

A STUDY ON BUDGETING PRACTICES IN NATIONAL TRADING LIMITED

A THESIS

Submitted By:

Arpan Bhandari

Nepal Commerce Campus

Campus Roll No.: 705/062

Exam Roll No.: 1714

T.U. Registration No.:7-2-25-563-2005

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 (MBS)***

New Baneshwor, Kathmandu

January, 2009

RECOMMENDATION

This is to certify that the thesis submitted by

Ms. ARPAN BHANDARI

Entitled

"Budgeting Practices in National Trading Limited".

has been prepared as approved by this department in the prescribed format of faculty of Management. This is forwarded for examination.

Keshav Nath Wagle
Pokhrel
(Thesis Supervisor)
Department)

Dr.BihariBinod
(Head of the Research
Department)

Diwakar Pokhrel
Campus Chief

Date:.....

VIVA VOCE SHEET

We have conducted the Viva-Voce examination of the thesis submitted
by

ARPAN BHANDARI

Entitled

**"BUDGETING PRACTICES IN NATIONAL
TRADING LIMITED"**

And found the thesis to be original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the degree of Master in Business Studies (MBS).

Viva Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (External Expert)

Date

DECLARATION

I hereby, declare that the work reported in this thesis entitled "Budgeting Practices in National Trading Limited" submitted to Research Department of Nepal Commerce Campus, Minbhawan, T.U. is my original work done for the partial fulfillment of the requirements for Master of Business Studies under the supervision of Mr. Keshav Nath Wagle, Nepal Commerce Campus, T. U.

Arpan Bhandari

Nepal Commerce Campus

Campus Roll No. 705/062

Exam Roll No.. 1714

T U Redg. No.7-2-25-563-2005

Date:.....

ACKNOWLEDGEMENTS

The present study 'Budgeting Practice in National Trading Limited' has been carried out to appraise the profitability of the company within the conceptual framework of profit planning and control. The core area of profit planning is profitability of the firm. Profit planning is a systematically devised tool to help management for increasing the chances of making profit in a firm.

National Trading Limited being a state owned leading trading house, play a significant role in the national economic development. National Trading Limited has over the years built considerable expertise to render various services to the people. As there are in the country greater economic challenges and increased social responsibilities for Government of Nepal to fulfill, NTL as a service oriented Trading corporation can contribute substantially in these directions. As the public sector trading organization, NTL is sometimes subjected to criticism on its performances. However, there are some genuine constraints faced by NTL. It is certainly due to the heavy responsibility that NTL has shouldered for providing support services to the nation's agricultural and industrial sectors on the other hand, and also providing consumer goods of daily necessity to the general masses regularly and at a reasonable price. This study will be useful to provide information and to draw attention of NTL management regarding what can be done for future planning of revenue and cost control practices to increase the profitability pattern.

I would like to take this opportunity to express my deep sense of gratitude to our respected teacher and the advisor of this study Mr. Keshav Nath Wagle for his excellent and helpful guidance and supervision. I am extremely indebted to our respected teacher prof. Dr. Bihari Binod Pokherel, Head of Research Department, Nepal Commerce Campus for his valuable suggestions and inspirations.

I express my sincere thanks to all the members of NTL staff specially Ms. Sangita Bajracharya for her kind cooperation for providing the complete data of NTL.

I would like to render my sincere thanks to my friends Mr. Janak Subedi, Mr. Ashok Jha, Ms. Sunita Shrestha and Bhisma Prashai for their kind cooperation who supported me to complete this study in time.

I would like to express my heartfelt thanks to my husband for his kind cooperation and support to complete this study in time. My sincere thanks go to Ms. Punita Pradhan and Friendly Cyber for their help and timely service in designing and printing this thesis in a limited margin of time.

Finally due to limitations of resource constraints and others, the study may have shortcomings. Therefore, I do not want to declare that the study is fully complete. I hereby, take the responsibility of any defects of analysis or errors in this thesis.

January, 2009

Arpan Bhandari
Kathmandu

TABLE OF CONTENTS

Viva Voce Sheet	
Recommendation Letter	
Declaration	
Acknowledgements	
List of Abbreviations	
List of Tables	
List of Figures	

Page No

CHAPTER-ONE: INTRODUCTION **1-11**

1.1	General Background	<u>1</u>
1.2	National Trading Limited: An overview.....	<u>4</u>
1.3	Statement of Problem.....	<u>7</u>
1.4	Focus of the Study	<u>9</u>
1.5	Objectives of the study.....	<u>10</u>
1.6	Scope of the study.....	<u>10</u>
1.7	Limitation of the study.....	<u>11</u>
1.8	Organization of the study.....	<u>11</u>

CHAPTER-TWO: REVIEW OF LITERATURE **12-70**

<u>2.1</u>	Conceptual <u>Framework</u>	<u>12</u>
2.1.1	The Basic Element of Financial Report and Budget.....	<u>12</u>
<u>2.1.2</u>	Planning	<u>20</u>
2.1.3	Budgeting.....	<u>22</u>
2.2	The Fundamental Concepts of BUDGETING.....	<u>26</u>
2.2.1	Management Involvement and commitment	<u>27</u>
2.2.2	Organizational Adaptation	<u>28</u>
2.2.3	Responsibility Accounting.....	<u>29</u>
2.2.4	Full Communication	<u>29</u>
2.2.5	Realistic Expectations.....	<u>29</u>
2.2.6	Time Dimension.....	<u>30</u>
2.2.7	Flexible Application.....	<u>30</u>
2.2.8	Behavioural View Point.....	<u>31</u>
2.2.9	Zero Base Budgeting.....	<u>31</u>
2.2.10	Follow Up	<u>32</u>
2.3	Basic Objectives of Budgeting and Control.....	<u>32</u>
2.4	Forecasting Vs. Planning	<u>33</u>
2.4.1	Strategic Long Range Planning	<u>34</u>
2.4.2	Medium Term Planning	<u>34</u>
2.4.3	Short Term Planning	<u>35</u>
2.5	Corporate Planning	<u>35</u>
2.6	Process of Budgeting	<u>36</u>
2.6.1	Identification and Evaluation of External Variable	<u>36</u>
2.6.2	Development of the Broad Objective of the Enterprise.....	<u>36</u>
2.6.3	Development of the Specific Goals for the Enterprise	<u>37</u>

2.6.4	Development and Evaluation of Company Strategies	38
2.6.5	Preparation and Evaluation of Project Plans.....	38
2.6.6	Executive Management Planning Instructions.....	39
2.6.7	Development and Approval of Strategic and Tactical Budgets.....	39
2.6.8	Implementation of Budget	39
2.6.9	Use of Periodic Performance Reports.....	40
2.6.10	Use of Flexible Expenses Budget	40
2.6.11	Implementation of Follow Up.....	41
2.7	Importance of Budgeting	42
2.8	Assumptions/Limitations of Budgeting	43
2.9	Development of Budgeting	45
2.9.1	Sales Budget or Plan	46
2.9.2	Sales Planning and Forecasting	47
2.9.3	Strategic and Tactical Sales Planning	48
2.9.4	Developing a Sales Plan.....	49
2.9.5	Evolution of Alternatives	50
2.9.6	Selling and Distribution Expenses Budget or Plan:	51
2.9.7	Administrative Expenses Budget.....	51
2.9.6	Capital Expenditure Budget.....	52
2.9.7	Process for Planning and Controlling Capital Expenditure	53
2.9.8	Capital Expenditure Decisions.....	54
2.9.9	Planning and Controlling Cash Flows (Cash Budget).....	56
2.9.10	Planning for Non-Manufacturing Concerns:	58
2.9.11	Other Budgets	60
2.10	Implementation of the Budget	61
2.10.1	Completion of the Annual Budget	61
2.10.2	Implementing the Budget.....	61
2.10.3	Performance Report	62
2.10.4	Analysis of Budget Variance	64
2.11	Brief Review of Previous Research work.....	66
2.12	Research Gaps.....	70

CHAPTER-THREE :RESEARCH METHODOLOGY 71-72

3.1	General.....	71
3.2	Research Design.....	71
3.3	Period Covered.....	71
3.4	Data Gathering Procedure.....	72
3.5	Research Variables.....	72
3.6	Data Analysis Tools	72

CHAPTER-FOUR: PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA 73-122

4.1	Introduction.....	73
4.2	Analysis of Sales and Marketing Plan	73
4.2.1	Pricing policy of NTL.....	73
4.2.2	Distribution	74

4.2.3	Promotional Policy of NTL	75
4.2.4	Analysis of Sales	75
4.3	Analysis of Purchase of NTL.....	83
4.4	Analysis of Inventory Levels	86
4.5	Storage of facilities of NTL	89
4.6	Manpower Planning	90
4.7	Administrative Expense Budget	91
4.8	Capital Expenditure Plan	92
4.9	Cash Flow of NTL	93
4.9.1	Cash Budgeting.....	96
4.9.2	Cash Flow Analysis	96
4.10	Analysis of Financial Statements of NTL.....	97
4.11	Variance Analysis	99
4.12	Analysis of Profit Pattern.....	100
4.13	Cost Volume Profit Analysis	102
4.14	Analysis of Financial Position by Applying the Tool of Ratio Analysis.....	105
4.14.1	Liquidity Analysis.....	109
4.14.1.1	Current Ratio.....	110
4.14.1.2	Quick Ratio	110
4.14.2	Activity Analysis	111
4.14.2.1	Inventory Turnover Ratio	112
4.14.2.2	Asset Turnover Ratio	112
4.14.3	Profitability Analysis	113
4.14.3.1	Profitability in Relation to Sales	115
4.14.3.1.1	Gross Profit Margin Ratio.....	116
4.14.3.1.2	Net operating Profit Margin Ratio	116
4.14.3.1.3	Net Profit Margin Ratio	118
4.14.3.1.4	Operating Expenses Ratio.....	119
4.14.3.2	Profitability in Relation to Investment.....	121
4.14.3.2.1	Return on Capital Employed.....	121
4.15	Major Findings.....	122

CHAPTER-FOUR:SUMMARY, CONCLUSION AND RECOMMENDATION

124-127

5.1	Summary	124
5.2	Conclusion	125
5.3	Recommendations.....	127

BIBLIOGRAPHY

APPENDIX

LIST OF TABLES

	Page No
Table No. 4.1: Sales Plan (by product)	<u>77</u>
Table No. 4.2: Planned Sales and Actual Sales	<u>78</u>
Table No. 4.3: Time Series Analysis of Actual Sales	<u>82</u>
Table No. 4.4: Planned and Actual Purchase	<u>84</u>
Table No. 4.5: Actual and Actual Purchase	<u>86</u>
Table No. 4.6: Opening and Closing Inventories for the year	<u>89</u>
Table No. 4.7: Storage Capacity	<u>91</u>
Table No. 4.8: Summary of Employees data	<u>92</u>
Table No. 4.9: Administrative Expenses Budget and Actual	<u>93</u>
Table No. 4.10: Capital Expenditure Plan (by detail).....	<u>94</u>
Table No. 4.11: Capital Expenditure Budget and Achievement.....	<u>94</u>
Table No. 4.12: Cash Balance at the End	<u>97</u>
Table No. 4.13: Cash Flow Analysis	<u>98</u>
Table No. 4.14: Purchase Variance.....	<u>101</u>
Table No. 4.15: Sales Variance.....	<u>101</u>
Table No. 4.16: Profit Pattern for the Years	<u>102</u>
Table No. 4.17: Least Square Trend of Profit.....	<u>104</u>
Table No. 4.18: Net Operating Profit Forecast	<u>105</u>
Table No. 4.19: Classification of Cost (Based on FY 2059/060)	<u>106</u>
Table No. 4.20: Cost Volume Profit Analysis under Different Assumption	<u>109</u>
Table No. 4.21: Current Ratio Analysis.....	<u>110</u>
Table No. 4.22: Quick Ratio Analysis	<u>111</u>
Table No. 4.23: Inventory Turnover Analysis	<u>112</u>
Table No. 4.24: Asset Turnover Analysis.....	<u>114</u>
Table No. 4.25: Current Assets Turnover Analysis	<u>115</u>
Table No. 4.26: Gross Profit Margin Trend Analysis.....	<u>116</u>
Table No. 4.27: Net Operating Profit Margin Analysis.....	<u>117</u>
Table No. 4.28: Net Profit Margin Analysis.....	<u>118</u>
Table No. 4.29: Operating Expenses Analysis	<u>119</u>
Table No. 4.30: Detailed Operating Expense Analysis	<u>120</u>
Table No. 4.31: Return on Capital Employed Analysis.....	<u>121</u>

LIST OF FIGURES

	Page No
Figure 1: Planned Sales and Actual Sales	<u>80</u>
Figure 2: Purchase Plan & Achievement Trend	<u>85</u>
Figure 3: Purchase Plan & Achievement (Bar Diaram)	<u>86</u>
Figure 4: Actual Sales and Actual Purchase Trend	<u>88</u>
Figure 5: Actual Sales and Actual Purchase (Bar Diagram)	<u>88</u>
Figure 6: Budget and Actual Capital Expenditure	<u>95</u>
Figure 7: Profit Pattern for the years	<u>102</u>
Figure 8: Expected Profit Forecast	<u>105</u>

Abbreviations Used

BEP	-	Break Even Profit
BOM	-	Beginning of the Month
BUDGETING	-	Budgeting and Control
CM	-	Contribution Margin
CGI	-	Ending on the Month
CVP	-	Cost Volume Profit
DCF	-	Discounted Cashflow
FC	-	Fixed Cost
FY	-	Fiscal Year
GI	-	Galvanized Iron
NTL	-	National Trading Limited
NPV	-	Net Present Value
PE	-	Public Enterprise
PEs	-	Public Enterprises
PV	-	Profit Volume
VC	-	Variable Cost
VV	-	Variable Cost Volume