

**IMPACT OF BUDGETING ON PROFITABILITY
(A Case Study of Nepal Electricity Authority)**

By

**AMBIKA PRASAD DHAKAL
Shanker Dev Campus
T.U. Regd. No.: 7-3-39-345-2005
Campus Roll No. : 1343/062**

**A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University**

*In partial fulfillment of the requirement for the Degree of
Master of Business Studies (M.B.S)*

**Kathmandu, Nepal
December, 2009**

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

AMBIKA PRASAD DHAKAL

Entitled:

IMPACT OF BUDGETING ON PROFITABILITY (A Case Study of Nepal Electricity Authority)

has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

.....
Shashi Kant Mainali
(Thesis Supervisor)

.....
Prof. Bishweshwor Man Shrestha
(Head of Research Department)

.....
Prof. Dr. Kamal Deep Dhakal
(Campus Chief)

.....
Ghanendra Fago
(Thesis Supervisor)

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

Submitted by:

AMBIKA PRASAD DHAKAL

Entitled:

**IMPACT OF BUDGETING ON PROFITABILITY
(A Case Study of Nepal Electricity Authority)**

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for

Master Degree of Business Studies (M.B.S.)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (Thesis Supervisor)

Member (External Expert)

TRIBHUVAN UNIVERSITY

Faculty of Management

Shanker Dev Campus

DECLARATION

I hereby declare that the work reported in this thesis entitled “**IMPACT OF BUDGETING ON PROFITABILITY (A Case Study of Nepal Electricity Authority)**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Study (M.B.S.) under the supervision of **Shashi Kant Mainali** and **Ghanendra Fago** Lecturer of Shanker Dev Campus.

.....

Ambika Prasad Dhakal

Researcher

T.U. Regd. No.: 7-3-39-345-2005

Campus Roll No. 1343/062

ACKNOWLEDGEMENT

This study has been prepared for partial fulfillment of the requirement for the Master Degree in Business Studies. I am highly privileged to have the opportunity to complete this thesis entitled *Impact of Budgeting on Profitability (A Case Study of Nepal Electricity Authority)*. I would like to express my heartiest gratitude and sincere thanks to my thesis honorable Supervisors Shashi Kant Mainali & Ghanendra Fago of Shanker Dev Campus who encouraged me from initiation to completion of this task with their scholar guidance and profound comments and suggestion. And further more I would like to thank Chairman of research committee, Prof. Bishweshwor Man Shrestha of Shanker Dev Campus.

I would like to express hearty thanks towards all the members of my family who provided regular inspiration and continuous contribution for my success .More specifically, my sincere thanks goes to my dear father Bishnu Pd. Dhakal and mother Padma Kumari Dhakal for their constant encouragement and appreciative understanding without which it would not have been possible for me to complete it in this form. I would like to express my hearty thanks towards; Ananta Gautam, Suman Oli, Dipak K. Lamsal and Nilam Chaurbedi for advising me in my whole research work. I would like to thanks, Srijana Oli for their proper help in typings, designing and printing this dissertation.

At last but not least, I would like to thanks all the staffs of NEA and I would always be grateful for their valuable suggestions, sincere cooperation and providing various information for the study.

Ambika Prasad Dhakal
Researcher

TABLE OF CONTENTS

Recommendation	
Viva-Voce Sheet	
Declaration	
Table of Contents	
List of Tables	
List of Figures	
Abbreviations	

Page No.

CHAPTER – I INTRODUCTION

1.1 Background of the Study	1
1.2 Role of Public Enterprises in Nepal	2
1.3 Nepal Electricity Authority (NEA)	4
1.4 Statement of the Problem	5
1.5 Objectives of the Study	7
1.6 Significance of the Study	7
1.7 Limitations of the Study	8
1.8 Organization of the Study	8

CHAPTER – II REVIEW OF LITERATURE

2.1 Conceptual Framework	10
2.1.1 Concept of Budgeting	10
2.1.2 Concept of Profit	11
2.1.3 Concept of Planning	14
2.1.4 Concept of Profit Planning	14
2.1.5 Fundamental Concept of Profit Planning and Controlling	16
2.1.5.1 Organization Adaptation	16
2.1.5.2 Responsibility Accounting	16
2.1.5.3 Full Communication	17
2.1.5.4 Realistic Expectation	17
2.1.5.5 Flexible Application	18

2.1.5.6 Activity Costing	18
2.1.5.7 Zero- Base Budgeting	18
2.1.6 Establishing the Foundation for Budgeting or Planning	19
2.1.6.1 Characteristics of Good Budgeting	20
2.1.6.2 Objectives of Good Budgeting	20
2.1.6.3 Advantages of Good Budgeting	20
2.1.6.4 Disadvantages and Limitations of Good Budgeting	21
2.1.6.5 Components of Planning or Budgeting	21
2.1.7 Process of Budgeting or Planning	22
2.1.7.1 Identification and Evaluation of External Variable	22
2.1.7.2 Development of Broad Objective of the Enterprise	22
2.1.7.3 Development of Specific Goal for the Enterprise	23
2.1.7.4 Development and Evaluation of Company Strategies	23
2.1.7.5 Executive Management Planning Instructions	23
2.1.7.6 Preparation and Evaluation of Project Plan	23
2.1.7.7 Development and Approval of Strategic and Tactical Profit Plan	24
2.1.7.8 Implementation of Budgeting or Planning	24
2.1.7.9 Use of Periodic Performance Report	24
2.1.7.10 Use of Flexible Expenses Budgets	25
2.1.7.11 Implementation of Follow-up	25
2.1.7.12 Classification of Budgets	25
2.1.7.13 Problems and Limitations of Budgeting	26
2.1.8 Budgeting as a Tool of Profit Planning	27
2.1.9 Objectives of Profit Planning	28
2.1.10 Development of Profit Planning	28
2.1.10.1 Sales Budget or Plan	28
2.1.10.2 Production Plan or Budget	33
2.1.10.3 Material Plan or Budget	35
2.1.10.4 Planning and Controlling Direct Labor Cost	37
2.1.10.5 Planning and Controlling Expenses	37
2.1.10.6 Manufacturing Overhead Budget	38

2.1.10.7 Selling and Distribution Expenses Budget	39
2.1.10.8 Administrative Expenses Budget	39
2.1.10.9 Capital Expenditure Budget	39
2.1.10.10 Planning Cash Flows	44
2.1.10.11 Completion and Application of the Budgeting or Profit Planning	46
2.1.10.12 Ratio Analysis in Profit Planning	47
2.1.10.13 Cost volume Profit Analysis	47
2.1.11 Performance Evaluation	50
2.1.12 Analysis of Budget Variances	50
2.2 Review of Thesis	51

CHAPTER – III RESEARCH METHODOGY

3.1 Introduction	63
3.2 Research Design	63
3.3 Population and Sample	63
3.4 Nature and Sources of Data	63
3.5 Selection of Research Variables	64
3.6 Methods of Data Analysis	64

CHAPTER – IV DATA PRESENTATION AND ANALYSIS

4.1 Analysis of Sales of NEA	67
4.2 Analysis of Income Statement of NEA	69
4.3 Statistical Analysis of Sales	76
4.3.1 Correlation Coefficient between Actual Vs Budgeted Sales	78
4.4 Relationship between Sales and Other Income Statement Variables	78
4.5 Major Findings of the Study	84

CHAPTER –V SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary	86
5.2 Conclusion	87
5.3 Recommendations	88

Bibliography

Appendix

LIST OF TABLES

Table No.	Title	Page No.
4.1	Budgeted and Actual Sales with Variance in Unit	68
4.2	Budgeted and Actual Sales with Variance in Rs.	68
4.3	Comparison of Income Statement for the year 2064/2065	
	70	
4.4	Comparison of Income Statement for the year 2063/2064	
	71	
4.5	Comparison of Income Statement for the year 2062/2063	
	72	
4.6	Comparison of Income Statement for the year 2061/2062	
	73	
4.7	Comparison of Income Statement for the year 2060/2061	
	74	
4.8	Comparison of Overall Income Statement	75
4.9	Relationship of Budgeted and Actual Sales	76
4.10	Comparative Budgeted Income Statement with Statistical Calculation	79
4.11	Comparative Actual Income Statement with Statistical Calculation	82

LIST OF FIGURES

Figure No.	Title	Page No.
4.1	Budgeted Sales vs. Actual Sales of NEA	77
4.2	Budgeted Sales Vs Actual Sales of NEA	77

ABBREVIATIONS

A/c	=	Account
ARR	=	Average Rate of Return
BEP	=	Break Even Point
CA	=	Current Assets
CL	=	Current Liability
CV	=	Coefficient of Variance
CVP	=	Cost Volume Profit
EBL	=	Everest Bank Ltd.
EOQ	=	Economic Order Quantity
FC	=	Fixed Cost
FY	=	Fiscal Year
GPI	=	Gosheli Packaging Industry
GRTI	=	Ganga Rosin and Tarpetine Industry
GWh	=	Giga Watt per Hour
HBL	=	Himalayan Bank Ltd.
HBTF	=	Harisiddi Bricks and Tiles Factory
i.e.	=	that is
IRR	=	Internal Rate of Return
NBBL	=	Nepal Bangladesh Bank Ltd.
NEA	=	Nepal Electricity Authority
NPV	=	Net Present Value
PE	=	Public Enterprise
PI	=	Profitability Index
PPC	=	Profit Planning and Control
Rs.	=	Nepalese Rupees
SD	=	Standard Deviation
TU	=	Tribhuvan University