Meaning of Project

A project is an economic activity with a well-defined objective with certain durations and gains to entrepreneurs

A project is a scientifically evolved work plan devised to achieve a specific objective within a specified period of time. It is an individual or collaborative enterprise that is carefully planned to achieve a particular aim.

Classification of Project

Following are the major types of project –

(1) Quantifiable and Non-quantifiable projects: Projects for which a plausible quantitative assessment of benefits can be made art called "quantifiable projects". Projects concerned with industrial development, power generation fall in this category.

On the contrary, Projects for which a plausible quantitative assessment of benefits cannot be made are called "Non-quantifiable projects". Non-quantifiable projects are those where such assessment is not; possible e.g., Health education, defence etc.

(2) Sectoral projects: Sectoral projects have their specific sectors, such as Agriculture and similar sector Irrigation and power sector. Sectoral means relating to the various economic sectors of a society or to a particular economic sector.

- Industry and Mining sector,
- Transport and Communication sector,
- The social services sector,
- Miscellaneous sector.

(3) Techno-Economic projects: This type of classification includes factors intensity-oriented classification, causation• oriented classification, and magnitude-oriented classification.

a) Factor intensity oriented classification

In this category, projects are either capital intensive or labour-intensive depending upon their size & investment pattern. For eg: IT project or service rendering project is labour-intensive depending on their size and investment pattern.

b) Cause-oriented

In this category, projects are based on either the availability of raw material or demand for that project. For eg- Power project required, abundant water, steel plant required iron ore as raw material.

c) Magnitude oriented classification

Here the size of an investment is considered depending on the investment. A project can be classified as a tiny unit investment to 25 lakhs Small-scale unit investment up to 1 crore. Medium scale enterprise investment up to 5 crores or more.

Meaning of Project Report

A Project Report is a document which provides details on the overall picture of the proposed business. The project report gives an account of the project proposal to ascertain the prospects of the proposed plan/activity.

Project Report is a written document relating to any investment. It contains data on the basis of which the project has been appraised and found feasible. It consists of information on economic, technical, financial, managerial and production aspects. It enables the entrepreneur to know the inputs and helps him to obtain loans from banks or financial Institutions.

The project report contains detailed information about Land and buildings required, Manufacturing Capacity per annum, Manufacturing Process, Machinery & equipment along with their prices and specifications, Requirements of raw materials, Requirements of Power & Water, Manpower needs, Marketing Cost of the project, production, financial analyses and economic viability of the project.

Contents of a Project Report

Following are the contents of a project report.

1. General Information

A project report must provide information about the details of the industry to which the project belongs to. It must give information about the past experience, present status, problems and future prospects of the industry. It must give information about the product to be manufactured and the reasons for selecting the product if the proposed business is a manufacturing unit. It must spell out the demand for the product in the local, national and the global market. It should

clearly identify the alternatives of business and should clarify the reasons for starting the business.

2. Executive Summary

A project report must state the objectives of the business and the methods through which the business can attain success. The overall picture of the business with regard to capital, operations, and methods of functioning and execution of the business must be stated in the project report. It must mention the assumptions and the risks generally involved in the business.

3. Organization Summary

The project report should indicate the organization structure and pattern proposed for the unit. It must state whether the ownership is based on sole proprietorship, partnership or joint stock company. It must provide information about the bio data of the promoters including financial soundness. The name, address, age qualification and experience of the proprietors or promoters of the proposed business must be stated in the project report.

4. Project Description

A brief description of the project must be stated and must give details about the following:

- Location of the site,
- Raw material requirements,
- Target of production,
- Area required for the work shed,
- Power requirements,
- Fuel requirements,
- Water requirements,
- Employment requirements of skilled and unskilled labour,
- Technology selected for the project,
- Production process,
- Projected production volumes, unit prices,

Pollution treatment plants required.

If the business is service oriented, then it must state the type of services rendered to customers. It should state the method of providing service to customers in detail.

5. Marketing Plan

The project report must clearly state the total expected demand for the product. It must state the price at which the product can be sold in the market. It must also mention the strategies to be employed to capture the market. If any, after sale service is provided that must also be stated in the project. It must describe the mode of distribution of the product from the production unit to the market. Project report must state the following:

- Type of customers,
- Target markets,
- Nature of market,
- Market segmentation,
- Future prospects of the market,
- Sales objectives,
- Marketing Cost of the project,
- Market share of proposed venture,
- Demand for the product in the local, national and the global market,

It must indicate potential users of products and distribution channels to be used for distributing the product.

6. Capital Structure and operating cost

The project report must describe the total capital requirements of the project. It must state the source of finance, it must also indicate the extent of owner's funds and borrowed funds. Working capital requirements must be stated and the source of supply should also be indicated in the project. Estimate of total project cost, must be broken down into land, construction of buildings and civil works, plant and machinery, miscellaneous fixed assets, preliminary and preoperative expenses and working capital.

Proposed financial structure of venture must indicate the expected sources and terms of equity and debt financing. This section must also spell out the operating cost

7. Management Plan

The project report should state the following.

- Business experience of the promoters of the business,
- Details about the management team,

- Duties and responsibilities of team members,
- Current personnel needs of the organization,
- Methods of managing the business,
- Plans for hiring and training personnel,
- Programmes and policies of the management.

8. Financial Aspects

In order to judge the profitability of the business a projected profit and loss account and balance sheet must be presented in the project report. It must show the estimated sales revenue, cost of production, gross profit and net profit likely to be earned by the proposed unit. In addition to the above, a projected balance sheet, cash flow statement and funds flow statement must be prepared every year and at least for a period of 3 to 5 years.

The income statement and cash flow projections should include a three-year summary, detail by month for the first year, and detail by quarter for the second and third years. Break-even point and rate of return on investment must be stated in the project report. The accounting system and the inventory control system will be used is generally addressed in this section of the project report. The project report must state whether the business is financially and economically viable.

9. Technical Aspects

Project report provides information about the technology and technical aspects of a project. It covers information on Technology selected for the project, Production process, capacity of machinery, pollution control plants etc.

10. Project Implementation

Every proposed business unit must draw a time table for the project. It must indicate the time within the activities involved in establishing the enterprise can be completed. Implementation schemes show the timetable envisaged for project preparation and completion.

11. Social responsibility

The proposed units draws inputs from the society. Hence its contribution to the society in the form of employment, income, exports and infrastructure. The output of the business must be indicated in the project report.

Project Design

Project Design/Plan–Definition

A project design is a formal document designed to guide the control and execution of a project. A project design is the key to a successful project and is the most important document that needs to be created when starting any business project.

A project Design is used for the following purposes:

- To document and communicate stakeholder products and project expectations
- To control schedule and delivery
- To calculate and manage associated risks

A project Design/Plan answers the following basic questions regarding the project:

- Why? – What is the task related to the project? Why is the project being sponsored?
- What? – What are the activities required to successfully complete the project? What are the main products or deliverables?
- Who? – Who will take part in the project and what are their responsibilities during the project? How can they be organized?
- When? – What exactly is the project schedule and when can the milestones be completed?

Project initiation requires detailed and vital documentation to track project requirements, functionalities, scheduling and budget. Poor documentation can lead to disastrous results for all project stakeholders. Formal project plans establish detailed project requirements, including human and financial resource, communications, projected time lines and risk management.

A project plan/design is a formal agreement between the project procurer and developer. It documents and ensures mutual project stakeholder approval while assisting management and technical terms with project tracking.

Project Design and Formulation

This section includes frameworks, approaches and tools to assist in the intial stage of the project cycle, project design and formulation.

Project design includes:

- The systematic identification and prioritization of problems and opportunities to be addressed through development projects
- The identification of a hierarchy of project goals and objectives linked by causal relationships
- The planning of solutions in terms of inputs, activities, outputs, effects and impacts, and
- The assessment of project outcomes.

Project formulation involves making detailed arrangements for the technical and operational aspects of project implementation such as the costing, financing and scheduling of project activities.

The identification of goals and objectives and the definition of inputs, activities, outputs and outcomes during the project design phase guide implementation and inform the assessment of project performance in terms of the efficiency and effectiveness of project delivery, the achievement of project objectives and project impacts.

Project design methods generally involve the use of project logic to link the resources and actions required to implement project activities to their direct outputs, their flow-on effects and their eventual contribution to the overall project goal. This creates a series of causal relationships. However, the link between each cause and its corresponding effect in project logic cannot be guaranteed as other factors also contribute to project effects. Therefore effects and impacts cannot be attributed to the cause with absolute certainty. Despite this lack of certainty, the causal links are critical to designing a project that is capable of achieving its intended outcomes and identifying activities that will contribute to project goals.

Common problems that arise that arise from poor project design include:

- The development of project objectives that are not consistent with the needs and values of intended beneficiaries
- Failure to identify stakeholders and involve stakeholders in project design and formulation, implementation and evaluation in a way that empowers them to act and build ownership of project results
- The development of project objectives that are not measurable and therefore cannot be used to evaluation project performance and achievements or to communicate project results
- Projects activities that do not deliver the desired outcome economically and do not have the desired impact

PROJECT APPRAISAL

Project appraisal is the process of assessing, in a structured way, the case for proceeding with a project or proposal, or the project's viability. It often involves comparing various options, using economic appraisal or some other decision analysis technique. The entire project should be objectively appraised for the same feasibility study should be taken in its principal dimensions, technical, economic, financial, social and so far to establish the justification of the project or The project appraisal is the process of judging whether the project is profitable or not to client.

1. Economic Analysis:

Under economic analysis, the project aspects highlighted include requirements for raw material, level of capacity utilization, anticipated sales, anticipated expenses and the probable profits. It is said that a business should have always a volume of profit clearly in view which will govern other economic variables like sales, purchases, expenses and alike. It will have to be calculated how much sales would be necessary to earn the targeted profit. Undoubtedly, demand for the product will be estimated for anticipating sales volume. Therefore, demand for the product needs to be carefully spelled out as it is, to a great extent, deciding factor of feasibility of the project concern.

2. Financial Analysis:

Finance is one of the most important pre-requisites to establish an enterprise. It is finance only that facilitates an entrepreneur to bring together the labour of one, machine of another and raw material of yet another to combine them to produce goods.

Assessment of the financial requirements both – fixed capital and working capital need to be properly made. You might be knowing that fixed capital normally called ‘fixed assets’ are those tangible and material facilities which purchased once are used again and again. Land and buildings, plants and machinery, and equipment’s are the familiar examples of fixed assets/fixed capital. The requirement for fixed assets/capital will vary from enterprise to enterprise depending upon the type of operation, scale of operation and time when the investment is made. But, while assessing the fixed capital requirements, all items relating to the asset like the cost of the asset, architect and engineer’s fees, electrification and installation charges (which normally come to 10 per cent of the value of machinery), depreciation, pre-operation expenses of trial runs, etc., should be duly taken into consideration. Similarly, if any expense is to be incurred in

remodelling, repair and additions of buildings should also be highlighted in the project report. In accounting, working capital means excess of current assets over current liabilities. Generally, 2: 1 is considered as the optimum current ratio. Current assets refer to those assets which can be converted into cash within a period of one week. Current liabilities refer to those obligations which can be payable within a period of one week. In short, working capital is that amount of funds which is needed in day today's business operations. In other words, it is like circulating money changing from cash to inventories and from inventories to receivables and again converted into cash. This circle goes on and on. Thus, working capital serves as a lubricant for any enterprise, be it large or small. Therefore, the requirements of working capital should be clearly provided for. Inadequacy of working capital may not only adversely affect the operation of the enterprise but also bring the enterprise to a grinding halt. The activity level of an enterprise expressed as capacity utilization, needs to be well spelt out in the business plan or project report. However, the enterprise sometimes fails to achieve the targeted level of capacity due to various business vicissitudes like unforeseen shortage of raw material, unexpected disruption in power supply, inability to penetrate the market mechanism, etc. Then, a question arises to what extent and enterprise should continue its production to meet all its obligations/liabilities. 'Break-even analysis' (BEP) gives an answer to it. In brief, break-even analysis indicates the level of production at which there is neither profit nor loss in the enterprise. This level of production is, accordingly, called 'break-even level'.

3. Market Analysis:

Before the production actually starts, the entrepreneur needs to anticipate the possible market for the product. He/she has to anticipate who will be the possible customers for his product and where and when his product will be sold. There is a trite saying in this regard: "The manufacturer Based on above, the product life cycle has been divided into the following five stages: 1. Introduction 2. Growth 3. Maturity 4. Saturation 5. Decline

4. Technical Feasibility:

While making project appraisal, the technical feasibility of the project also needs to be taken into consideration. In the simplest sense, technical feasibility implies to mean the adequacy of the proposed plant and equipment to produce the product within the prescribed norms.

As regards know-how, it denotes the availability or otherwise of a fund of knowledge to run the proposed plants and machinery.

(i) Availability of land and site. **(ii)** Availability of other inputs like water, power, transport, communication facilities. **(iii)** Availability of servicing facilities like machine shops, electric repair shop, etc. **(iv)** Coping-with anti-pollution law. **(v)** Availability of work force as per required skill and arrangements proposed for training in plant and outside. **(vi)** Availability of required raw material as per quantity and quality.

5. Management Competence:

Management ability or competence plays an important role in making an enterprise a success or otherwise. Strictly speaking, in the absence of managerial competence, the projects which are otherwise feasible may fail. On the contrary, even a poor project may become a successful one with good managerial ability. Hence, while doing project appraisal, the managerial competence or talent of the promoter should be taken into consideration. Research studies report that most of the enterprises fall sick because of lack of managerial competence or mismanagement. This is more so in case of small-scale enterprises where the proprietor is all in all, i.e., owner as well as manager. Due to his one-man show, he may be jack of all but master of none.

Financial Analysis

The process of reviewing and analysing a company's financial statements to make better economic decisions is called analysis of financial statements. In other words, the process of determining financial strengths and weaknesses of the entity by establishing the strategic relationship between the items of the balance sheet, profit and loss account, and other financial statements.

The term 'analysis' means the simplification of financial data by methodical classification of the data given in the financial statements, 'interpretation' means, 'explaining the meaning and significance of the data so simplified.' However, both' analysis and interpretation' are interlinked and complementary to each other.

Significance of Financial Analysis

Finance Manager

Analysis of financial statements helps the finance manager in:

- Assessing the operational efficiency and managerial effectiveness of the company.
- Analysing the financial strengths and weaknesses and creditworthiness of the company.
- Analysing the current position of financial analysis,
- Assessing the types of assets owned by a business enterprise and the liabilities which are due to the enterprise.
- Providing information about the cash position company is holding and how much debt the company has in relation to equity.
- Studying the reasonability of stock and debtors held by the company.

Top Management

Financial analysis helps the top management

- To assess whether the resources of the firm are used in the most efficient manner
- Whether the financial condition of the firm is sound
- To determine the success of the company's operations
- Appraising the individual's performance
- evaluating the system of internal control
- To investigate the future prospects of the enterprise.
- Trade Payables
- Trade payables analyse of financial statements for:
- Appraising the ability of the company to meet its short-term obligations
- Judging the probability of firm's continued ability to meet all its financial obligations in the future.
- Firm's ability to meet claims of creditors over a very short period of time.
- Evaluating the financial position and ability to pay off the concerns.

Investors

Investors, who have invested their money in the firm's shares, are interested in the firm's earnings and future profitability. Financial statement analysis helps them in predicting the bankruptcy and failure probability of business enterprises. After being aware of the probable failure, investors can take preventive measures to avoid/minimize losses.

Objectives of Financial Analysis

main objectives of financial analysis,

Reviewing the performance of a company over the past periods: To predict the future prospects of the company, past performance is analyzed. Past performance is analyzed by reviewing the trend of past sales, profitability, cash flows, return on investment, debt-equity structure and operating expenses, etc.

Assessing the current position & operational efficiency: Examining the current profitability & operational efficiency of the enterprise so that the financial health of the company can be determined. For long-term decision making, assets & liabilities of the company are reviewed. Analysis helps in finding out the earning capacity & operating performance of the company.

Predicting growth & profitability prospects: The top management is concerned with future prospects of the company. Financial analysis helps them in reviewing the investment alternatives for judging the earning potential of the enterprise. With the help of financial statement analysis, assessment and prediction of the bankruptcy and probability of business failure can be done.

Loan Decision by Financial Institutions and Banks: Financial analysis helps the financial institutions, loan agencies & banks to decide whether a loan can be given to the company or not. It helps them in determining the credit risk, deciding the terms and conditions of a loan if sanctioned, interest rate, and maturity date etc.

Break-Even Analysis:

Break-even analysis is of vital importance in determining the practical application of cost functions. It is a function of three factors, i.e., sales volume, cost and profit. It aims at classifying the dynamic relationship existing between total cost and sale volume of a company.

Hence it is also known as "cost-volume-profit analysis". It helps to know the operating condition that exists when a company 'breaks-even', that is when sales reach a point equal to all expenses incurred in attaining that level of sales.

Assumptions of Break-Even Analysis:

The break-even analysis is based on the following set of assumptions:

(i) The total costs may be classified into fixed and variable costs. It ignores semi-variable cost.

(ii) The cost and revenue functions remain linear.

(iii) The price of the product is assumed to be constant.

(iv) The volume of sales and volume of production are equal.

(v) The fixed costs remain constant over the volume under consideration.

(vi) It assumes constant rate of increase in variable cost.

(vii) It assumes constant technology and no improvement in labour efficiency.

(viii) The price of the product is assumed to be constant.

(ix) The factor price remains unaltered.

(x) Changes in input prices are ruled out.

(xi) In the case of multi-product firm, the product mix is stable.

Limitations of Break-Even Analysis:

We may now mention some important limitations which ought to be kept in mind while using break-even analysis:

1. In the break-even analysis, we keep everything constant. The selling price is assumed to be constant and the cost function is linear. In practice, it will not be so.

2. In the break-even analysis since we keep the function constant, we project the future with the help of past functions. This is not correct.

3. The assumption that the cost-revenue-output relationship is linear is true only over a small range of output. It is not an effective tool for long-range use.

4. Profits are a function of not only output, but also of other factors like technological change, improvement in the art of management, etc., which have been overlooked in this analysis.

5. When break-even analysis is based on accounting data, as it usually happens, it may suffer from various limitations of such data as neglect of imputed costs, arbitrary depreciation estimates and inappropriate allocation of overheads. It can be sound and useful only if the firm in question maintains a good accounting system.

6. Selling costs are especially difficult to handle break-even analysis. This is because changes in selling costs are a cause and not a result of changes in output and sales.

7. The simple form of a break-even chart makes no provisions for taxes, particularly corporate income tax.

8. It usually assumes that the price of the output is given. In other words, it assumes a horizontal demand curve that is realistic under the conditions of perfect competition.

9. Matching cost with output imposes another limitation on break-even analysis. Cost in a particular period need not be the result of the output in that period.

10. Because of so many restrictive assumptions underlying the technique, computation of a breakeven point is considered an approximation rather than a reality.

Ratio analysis

Ratio analysis is also defined as the process of establishing and interpreting various ratios for helping in making certain decisions

ANALYSIS AND INTERPRETATION OF RATIOS:

Analysis is the dissection of a complex statement into elements and varied compartments. Whereas Interpretation brings out the meaning of such statements with the help of analysis.

There are four different ways in which ratios may be interpreted.

1. The individual ratio, by itself may have significance of its own. Thus, if the current ratio falls constantly and even goes below one, it may indicate that the liquidity position of the concern is not encouraging.

2. Ratios may be interpreted by expanding the analysis and considering a group of several related ratios. In this way, the ratios whose significance is not fully understood are made more meaningful by the computation of additional ratios like the profitability ratios.

3. The ratios may be compared over time. Moreover the same ratio or a group of ratios is studied over a period of years which indicates significant trends like increase or decrease in stability, etc.

4. The ratios of any given firm may be compared with the ratios of other firms in the same industry known as interfirm comparison. Such comparisons are significant as members of the same industry face similar financial problems.

MERITS :

Ratios give a better idea than the absolute figures placed side by side. Ratios become meaningful when compared with other ratios or with ratios of similar firms. It is an effective

tool in controlling the entire business and planning for the future needs.

The merits of ratio analysis are :

1. Ratio analysis simplifies the comprehension of financial statements.

2. Ratios portray the whole story of changes in the financial position of the business.

3. It provides data for interfirm comparison by which one firm can improve its financial standing and compete successfully with another.

4. Ratios highlight the factors associated with successful and unsuccessful firms.

5. Ratio analysis also makes possible comparison of the performance of the same unit over a period of time.

They are helpful in deciding about the efficiency or otherwise, in the past and likely performance in the future.

6. Ratio analysis helps in planning and forecasting the future activities of the firm.

7. Over a period of time, a firm or industry develops certain norms that may indicate future success or failure. Ratios are effective clues as to whether success may result if the same norms are followed.

LIMITATIONS OF RATIO ANALYSIS:

Ratio Analysis conducted in a mechanical manner is dangerous. However, used intelligently and with good judgement ratios can provide useful insights into a firm's operationi*.

Quantitative relations of the kind represented by ratio analysis are not ends in themselves, but are only means provided for understanding a farm's financial position. Quantitative ratio analysis is not capable of providing precise answers to all the problems faced by a financial manager or a potential fund supplier unless several ratios often related to one another are computed and compared.

Various limitations of ratios are as follows:

1. Ratios are meaningless by itself and acquire significance only when they are studied along with other ratios.

2. Ratio analysis focuses on the accounting data some of which at times turnout to be mere estimates. Any analysis based on the estimated figures, lacks precision which is very essential for the successful implementation of the physical as well as monetary targets.

3. Ratios provide only a part of the information needed in the process of decision-making. The information derived from the ratios must be used with that obtained from other sources so as to ensure a balanced approach in solving the problems.

4. Ratio analysis suffers from the serious limitations of the statistical concepts such as determination of proper standard for comparison, absence of the homogeneity of the data and danger of fallacious conclusions.

5. Financial analysis based on accounting ratios will give misleading results if the effects of changes in price level are not taken into account.

6. The qualitative factors which are important for the successful functioning of the organisation are completely ignored by the ratio analysis and hence, the conclusions drawn may get distorted. Ratio analysis is indeed, a double edged sword which requires a great deal of understanding and sensitivity of the management process rather than mechanical financial skill. But even with these limitations and problems the use of ratios to indicate future trends in business has increased to a great extent.

Profitability Analysis

Profitability ratios are a class of financial metrics that are used to assess a business's ability to generate earnings relative to its revenue, operating costs, balance sheet assets, and shareholders' equity over time, using data from a specific point in time.

Types of Profitability Ratios

Profitability ratios are the most popular metrics used in financial analysis, and they generally fall into two categories: margin ratios and return ratios. Margin ratios give insight, from several different angles, on a company's ability to turn sales into a profit.

Return ratios offer several different ways to examine how well a company generates a return for its shareholders. Some examples of profitability ratios are profit margin, return on assets (ROA) and return on equity (ROE).

Margin Ratios: Profit Margin

Different profit margins are used to measure a company's profitability at various cost levels, including gross margin, operating margin, pretax margin, and net profit margin. The margins shrink as layers of additional costs are taken into consideration, such as the cost of goods sold (COGS), operating and non-operating expenses, and taxes paid.

Gross margin measures how much a company can mark up sales above COGS. Operating margin is the percentage of sales left after covering additional operating expenses. The pretax margin shows a company's profitability after further accounting for non-operating expenses. The net profit margin concerns a company's ability to generate earnings after taxes.

Return Ratios: Return on Assets

Profitability is assessed relative to costs and expenses, and it is analyzed in comparison to assets to see how effective a company is in deploying assets to generate sales and eventually profits. The use of the term "return" in the ROA ratio customarily refers to net profit or net income, the value of earnings from sales after all costs, expenses, and taxes.

The more assets a company has amassed, the more sales and potentially more profits the company may generate. As economies of scale help lower costs and improve margins, returns may grow at a faster rate than assets, ultimately increasing return on assets.

Return Ratios: Return on Equity

ROE is a ratio that concerns a company's equity holders the most since it measures their ability to earn a return on their equity investments. ROE may increase dramatically without any equity addition when it can simply benefit from a higher return helped by a larger asset base.

As a company increases its asset size and generates a better return with higher margins, equity holders can retain much of the return growth when additional assets are the result of debt use.

MEANING

Social cost benefit analysis (SCBA) called Economic analysis, is a methodology developed for evaluating investment projects. In other words, it is concerned with Tactical Decision making within the framework of broad strategic choices defined by planning at the macro level.

Objectives of Social Cost Benefit Analysis

The main focus of Social Cost Benefit Analysis is to determine:

Economic benefits of the project in terms of shadow prices;

1. The impact of the project on the level of savings and investments in the society;
2. The impact of the project on the distribution of income in the society;
3. The contribution of the project towards the fulfilment of certain merit wants (self-sufficiency, employment etc).
4. To determine and measure the expected future economic and social benefits that may be derived from an intended project or activity.
5. To determine and measure the flow of future economic and social costs that would be incurred to accomplish the benefits.
6. To ascertain the net benefits as a result of the above assessment.
7. To range the net benefits that may be realised from each of the alternative projects or activities under consideration.
8. To arrive at a decision as to which of the projects or activities will yield the maximum benefits in relation to set economic standards and defined social goals for the national economy.

Significance of Social Cost Benefit Analysis

Market Imperfections: Market prices, the basis for CBA, do not reflect the social values under imperfect market competition.

Externalities: A project may have beneficial or harmful external effects that are considered in Social CBA, not in CBA.

Taxes & Subsidies: From the social point of view, taxes & subsidies are nothing but transfer payments. But in CBA, taxes & subsidies are treated as monetary costs and benefits respectively.

Concern for Savings: In SCBA, the division between benefits & consumption is relevant wherein higher valuation is placed on savings. But in CBA such division is irrelevant. **Concern for Redistribution**: In SCBA, the distribution of benefits is very much concerning issue where commercial private firm does not bother about it.

Analysis Techniques:

In relation to the analysis of projects for social profitability via SCB Analysis, the following techniques are available:

(i) UNIDO Methodology

(ii) Little and Mirrlee's approach

(iii) Indian Planning Commission methodology

The approaches advocated by the above are same in nature in the sense that they consider distortions in values of foreign exchange, savings and unskilled labour and carry out corrections in a similar way.

UNIDO method—uses the equivalent consumption at critical consumption level. By an application of DCF technique the social IRR (internal rate of return) can be calculated as the yardstick for measurement.

L & M method—uses the uncommitted social income in free foreign exchange at the hands of the Government. This can be in improved by the DCF technique.

Indian Planning Commission's Method—uses the uncommitted social income at the hands of the Government but revalued at shadow exchange rate.

Planning

Planning is the primary function of management. It is the important process of deciding business objectives and charting out the method to accomplish these goals. This includes decision of what type of activity is to be done, where to be done and how the results to be analyzed.

Major Steps in Planning Process

The planning process is different from one plan to another and varies from company to company. Common steps in planning are mentioned below:

1. Establishing goals or objectives: The initial phase of planning process is to establish the business objectives. These organizational goals are made by senior level managers after reviewing numerous objectives. These objectives are based on the number of factors like mission of the organization, abilities of the organization. Once management team establishes the organizational goals, the section wise or department wise objectives are planned at the lower level. Defining the objectives of every department is important and accordingly precise direction is given to the departments.

2. Establishing planning premises: The next step in planning which involves establishing planning premises is the conditions under which planning activities will be done. Planning premises are planning statements that are the expected environmental factors, pertinent facts and information relating to the future such as general economic conditions, population trends, and competitive behaviour. The planning premises can be Internal and External premises, Tangible and Intangible premises, Controllable and non-controllable premises.

3. Determining Alternative Courses

Determining alternative courses is the third step in the planning process. The planner should study all the alternatives, consider the strong and weak points of them and finally select the most promising ones.

4. Evaluating Alternative Courses

Alternative courses so selected should be evaluated in the light of premises and goals. Evaluation involves the study of performance of various actions. Various factors such as profitability, investment requirements, etc., of such alternatives should be weighed against each other. Each alternative should be closely studied to determine its suitability.

Many other factors such are uncertain future trend, problems faced financially, future uncertainties renders the evaluation process, complex and difficult. Usually, alternative plans are evaluated against factors such as cost, risks, benefits, organizational facilities, etc. Computer based mathematical plans and techniques can also be utilized to identify best course of action.

5. Selecting the Best Course

After having evaluated the various alternatives, the most suitable alternative is selected. With this, the plan can be considered to have been adopted. It is exactly the point at which decisions are made. Sometimes, in the best interests of the enterprise, several alternative courses can be adopted.

6. Formulating Derivative Plans

Planning is not complete as soon as the best course is selected. The main plan should be supported by a number of derivative plans. Within the framework of a basic plan, derivative plans are formulated in each functional area. Segregation of master plan into departmental, sectional and individual plans, helps to understand the real nature of future uncertainties. To make the planning process more effective, it should also provide for a feedback mechanism. These plans are meant for the implementation of the main plan.

7. Implementation of Plans

Implementation of plans is the final step in the process of planning. This involves putting the plans into action so as to achieve the business objectives Implementation of plans requires establishment of policies, procedures, standards, budgets, etc.

8. Measuring and controlling the process: It is advised that plans once established should not be executed unless its progress is monitored. Managers must have continually monitor progress of their plans so that remedial action can be taken to make fruitful plan.