State Government and financial institution was Rs 182.52 lakhs and Rs 25.40 lakhs respectively.

in 1984 the loans had been given by the state government from time to time to tide over the financial difficulties. The Central Government loan was obtained in 1967 for the machinery imported for the Benina Woollen Mills. The loans from the financial institutions have been obtained at Miran Sahib which is at present undergoing trial runs. The capital structure of JKM Ltd. is shown in the Table No. 5.2.
## Table - 5.2
Financial (Capital) Structure of JKM Ltd

<table>
<thead>
<tr>
<th>Year</th>
<th>Authorised Capital</th>
<th>Paid up Shares Capital</th>
<th>Total Capital employed</th>
<th>Loans</th>
<th>Internal Resources</th>
<th>Debt Equity Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.3.1976</td>
<td>8,00,00,000</td>
<td>8,00,90,000</td>
<td>886,90,216</td>
<td>86,90,216</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>31.3.1977</td>
<td>8,00,00,000</td>
<td>8,20,00,000</td>
<td>889,83,598</td>
<td>9983,98.73</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>31.3.1978</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>31.3.1979</td>
<td>8,00,00,000</td>
<td>8,00,00,000</td>
<td>921.18 lakhs</td>
<td>121.18 lakhs</td>
<td>-</td>
<td>0.13:1</td>
</tr>
<tr>
<td>31.3.1980</td>
<td>8,00,00,000</td>
<td>8,00,00,000</td>
<td>953.00 lakhs</td>
<td>153.88 lakhs</td>
<td>-</td>
<td>0.14:1</td>
</tr>
<tr>
<td>31.3.1981</td>
<td>8,00,00,000</td>
<td>8,00,00,000</td>
<td>1010.00 lakh</td>
<td>210.00 lakhs</td>
<td>-</td>
<td>0.16:1</td>
</tr>
<tr>
<td>31.3.1982</td>
<td>8,00,00,000</td>
<td>8,00,00,000</td>
<td>1055.48 lakh</td>
<td>255.48 lakhs</td>
<td>-</td>
<td>0.16:1</td>
</tr>
<tr>
<td>31.3.1983</td>
<td>8,00,00,000</td>
<td>8,00,00,000</td>
<td>1111.69 lakh</td>
<td>301.69 lakhs</td>
<td>0.10 lakhs</td>
<td>0.18:1</td>
</tr>
</tbody>
</table>


**NOTE:** NA = Not Available.
The authorized capital of the company is Rs 8 crores divided into 8,00,000 ordinary shares of Rs 100 each. The share capital has always been fully paid. The total capital invested has been shown on the table/column, right from 1976 to 1983. The corporation had also taken loans from time to time. In 1976 the corporation got loans of Rs 86,90,216 from the United Commercial Bank and State Government. In 1977 the loans got by the corporation from these agencies amounted to Rs 9983,598.73. In 1979 the corporation got Rs 5.4 lakhs from J & K Bank Ltd as loans and Rs 99.78 lakhs from state government and Rs 16.00 lakhs as capital plan outlay. In 1980 loans got from J & K Bank and state government amounted Rs 13.10 lakhs and 99.98 lakhs respectively the total capital outlay in this year was Rs 41.00 lakhs. In 1981 the J & K Bank Ltd. gave loans of Rs 27.22 lakhs to this corporation. The state government loans in this year to this corporation remained the same as in the previous year. The total

10. See Table 5.2, column V, S.No.1 and 2.
capital plan outlay in the year 1981 was Rs 83.00 lakhs. In 1982 the loans from J & K Bank Ltd amounted Rs 32.70 lakhs the total capital plan outlay was to the tune of Rs 123 alakhs. In 1983 the J & K Bank gave loans to the worth of Rs 48.81 lakhs to this corporation. The capital loans from the state government remained same both in 1982 and 1983 state i.e. Rs 99.78 lakhs. The Central capital plan outlay in 1983 was Rs 163 lakhs. This year, the internal sources attributed Rs 0.10 lakhs to the corporation. In 1984-85 the authorized capital of the corporation was again Rs 8 crores subscribed and paid up share capital was also Rs 8 crores fully paid. Loans got out of plan funds of Government were Rs 311.23 lakhs. The loans in the form of cash credit facilities from J & K Bank Ltd amounted to Rs 50.00 lakhs. So the total capital in work amounted to Rs 8 crores plus Rs 311.23 lakhs plus Rs 50.00 lakhs = Rs 11.62 crores out of total authorised capital of Rs 8 crores, Rs 5.29 crores were spent on the Thermal Power Station which later on was left in between and remained incompletely. Similarly Rs 69.00 lakhs were incurred on abandoned projects and the total accumulated losses were to the tune of Rs 400 lakhs. The total sum of all these were Rs 529 lakhs plus Rs 0.68 lakhs plus Rs 4 lakhs = 9.87 crores. The money or capital through all the sources at disposal was Rs 8 crores as authorised paid up capital Rs 3.12 crores from plan outlay and Rs 0.50 lakhs as cash credit from J & K Bank Ltd, Rs 11.62 crores.

If Rs 9.87 crores are subtracted from total capital i.e. Rs 11.62 crores the remainder is Rs 1162 lakhs minus Rs 987 lakhs which equals to Rs 175 lakhs. Out of this 175 lakhs, Rs 120 lakhs is taken away by the employees in the form of salary and wages. At present there are 1700 employees in this corporation. Thus the wage salary bill of the corporation is Rs 1.20 crores. The remaining capital left with the corporation was Rs 1.75 crores. Deducing 1.20 crores from this amount we are left with Rs 0.55 crores, out of this the corporation will also have to pay interest to the J & K Bank. The money saved is deposited with J & K Bank Ltd which charges its interest at the rate of Rs 18% and further advances cash credit facilities in the form of loans to the corporation. From this statistical and mathematical calculation, it is clear that J & K Minerals Limited is suffering net losses.

Again we find the Debt-equity ratio it shows that the corporation is suffering financial loss. As seen from the table 5.2, column VII, debt-equity ratio has increased from Rs 0.13:1 in 1979 to 0.14:1 in 1980 and further 0.16:1 in 1981 and 0.16:1 in 1982 to 0.18:1 in 1983 the table reveals that the proportion of debt to total capital employed had been steadily increasing during the period under study. Rising debt volume imposes a burden on the enterprise by way of increase of interest charges. This is one of the contributory factors for the low rate of return on paid up capital in public enterprise.

13 See Table 5.2 column VII.
Sources of finance, items of expenditure, source of income and ploughed-back profits are other most important aspect of financial administration in an organization or public undertakings.

Source of Finance: The major sources of finance for public enterprise are:

1. Funds from the Government
2. Loans from bank and financial institution
3. Ploughed-back Profit

The government is often the principal source of capital for public enterprise. The Government funds can be made available to public enterprises in the following major ways or in a combination of these ways¹⁴:

1. As an outright grant
2. As share-capital-giving government the right to receive the undistributed profit of the enterprise.
3. As an interest bearing and repayable loan
4. As an interest-bearing but not repayable loan
5. As a non-interest bearing but repayable loans

An outright grant is not very sound method of financing public enterprises. It may breed irresponsiblity and inefficiency. "The fact that a rate of interest and/or amortisation payments are included among the charges that a public enterprise is required to meet, stimulates efficiency more powerfully than the mere announcement that, eventually it will be expected to yield a surplus, of indefinite amount". Further, if the entire profits of the enterprise are at the disposal of the government, it will not have the same urge to make profits as when its expansion and improvement depend, at least partially upon its own accumulation of reinvestable funds. Loans carrying a rate of interest make the public enterprise recognise that capital is a scarce commodity which has price and therefore is not to be wasted. Further interest payments and repayments can provide funds for the government which can be used for development purposes.

In case of loans, the interest rates and terms of payment are suitably worked out. Particular care is taken in this respect in case of enterprises which are not expected to yield any return in the initial stages of their growth. Some times, the government may grant a moratorium interest payments and repayments. It may even exempt the enterprise from such obligations for a certain number of years without stipulating any subsequent higher payments. The enterprise may also be allowed to capitalise losses.

16 Ibid.
or it may be granted subsidies to cover losses.¹⁷

Public undertakings should prefer equity capital to loan capital. In case of loan capital, the interest obligation is fixed irrespective of fact whether or not the undertakings is making any profit. Loans are another important sources of finance. Often when funds are required for new construction or expansion, they are made available in the form of loans. The sources of finance of JKI Ltd. managing 16 manufacturing industrial units and JKM Ltd. managing 9 manufacturing state industrial units which have been put into operation, are authorized share capital loans from the state government, plan outlay and loans from the J & K Bank in the form of cash credit facilities. These aspects viz., authorized share capital, paid up share capital, funds from the government loans from the bank and other financial institutions of financial administration of these public sector undertakings in J & K State have already been analysed in the first part i.e. capital structure or financial structure of this chapter. Analysis regarding the items of expenditure, sources of income and ploughing back of profit of these state public concerns has been made on the following pages.

(1) J & K Filatures

Mulberry cultivation, seed production, silk yarn rearing and manufacturing expensses which cover purchase of finished goods, raw material, consumable stores, salaries and wages including E.P. fund, other benefits, power and fuel repair and maintenance, carriage, packing and freight and toll tax and other manufacturing expenses. Similarly there are staff welfare expenses including unit, firms, leave salaries and pension contribution, T.A. and conveyance, stationary and printing, postage, telegrams and telephones, interest on government loans, bank loans, maintenance of vehicles, maintenance and repairs, books and periodicals, fees and subscriptions, insurances, power and water charges, staff training expenses, audit fee, legal expenses, board office expenses, miscellaneous expenses and selling expenses which includes advertisement and publicity and exhibition, renovation of show-room, shop expenses, packing, carriage and forwarding, entertainment, debate, commission on sales and other selling expenses. Thus these are the items of expenditure in Jammu and Kashmir Filatures.

The sources of income of this public concern are sale of silk yarn, sale of silk waste and co-coon bye-products.  

2. Silk Weaving Factory, Rajbagh, Srinagar

(a) The items of expenditure in this public sector industrial unit are raw silk, silk wastes and co-coon bye-products. Similarly

18 Interview with the Secretary of Jammu and Kashmir Industries Limited, Srinagar, Kashmir.
their manufacturing expanses, general administration expanses, staff welfare expanses, staff training expanses, and selling expanses etc. The sources of income in this state public sector industrial unit are selling of finished goods, silk fabrics (Georgettes Chinon, Shiffon, O'zeria and Sarees).

(3) **Bemina Woollen Mills**

The items of expenditure in this public concerns are raw material like raw wool, woollen yarn and fabrics. Similarly like in other industrial units there are manufacturing expanses viz., staff welfare and selling expanses etc. The sources of income are sale of woollen and wasted fabrics, knitting and other yarns.

(4) **Knitting Factory**

In this public enterprise also the expenditure is on raw material, machinery, power, fuel, building and manufacturing expanses etc. The income accrues to this public concerns out of the sale of finished goods i.e. hoseiry goods (jersey) socks, gloves etc. This industrial unit of JKI Ltd has a contract with the police department and supplies these hoseiry goods to this department.

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19 Interview with the Manager of J & K State Government Silk Weaving Factory, Rajbagh, Srinagar.
20 Interview with the General Manager of J & K State Government Woollen Mills, Bemina, Srinagar.
21 Interview with the Manager of J & K State Government's Knitting Factory, Jammu, Bemina.
(5) **The Joinery Mills, Jammu (Baribrahmana)**

It makes expenses on purchase of finished goods, raw material consumable stores, power fuel and other manufacturing expenses including salaries and wages of the workers. The sources of income are sale of joinery and furniture and income from contracted works.\(^{22}\)

(6) **R & T Factory, Jammu, Miransahib**

This is the only industrial unit managed by JKI Ltd which has been showing profit every year. This forest-based Rosin and Turpentine factory was established in the year 1939-40 as a commercial concern under the state forest department at an initial cost of Rs 3 lakhs. In 1963 the factory was taken over by the Jammu and Kashmir Industries Ltd. and since then it is functioning as a unit of this concern.

The items of expenditure in this industrial unit are raw material (Chirpine gum, the distillation of oleo rosin machinery power, fuel and other manufacturing expenses including expenses on general Admn, Staff, staff welfare expenses and selling expenses etc. The sources of income of this public enterprise are sale of finished goods. These are Rosin and Turpentine Oil (This is produced by the Old plant The new plant will produce derivatives or bye-products etc. These are ester gum and phenolic

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\(^{22}\) Interview with the Manager of J & K State Government's New Joinery Mill, Bribrahamana, Jammu.
modified from Rosin and Alpha pinene, veta pinene, carenose and longitolenes from the turpentine. This is the only industrial unit managed by JKI Ltd which is making use of most of its own internal sources of income.

(7) **Pharmaceutical Works Baramulla (Kashmir)**

This is a small industrial unit. The items of expenditure in this industrial unit are manufacturing of drugs, santonin, chemicals jin-cutres dyes and spirits. It covers other manufacturing expenses also for example, purchase of finished goods, raw material, consumable stores, salaries and wages, power, fuel, staff welfare expenses and selling expenses including advertisement and publicity and commission to the representatives and finally there are expenses on contracted works, sale of finished goods i.e. santonin, chemicals (Tincutres, dyes and spirit) are the sources of income of this state public sector industrial unit managed by JKI Ltd.

The total expenditure incurred by JKI Ltd was Rs 798.41 lakhs in 1977-78, Rs 761.74 lakhs in 1978-79, Rs 840.31 lakhs in 1979-80 Rs 1101.55 lakhs in 1980-81 and Rs 1238.75 lakhs in 1981-82. The total income of this corporation was Rs 960.22 lakhs in 1977-78, Rs 777.78 lakhs in 1978-79 Rs 935.72 lakhs in 1979-80, Rs 1161.06 lakhs in 1980-81 and Rs 1349.93 lakhs in 1981-82.

23 Interview with the General Manager of J & K State Government Rosin and Turpentine Factory, Miran Sahib, Jammu
24 Interview with the Manager of J & K State Government's Pharmaceuticals Drugs Factory, Baramulla, Kashmir.
During the year 1983-84, the total expenditure incurred by JKI Ltd. was Rs 1689.97 lakhs and the total income of the corporation during this year was Rs 1756.34 lakhs only. So far ploughing back of profit is concerned, this corporation has never depended upon only this source of finance. Almost all the industrial units with exception of R & T Factory, Miransahib are suffering losses. The only industrial unit under this corporation making profit every year right from its inception is the R & T factory Miran Sahib Jammu. The details of profit for the last five years of this industrial unit are as under:

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Net-Profit in Lakhs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978-79</td>
<td>Rs 12.72</td>
</tr>
<tr>
<td>1979-80</td>
<td>Rs 99.95</td>
</tr>
<tr>
<td>1980-81</td>
<td>Rs 50.05</td>
</tr>
<tr>
<td>1981-82</td>
<td>Rs 44.61</td>
</tr>
<tr>
<td>1982-83 upto January 1983</td>
<td>Rs 68.17</td>
</tr>
</tbody>
</table>

In the past this corporation suffered losses to the tune of Rs 431.36 lakhs upto 1977-78 due to old and absolute machinery, low productivity and competition from the market but during the last two years the company has continuously been showing profits as a result of which the accumulated losses are being wiped out. The details of profit for the last few years of this corporation are as under:

<table>
<thead>
<tr>
<th>Years</th>
<th>Profit in lakhs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978-79</td>
<td>Rs 15.08</td>
</tr>
<tr>
<td>1979-80</td>
<td>Rs 90.19</td>
</tr>
<tr>
<td>1980-81</td>
<td>Rs 66.45</td>
</tr>
<tr>
<td>1981-82</td>
<td>Rs 110.64</td>
</tr>
<tr>
<td>1982-83</td>
<td>Rs 84.72</td>
</tr>
<tr>
<td>1983-84</td>
<td>Rs 66.37</td>
</tr>
</tbody>
</table>

Though the corporation has been showing profits continuously for the last 5 years but this is not the satisfactory performances of the company because this is a profit mostly from one of its industrial units i.e. R & T factory Miran Sahib which was 68.17 lakhs in 1983. Whereas the overall profit accrued to this corporation was 84.72 lakhs in 1982-83 and 66.37 lakhs only in

29 Ibid., p 3.
1983-84 out of this the corporation cannot even pay the interest accumulated against it. Out of loans from the State Government and J & K Bank Ltd. The total interest of financial institutions was Rs 25.40 Lakhs on 31.3.1984. Besides, the wages and salary bill of the company is amounted to Rs 257.09 lakhs per annum. Thus ultimately the corporation is suffering huge amount of losses every year. Instead of attributing to development of state economy, this corporation has resulted in development and underdevelopment of the state. This has contributed nothing to the state income.


8 (1) Kalakot Coal Mines

The items of expenditure in these mines are raw material viz., timber and ballies. Similarly there are working expanses viz., power, fuel, reform of machinery and store consumption etc. There are wages/salaries and administration expanses also. Similarly, there are allowancable cost expenditure which covers central stores, medical unit, accounts department (K), regional office (Jammu) Head office etc. Similarly there are expanses on entertainment, publicity and advertisement etc. The total expenditure on coal mines operation in 1982-83 was Rs 95.45 lakhs.
The sources of income in these public concern operating under JKM Ltd are sale of coal extracted from the mines. The extraction of total coal in 1982-83 was 16996 tonnes. The total value of sale in 1982-83 was Rs 96.44 lakhs\(^{30}\).

2. **Precast Concrete Factory, Srinagar and Precast Concrete Factory (Baribrahamana) Jammu**

In this state government factory of JKM Ltd, the items of expenditure are raw material which includes cement, sand, bajri, Ms. Rounds, H.T. and H.B. Wire. The other expenses are same as in other industrial units of this corporation and the source of income are sale of poles, pipes coliers, PC products etc. The total expenses including opening stocks in 1982-83 were Rs 63.77 lakhs and total sale of finished goods was Rs 42.91 lakhs in Precast Concrete Factory (Wuyan), Srinagar\(^{31}\).

3. **Precast Concrete Factory (Baribrahamana) Jammu**

Similarly in the Precast Concrete Factory (Baribrahamana) Jammu, the total expenses during the year 1982-83 were Rs 24.75 lakhs and the total sale of finished good during this year was Rs 21.00 lakhs\(^{32}\).

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30 Interview with the Financial Advisor, Chief Accounts Officer of Jammu and Kashmir Minerals Limited, the Bund, Srinagar.
31 Interviews with the Project Manager of J & K State Government Precast Concrete Factory, Wuyan, Srinagar.
32 Interview with the Accounts Officer of J & K State Government Precast Concrete Factory (Baribrahamana) Jammu.
Cement Factory, Srinagar (Wuyan)

The items of expenditure in this public enterprise of J & K State are raw material viz., limestone, clay, gypsum, coal L.D.C. etc. Similarly there are working, administrative and allocable expenses which are in fact common to all the industrial units of JKM Ltd. the sources of income of this government factory are sale of finished goods, the total expenditure incurred on the production in the factory in 1982-83 was 79.72 lakhs and the total value of sale of finished goods was Rs 70.05 lakhs.

So far ploughing back of profit is concerned, the position of this corporation in even worse than JKI Ltd. This corporation is suffering huge amount of losses every year. of the industrial units operating under this corporation surveyed, the Kalacoat Mines suffered a loss of Rs 21.98 lakhs, Wuyan Cement Factory Rs 9.67 lakhs in 1982-83 only. Precast Concrete Factory earned a little profit of Rs 13 lakhs in 1982-83. The accumulated losses of this corporation i.e. JKM Ltd. were Rs 82.13 lakhs in 1979, 107.63 lakhs in 1980, Rs 177.37 lakhs in 1981, Rs 211.62 lakhs in 1982 and Rs 397.52 in 1983. Following are the reasons for the losses incurred by this corporation:

33 Interviews with the General Manager of J & K State Government Cement Factory, Wuyan, Srinagar.
1. Over-Staffing

Most of the factories operating under JKM Ltd are over-staffed for example if we make a comparison between cement factory Wuyan managed by JKM Ltd. and Cement Factory Khrew operating under the JK Cement Ltd. The targets of cement factory Wuyan is 23 tonnes of cement per day with the labour of 350 workers a day. Whereas Cement Factory Khrew at present is producing 300 tonnes to 400 tonnes of cement per day with the labour capacity of 450 workers a day only. Thus the surplus staff is just a burden on the corporation as well as on the state.

2. Under Utilization of Plants

Besides during the off winter season these two government industrial units remain closed because of extreme and severe cold and snow fall. But workers claim wages/salary even this period which in fact is an incentive for the employees. At present there are 1700 employees in this corporation. In 1984 the total wage/salary bill of the employees was Rs 120 lakhs. Whereas the estimate of profit was Rs 175 lakhs only out of which the corporation was also supposed to pay interest on loans to state and J & K Bank and to meet other expenses also. Thus surplus staff is one of the major reasons responsible for the accumulated and annual losses of the corporation.
3. Similarly lack of technical, know-how lack of interest on the part of employees, unskilled workers, market competition, price rise and lack of natural resources, peculiar design of the plants, non-availability of spares, no systematic maintenance programme and frequent power shut downs etc. are some of the main reasons for the losses of the corporation. During the last five (from 1978-79 to 1982-83) years alone heavy losses amounting to Rs 150.32 lakhs have been noticed of which Kalakot Coal Mines and Wuyan Cement Factory have been the two major contributory units. The Kalakot Coal Mines suffered a loss of Rs 82.61 lakhs from 1978-79 to 1982-83, the Wuyan Cement Factory had accounted for a loss of Rs 71.11 lakhs.

Reasons for the Losses in Kalakot Coal Mines

The main reasons for the losses in Kalakot Coal Mines are as under:

(1) Over the years, while the cost of inputs has registered increase, the production from the various mines has appreciably fallen from year to year. The operation of Bergoa Coal Mine was suspended in February, 1981 due to imposition of section 22(1A) by the Mines Safety Department, Government of India. Due to

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35 Interview with the Secretary of Jammu and Kashmir Minerals Limited, the Bund, Srinagar
37 Ibid.
depletion of coal reserves and erratic behaviour of seams, the output from other mines was also affected.

(ii) Salary/wages got increased by nearly 50% from the year 1980 due to the implementation of wage revisions.

(iii) While the cost of production increased substantial as a result of 1 and 2 above the sale rate could not be increased proportionately in view of the stock market conditions and competition.

Reasons for the Losses in Wuyan Cement Factory

The main reasons for the losses in Wuyan Cement Factory are as under:\n
i) Due to design of the plant, the non-availability of spares has been a chronic problem with this factory. Indigenous sources have been tapped for the development of the spares, yet the spares of suitable quality which could with stand the existing operational conditions of the plant could not be improved. The situation was further aggavated due to excessive wear rate of the parts resulting in mechanical break-downs.

38 Ibid., p 2.
iii) No systematic maintenance programme had been followed in the plant resulting in considerable down-time and loss in the production. Thus these are some of the reasons for the losses of Jammu and Kashmir Minerals Ltd.

**Budgeting**

**Meaning:** No organization can expect to operate successfully without planning for the future. The framing of budgets and the compilation of forecasts are an integral part of effective planning. "Budgeting refers to the formulation of both long and short term for future activity". A Profit Plan or Budgeting includes the establishment of objectives, work programme, drawing up of detailed plans relating to the project, sales, purchases, various production costs, cash and profits etc. It involves more than just forecasting viz., the planned manipulation of all the variables that determine the organization programme in an effort to arrive at some preferred position in the future. It makes for planning before acting and facilitates the checking of results against expectation and estimates. It helps to coordinate all the activities of the business and help in the most effective use of resources with the minimum costs. It is a managerial tool used for planning and controlling the operations of an enterprise.

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40 Welsch, Glenn A; Budgeting: Profit, Planning and Control, New Delhi, Prentice Hall of India Ltd., 1976, p 74

41 Shankaraiah, A; op.cit., p.12.
Budget may mean "a financial and/or quantitative statement prepared and approved prior to a defined period of time, of the policy to be pursued during that period for the purpose of attaining a given objective. It may include income, expenditure and the employment of capital".42

Budget is no longer regarded as a mere "statement of the needs and resources" of an enterprise or a plan adjusting expenses during a certain period, to the expected income for that period" but has come to be recognized as one of the most effective managerial tools of planning, for making management's intention clear for the future of the business, for coordinating, controlling and evaluating performance leading to corrective action.43

Budgeting control forms an integral part of the management control systems in large enterprises. According to Theo-Haimann, when properly used, budgeting control is one of the manager's most effective tool.44 It is the establishment of budget relating to the responsibilities of executives to the requirements of a policy and the continuous comparison of actual with budgeted results either to secure by individual action the objective of that policy or to provide a basis for its revision. Thus it attempts to facilitate planning ahead and setting standards in order to measure the efficiency of the various activities in the organization.

42 Institute of Costs and Works Accounts (ICWA) London - Defm.Low
In a way budgetary control system has been described as a hierarchical combination of a "goal setting machine" for increasing enterprise profit and a goal achieving machine" for facilitating the organizational coordination and planning while achieving the budgeted targets, the budgetary control process by attempting to coordinate sales, manufacturing and finance functions promotes group thinking for policy decisions and provides a stimulant for collective efforts and permits to evolve rational measures of performance.\footnote{Shankaraiah, A; op. cit., p 12.}
FUNCTIONS OF BUDGETS

Budgets perform the functions of authorising, planning coordinating, communicating and controlling, besides promoting the commitment. \(^{46}\)

Authorising is the traditional function of government budgets. \(^{47}\) Planning involves selecting objectives and developing policies, programmes and procedures for achieving them. \(^{48}\) In order to plan, managers have to consider the internal as well as the external factors and take cognizance of changing conditions. The quality of planning is influenced by the status of managerial sophistication in the enterprises.

"Coordination implies synchronisation of individual actions, integration of plans and maintaining a proper balance among the different activity areas. The inflows and outflows of the organizational system must be regulated by coordinated series of operations and activities. Budgeting enables the efforts of each sub-systems to be coordinated integrated and balanced with the efforts of other sub-systems in the light of overall objectives. \(^{49}\)

For the coordination to be effective the budget must be a well laid plan, realistic in nature and content and aim at serving as a tool of dynamic control and effective communication. The

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\(^{46}\) Welsch, Glenn A., op.cit., p 3.


approved budget acts as a device to communicate not only plans, programmes and objectives but also the policies and restrictions to which the organization is expected to adhere.\textsuperscript{50}

A budget programme when properly conceived aims at providing managerial control at different levels of operation. A budget enables the management to compare and measure actual performance against predetermined plans. The control function implies "The use of the budget as a standard for performance" and is suggestive of corrective action designed to assure the attainment of the objectives.\textsuperscript{51} A properly prepared budget highlights an implied two-way commitment between the management and the operating levels to work the budget. The commitment should be subjected to review and adjustment under changing conditions.\textsuperscript{52}

\textbf{PURPOSES OF BUDGETS}

The purpose of budget is to provide\textsuperscript{53}:

a) A realistic estimate of income and costs for a period and of the financial position at the close of the period.

b) A coordinated plan of action which is designed to achieve the estimates reflected in the budget.

\textsuperscript{50} Ibid., p 468
\textsuperscript{51} Ibid., p 469
\textsuperscript{52} Shankaraiah, A., op.cit., p 14.
\textsuperscript{53} Welsch, Glenn A., op.cit., pp 3-4.
c) A comparison of actual results with those budgeted and an analysis and interpretation of deviation by areas of responsibility to indicate courses of corrective action and to lead to improvement in procedures in building future budgets

d) A guide for management decisions in adjusting plans and objectives as uncontrollable conditions change

e) A ready basis for making forecasts during the budget period to guide management in making day-to-day decisions and

f) Encouraging consideration of profit planning necessitating the establishment of profit objectives. In addition, budgets are intended to serve the following purposes:

i) "higher profitability by coordinating efforts, avoiding waste and improving management decisions, and

ii) optional liquidity and the best way of financing the business because of advance knowledge of cash needs".

BUDGETING PRINCIPLES

In order to make budgets effective, management has to formulate them having regard to the following principles:

54 Hofstede, G.H., op.cit., p 22.
a) The budget must be regarded primarily as a tool of management and so it should be sponsored by management. The budget should be geared to organizational philosophy and structure.

b) The determination of the period to be covered by a budget must be on the basis of the needs for effective management action.

c) The budget must reflect reasonably attainable goals. The goals set should neither be frustrating nor get to encourage complacency.

d) The budget organization should take into confidence the line management and assist it in order to facilitate the budget process. There should be a two-way communication between the line and the budget organization. Line management makes decision and should participate in the process of getting the budget. The budgeters must be educated continuously in the budget process through meetings besides budget manuals and other handouts.

e) While the review of budget estimate at successive higher levels should be thorough the prior approval of a budget must be specific and communicated to the different budgetee levels.
f) If the budget is built up by responsibility centres, care has to be taken to see that the planned figures in the responsibility budget should correspond in definition to the accounting figures of actual performance.

g) The line organization should take action on reported variances by way of written or oral explanation of variances and indications of corrective action taken in respect thereof.

h) The plan which the final budget is purported to represent should evolve from careful consideration and evaluation of alternative courses of action. The selected plan for the business should be supported by documented plans in each of the functions.

**STEPS IN BUDGET MAKING**

The budget making process consists of steps like setting guidelines, preparation of estimates, approval of the budget, and implementation and review of the budgets.\(^{56}\)

\(^{56}\) Ibid.
I. Setting Guidelines

Guidelines are set regarding the principal objectives to be sought during the coming year and the broad outlines of the means to be used in reaching those objectives. These guidelines may be in the form of the tentative sales or production estimates or simply general statements of expectations. The guidelines vary greatly in content in different organizations. Sometimes only a brief general statement may be there and some other time detailed information and guidance are given. Expected changes in price levels, changes in policy and projected economic conditions are also included.

II. Preparation of Estimates

On the basis of the guidelines given by top management, each supervisor at the lowest level in the organization has to prepare estimates of the items for which he is responsible. Where budget estimates of one activity level depend upon the estimate of other activity levels, necessary information in time must be sent by the later to the former. The estimates have to be discussed with and approved by the immediate superior and have to be transmitted upward through the organization, i.e. the budget estimates have to move up through the chain of command. At each level, they have to be reviewed and either are approved or changed at the discussion.
with those concerned. Where there is a system of preparing responsibility budgets and programme budgets, the estimates of those budgets must be used in the budget preparation for ensuring overall balance, feasibility and desirability.

III Approval of the Budget

After receiving the budget proposals the finance/account officer in-charge of budgets should scrutinise them, compile the budget and submit it to the Chief Executive of the organization for final approval. The Chief Executive should convene a meeting of all the departmental heads for the budget officer (Finance/Accounts Officer) thorough discussion should take place on each and every aspect of the budget and all important suggestions should be incorporated into the budget. Before incorporating any suggestion, the feasibility of it should be examined by the budget officer and top management. Final approval of the budget, then, should be given by the top management.

IV Implementation and Review

The approved budget has to be transmitted to the organization for its implementation. The act communicates to the organization
the approved objectives during the coming year. The departmental heads, in consultation with their subordinates, have to propose a plan of action for the realisation of targets fixed in the budgets.

Budget proposals have to be reviewed for the purpose of ascertaining their feasibility and desirability. This is done in two ways by finding out whether the anticipated benefits from each proposed activity are enough to justify the proposed expenditures. Another way is to focus attention on the relative merits of different proposals as no organization has unlimited resources.

In J & K State "Jammu and Kashmir Industries Limited" is at present managing 16 manufacturing industrial units and "Jammu and Kashmir Minerals Limited" managing 4 manufacturing industrial units which have been put into operation, these undertakings have followed the same pattern for the preparation of budgets. Budget in these Public undertakings is based on the balance sheets prepared by the Industrial Units operating under these corporations. Further there budget is also based on the actuals of the previous year. These prepare actuals, reviewed estimated and revised estimated budget. Accounts officers in the field offices of these corporations with the consultation of Factory/Mines/Plant, managers in the field offices viz., Manager Personnel, Production Manager, Work Manager, Mines Manager and Marketing and Sales Managers, etc. prepare their provisional balance sheets according to the outlines given by the Head Offices of these Public
undertakings. The estimates in these balance sheets for the current year are based on the actuals of the previous year. All the accounts are completed up to 31st March and the financial year in these public undertakings begins from 1st April. In fact lists and statements are provided by Managers in the mines/factories/plants to the accounts branch and account branch simply compiled and prepares the balance sheet. Balance sheets are also kept with the headquarters of these undertakings located at Srinagar (i.e. JKI Ltd, Srinagar, & JKM Ltd, Srinagar). The headquarters further prepare the overall budget of these corporations. The budget at the headquarters of JKI Ltd and JKM Ltd are prepared by the Budget Cell. The Managing Directors of the respective corporations okay the budget and finally it is approved by the Board of Director with the Chairman at the top. This budget is audited by the audit department. The audit department send a team in the field offices as well as in the head office of these corporations and this team makes a spot study and prepares reports on the basis of budgets prepared by these corporations and information collected and officers both in the field as well as in the head office and if the audit department finds some flaws and weaknesses, the matter is discussed with the authorities in these public undertakings. Finally the annual reports are prepared and put up before the government and these come out in the form of annual audit reports.
and are included in the overall report of the Comptroller and Auditor General of India.

PREPARATION OF BUDGETS

A comprehensive budgetary system generally include:

a) Sales Budget, Production Budgets, Material Budget, Capital Expenditure and Master Budget.

SALES BUDGET

It establishes the expected level of gross income and the scale of operations with which all other budgets are required to be consistent. It is based on a careful analysis of the market condition of a firm, and is broken down into subsidiary budgets which are consistent with an organization's selling function. Those subsidiary budgets may again be broken into short terms budgets.

It is generally the responsibility of the marketing division to translate the annual sales forecast into sales budget. The sales forecast provided the following informations:

57 Interviews with the Financial Advisor of JKI Ltd, Srinagar and the Financial Advisor and Chief Accounts Officer of JKM Ltd., the Bund, Srinagar.
i) Sales by Product Lines
ii) Sales by Territories
iii) Sales by Customer Classes
iv) Statistical Analysis of Previous Sales
v) Total Sales of the Industry and Company Sales by Products and Markets.

A company or corporation should give a careful consideration to the sales budget, for, the structure of all other budgets is largely conditioned by it. A sales budget usually involved the following steps:

i) Sale Forecast
ii) Marketing Plan
iii) Advertising and Promotion Budget
iv) Selling and Distribution Cost Budgets
v) Marketing Cost Budget

Budgeting is a complex operation and this is most evident in the preparation of the sales budget. Many major decisions in business lie in the marketing area, and it is here perhaps more than anywhere else that the art of budgeting is more important. The annual sales budget is the starting point in the budget procedure which leads to the profits budget and projected balance.

60 Welsch, Glenn A., op. cit., p 142.
sheet. The overall sale budgets for the year 1984-85 of JKI Ltd, and JKM Ltd., alongwith unitwise budgets of various public sector industrial units controlled by these manufacturing public undertakings of J & K State are given in the appendix-1. 

Production Budget

It provides not only for expected sales but also for planned changes in the level of stocks. The estimated output is translated into departmental and machine loads, and this output and the capacity of the plant are compared in terms of standard hours of work. From the mass production budget, subsidiary budgets are drawn up. These may be short term budgets for each processing department and each ancillary services departments or industrial unit. The annual sales budget and inventory requirements provide a framework for the production budget. A production budget generally shows the products to be produced during the year and the quantity of each. It contains all the informations required to project the costs of production and translate them into product costs and the cost of sales.

61 Ibid., p 183.
The Production budget indicates the quantity to be manufactured and is prepared by the Chief Executive of the production department. It is, moreover, based on the sales budget the factory capacity and budgeted stock requirements. It is prepared in the first instance, on the basis of the quality and the quantity of the products to be manufactured. In the next stage the quantity to be put into production is scheduled month-wise. Finally a departmental-wise allocation of production is made.

Types of Production Budgets

i) Output Budget: This budget projects the products and the quantity of each product to be manufactured.

ii) Purchase Budget: The products and the quantity of each to be manufactured provides the basis for the purchases budget, which is based on an analysis of the different materials contained in each product multiplied by the quantity of each product which has been budgeted.

iii) Materials Budget: It contains an estimates of the raw materials and purchase parts which are necessary for the manufacture of goods. It also provides a basis for the

62 Ibid.
63 Kulkarni, P.V., op.cit., p 535.
establishment of a purchasing and the terms and quantities to be purchased at specific periods.

The overall production budgets for the year 1984-85 of JKI Ltd. and JKM Ltd. along with the unitwise budgets of various public sectors industrial units controlled by these manufacturing public undertakings of J & K State are given in the appendix-C:Π-14 C:Π-2.

**Expense Budget**

The estimated actual outputs are converted into standard hours to help eliminate wastes and losses which often enter into direct labour costs. This is an assessment of the various expenses that have to be incurred at different stages of production. An expense budget must be in line with the organization of a company and with the classification of the expenses employed by the accounts department.

**Types of Expense Budgets**

**Manufacturing Expense Budget:** This budget contains estimates of the probable cost of running a factory for the period under review.

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65 Welsch, Glenna A., op.cit., p 263.
It shows the amount that the manufacturing departments expect to spend on wages, heat, light, power and fuel, supplies, tool room, plant and maintenance and repairs, development, manufacturing and planning, design or engineering, inspection and other items.

**Selling Expense Budget**: It is prepared by the sales department. The principal items of sales expenditure apart from advertising, are probably salaries and commission, travelling expenses and entertainment and office expenses.

A selling expense budget includes expenditure on new tools, repair, depreciation charges on equipments, etc.

**General and Administrative Budget**: This budget is prepared for providing the necessary legal, secretarial, financial and related services. There are three types of works whose costs are included in general and administration expenses:

- **a)** Administration work, which includes all the appointments that exist because of the organizational structure;

- **b)** Measureable work, which includes all the jobs in which a relatively repetitive type of work is performed; and

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66 Ibid., p 264  
67 Kulkarni, P.V., op.cit.  
c) Programme work, which includes such research related jobs as commercial and scientific research.

It forecasts expenses of the General Executives whose activities are not confined to any one Individual department.

**Advertising Expense Budget**

Any firm may systematically set-up an allocation for advertising expense. The advertising programme may vary in different industries, depending whether the emphasis fall on press advertising, mailing campaigns or personal canvassing. The actual operation through out the period, should be followed in relation to budget allocation.\(^69\)

**An Auxiliary Expense Budget**

This budget includes estimates of expenses to be incurred on the maintenance, accounting, purchasing, secretariate, personnel, credit and collection departments of an organization.\(^70\) The expense budgets for the year 1984-85 of JKI Ltd and JKM Ltd are given in the appendix-C:III-1 & C:III-2.

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69 Kulkarni, P. V., *op. cit.*, p 545.
70 Ibid.
Weaknesses of Budgetary Techniques of JKI Ltd and JKM Ltd Corporations

There are some weaknesses in the preparation of budgets of JKI Ltd and JKM Ltd. Some of these weaknesses are as under:

1. There is no market research surveys conducted when the budget is prepared.
2. There are no systematic methods of data collection for the preparation of budget
4. The involvement of operating level staff is totally absent from the work of budget preparation. Full participation of managers and other subordinates at all levels should be sought in developing the budgeting system. If the employees have effectively participated in developing the budget goals and targets, they will make special efforts to see that the budgeting process succeeds.
4. There is no special budget committee in these state public corporations which normally performs these functions to decide the general policies and guidances, to determine the guidelines, to receive and review individual budget estimates, to reconcile divergent view for resolving the differences, to offer technical advice, to coordinate the
separate budgets prepared by various organizational units and finally to approve the later revisions etc.

Similarly there is no special budget organizations and budget director in these corporations. Budget is prepared by the budget cell which is composed of just few persons in the accounts branches of these corporations. They prepare budgets just because they will have to prepare the budgets forgetting the success of budget process and effectiveness of these budgets. There should be a sound organizational structure for the success of the budgetary system.

6. The budgets of these corporations are based on actuals of previous last year. But to be a successful budgeting it should be based upon the estimates of future also. It should be forecasted with the complete involvement of the operating staff.

7. Availability of finance is taken into consideration rather than the need for finance while preparing the budgets in JKI Ltd and JKM Ltd.

8. Budgets in these corporations are imposed from above i.e. from the head offices of JKI Ltd and JKM Ltd. To be a successful budgeting, Planning and Budget should be decentralised. A sound organizational structure and a clear-out assignment of authorities and responsibilities
provide an effective means to achieve the enterprise objectives and budget goals in a coordinated and efficient manner. The budgetary system should be established in terms of the assigned authorities and responsibilities, the performance of each manager should be evaluated in terms of assigned authorities and responsibilities. If there is no synchronization between the budgeting system and the organization structure of the enterprise, the planning and control system would not be effective.

9. Finally, there is no performance appraisal budget in the selected public undertakings. There should be comparison between the budget and actuals.

Thus to conclude it can be said that the selected public undertakings face many financial problems and there are, several weaknesses in all aspects of financial administration of the said undertakings.