IMPACT OF SALES AND PRODUCTION BUDGETS ON PROFITABILITY;

A case study of Nepal Telecommunication Company and Nepal Electricity Authority

A Thesis

By

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CERTIFICATION OF AUTHORSHIP

I certify that the work in this thesis has not previously been submitted for a degree or has it been submitted as part of requirement for a degree except as fully acknowledge within the text.

I also certify the thesis has been written by me. Any help that I have received in my research work and the preparation of this thesis itself has been acknowledged. I certify that all information sources and used are indicated in the reference selection of the thesis.

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Researcher

Date

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ABBREVIATION

NEA	:	Nepal Electricity Authority
NTC	:	Nepal Telecommunications
BP	:	Budgeted Production
BS	:	Budgeted Sales
ROE	:	Return on Equity
FTTH	:	Fiber to the home
CCC	:	Customer Contact Center
F/Y	:	Fiscal Year
BCS	:	Budgetary Control System

ABSTRACT

A budget is an accounting tool that sets the costs and revenues goals for responsibility centers within an organization and also a measurement tool for control, coordination, communication, performance and motivation. Thus, dissemination of knowledge about budgetary goals should be carefully planned by upper management and understood by members of organizations so that they can implement an effective budget. The purpose of this study was to analyze the impact of organizations' sales and production budget on performance management and decision making.

The research used convenience sampling procedure to draw the sample. And the samples are 2 public service enterprises operating under public service utility of Nepal throughout 3 public enterprises. This research examined the present conditions and practices of NTC and NEA organizations relating to production and distribution of the services and electricity in the country. The research also tries to assess the impact of sales and production budget on profitability of NTC and NEA organizations. The research has been used primary as well as secondary data. The research has been followed with descriptive and analytical approach was used. A structured questionnaire was used to collect primary data from the respondents which were analyzed by simple percentage and statics tools. According to the primary data, the study also revealed that there is an impact of sales and production budget on profitability. It can be concluded that, general, the sales and production budgeting practices were still traditional perspectives because of lack of expertise, lack of coordination to staff & department and nature & size of the business.

Based on the result, the study recommended that, to achieve the targeted growth rate in sales revenue and production, NEA and NTC should make realistic forecast. Sales and production forecasting should be made after analyzing all variables that affect the sales and production. The study also recommended that organizations shall utilize its optimum capacity by importing the modern technology around the world and by making a group of effective management.

CHAPTER I

INTRODUCTION

1.1 Background of the study

Nepal started planning economic development and established national planning commission after 1956. Then, give effort to obtain rapid economic growth. Public enterprises those support economic activities so that it is back bone of the country. Main objectives of establishing public enterprises in Nepal are to provide basic goods and services to consumer at reasonable price, to build the infrastructure of development, to contribute on economic growth development & infrastructure development and to promote social justice. Here, an effort has attempted to understand the impact of budget on profitability in public utility. To understand it more precisely and convey information for further use of this research, different sector of Nepalese public enterprise such as Industrial sector, Trading sector, Service sector, Public utility service sector, and financial sector. From these different sector, public utility service sector undertaken for study and analysis. (https://www.mof.gov.np/yellowbook)

There are three public enterprises operating under public utility service sector as given below:

a. Nepal Electricity Authority.
b. Nepal Telecommunication Company Ltd.
c. Nepal Drinking Water Supply Corporation.

The main aim of budgeting is to present the future forecasting, numerically expressed in an appropriate format so as to properly control scarce resources. A budget must be prepared in advance of commencing operations, stating what and how things are to be done. It covers a definite period of time, usually one year. Budgeting is an artistic work as well as, in which numerical plan is presented in well structured schedules. Budgets, basically, are forecasted financial statements – formal expression of managerial plans that encompass all phases of operation including sales, production, purchasing, manpower and financing the annual budget may, then, be broken down by month, weeks and days of operations. The budget involves the statement of plans, the coordination of these plans into well-balanced programs, and the constant watching of actual operations to endure that they are kept in line with the predetermined plans (Bajracharya, et. al, 2015).

Business budgeting is a basic and essential process that allows businesses to attain many goals in one course of action. There are several goals that many businesses seek to achieve (or should be trying to work toward) when they create and implement a budget. These goals include control and evaluation, planning, communication, and motivation (Lucey, 2004), suggests that budgeting is a process of planning the financial operations of a business. Budgeting as a management tool helps to organize and formulize management's planning of activities. Budgeting as a financial tool is useful for both evaluation and control of organizations for the planning of future activities. Budgeting as a tool in financial management regularly prepares performance plans and budgets requests that describe performance goals, measures of output and outcomes in various activities aimed at achieving performance goals. This helps in the sense that annual plans set forth in measurable terms form the levels of performance for each objectives in the budget period. A company should earn profit to survive and grow over a long period of time. Profits are essential, but it would be wrong to assume that every action initiated by management of a company should be viewed at maximizing profit. Therefore, profitability shows the overall efficiency of the company.

The budget is a planning document which contains a number of financial and / or nonfinancial information that refers to the activities that will take place in the future. Budgeting is the activity of recording financial and / or non-financial elements into the budget (Achim, 2009a). Blumentritt defines budgeting as "the process of allocating an organization's financial resources to its units, activities and investments" (Blumentritt, 2006), while Horngren et al. sees budget as the quantitative expression of a proposed plan of action by management for a specified period and an aid to coordinating what needs to be done to implement that plan (Horngren et al., 2004).

1.2 Introduction of Nepal Electricity Authority

Nepal Electricity Authority, a full government undertaken public utility enterprise, was formed on 1st, Bhadra 2042 BS (1985 AD) amalgamating with the department of electricity, Nepal Electricity Corporation and number of other related departments operate according to the provision of NEA act 2041 BS. The central office of NEA is in Kathmandu. On the basis of organization expansion, number of its staffs, its assets and investment, and areas of its power supply works, NEA is the largest public utility enterprise in Nepal. It has established its branch offices, distribution sectors, power houses; grid houses in all over the kingdom are about 200. About 10000 staffs are presently employed here. The main purpose of NEA is to provide electricity service to customers at an affordable price. It is also responsible for making generation, transmission and distribution of Electricity throughout the kingdom of Nepal.

NEA presently serves 2868,000 customers (a growth of about 5.72% over that of the previous Fiscal Year) across all the 75 districts of the country. Electricity supply is provided through twenty eight majors and twenty three small hydropower plants owned by NEA and sixty hydropower plants owned by IPPs. Besides, two thermal and two solar power plants under the ownership of NEA also cater to the demand. In terms of installed capacity of NEA's integrated grid, hydroelectric power accounts for 782.451 MW (including 453.6 MW under private ownership) and thermal power, 53.410 MW. The integrated grid has a total of 787.087 MW installed hydropower capacity.

Annual peak power demand of the integrated Nepal Power System in fiscal year 2014/15 was 1291.8 mw, with 585 load shedding. Out of the power actually supplied 357.68 mw was contributed by NEA hydro 124.71 mw by IPP hydro and the rest 224.41 mw was imported from India. Compare to the preceding fiscal years figure of 1201 mw, the annual peak power demand of INPS a registered a growth rate of 7.56%. Considering supply option available , NEA had predicted resorting to a maximum of 12 hours of daily load shedding during the driest month of January, February, March and April.

1.3 Introduction of Nepal Telecom

Nepal Telecom was registered on 2060-10-22 under company Act, 2053. Then Nepal Telecommunications corporations (NTC) was dissolved and all asset and liabilities were transferred to Nepal Telecom effective from 2061-01-01. The company with its long history is on the way of customer service and nation building. Nepal Telecom is the incumbent service provider and has been providing basic PSTN (public switched Telephone Network) telephone services to the general public. Presently the service is available in all 75 districts expanding the reach of telecommunication service to even extremely remote areas NT's services have contributed greatly to the social, cultural, economic and educational spheres of the nation. Globally, wireless services, however, in Nepal its demand is still considerable due to attraction of the general public to its data services like ADSL. With the one set of triple play and other value added services, wire line services are expected to stay longer.

The company has planned to distribute around 2.26 million telephone lines in the financial year 2015/16. Considering the need of the customer, new and modern value added services will be provided and network will be expanded by installing new BTS. In the financial year 2015/16, the company has targeted to increase its wireless mobile subscriber by around 2.23 million. In order to facilitate the rural areas of Nepal from the internet services, the company plans to expand its Wi MAX system based on wireless technology in dense area as well as increase the bandwidth of ADSL service.

In the Wire-line system, the project of replacing its existing Switching Systems by IP-Based Wire-line (NGN based) systems and providing Triple Play (Voice, Data & Video) Services to its customers has been put into operation. The company further plans to add MSAG exchanges in new market and sub rural areas. The company has targeted to distribute around 29,000 PSTN lines through ONU (Optical Network Unit) and Access Node in financial year 2015/16. Similarly, to provide quality data service, the company has planned to increase the capacity of ADSL and also outsourced the repair and maintenance service of ADSL.

Convergent Real Time Billing and Customer Support (CRTB & CS) System was procured to facilitate its customers with one window billing system for all services.

Integration of billing system of its new IP-CDMA system, GSM Prepaid, WiMAX have been completed, and company targets to integrate billing systems of the new IP-based GSM (Postpaid) in the financial year 2015/16. Product and services of NTCL are PSTN, GSM, CDMA and ADSL. The total telephone distribution (PSTN, GSM and CDMA) is 12982843. Likewise subscriber of CDMA, GSM, PSTN and Internet are 1395530, 10920752, 665660 and 6514536.

1.4 Statement of the problem

The overall performance of the enterprises is not satisfactory as per their annual reports, economic survey, government report, Nepal Rastra Bank's report published articles. One of the main reason of poor performance is poor planning, controlling and process by decision making by the management. Nepal Telecom Corporation and Nepal Electricity Authority are major public enterprises functioning in public sector has not been able to manage and supply of services in both urban as well as rural areas of Nepal. Systematic distribution of communication services is the main constraint of NTC.

NEA, the major leading public Enterprise functioning in public utility sector has not been able to generate and supply electricity to rural areas. It has not completed many projects yet. Moreover, no enterprise can survive without profit. The success or failure of any enterprise is measured on the basis of profitability or surplus. The profit depends on the systematic budgeting and financial performance.

The study has dealt with the following problems:

1. What are the present conditions and practices of NTC and NEA organizations relating to production and distribution of the electricity and telecommunications services in the country?
2. What is the trend of sales and production budget of NTC and NEA organizations?
3. What is the effect of sales and production budget on profitability of NTC and NEA organizations?

1.5 Purpose of the study

The general objective of this study has to analyze the impact of budgeting on profitability of sample organizations with the following specific objectives:-

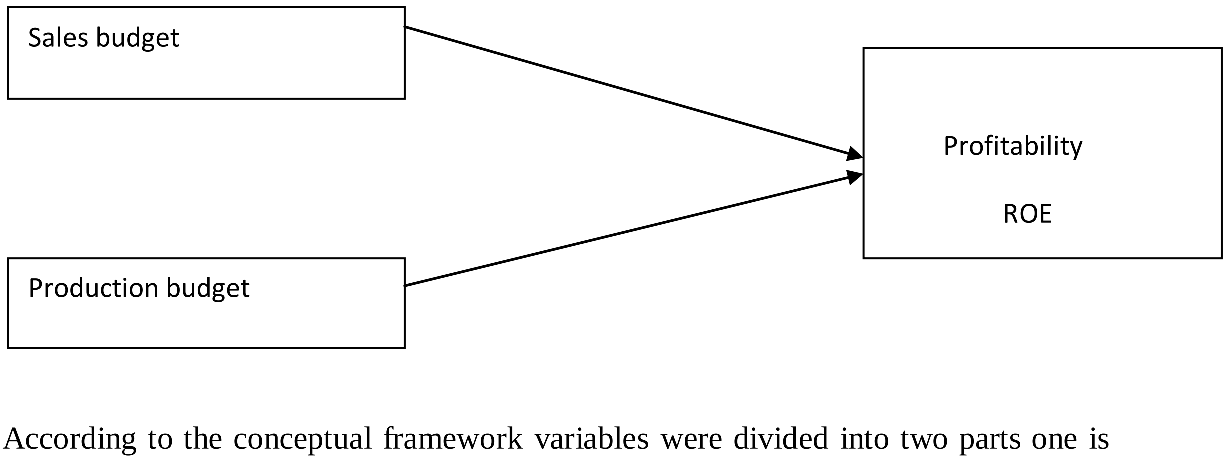
1. To examine the present conditions and practices of NTC and NEA organizations relating to production and distribution of the services and electricity in the country.
2. To analyze the trend of sales budget and production budget of NTC and NEA organizations.
3. To examine the impact of sales and production budget on profitability of NTC and NEA organizations.

1.6 Conceptual Framework

The interest of this research is to make detailed analysis about the performance of the organization. There are two independent variables which are the budgets. These two variables are sales and production budget. The review of literature has indicated budget and performance are related.

1.1 Dependent and independent variables

Independent variables **Dependent variable**



According to the conceptual framework variables were divided into two parts one is the independent and another is dependent variable. Sales budget and production budget are independent variable where profitability is dependent variable. Profitability measured by Return on Equity. Sales budget is the first and most important budget of the organization. Likewise production budget is also significant budget of the organization. Any changes in the independent variables make also changes in the dependent variable.

1.7 Significance of the study

Profit is the most important indicator for judging managerial efficiency. No organization can exist without profit which happens through the efficient application of various types of budgets. So, it is necessary to analyze the various types of functional budgets for comprehensive profit planning. This study is concentrated to analyze and examine the impacts of budgets in profitability in Nepal Water Supply Corporation.

This study can be important for the following groups, organization and individual

1. Future researchers
2. Board of directors and management body of NTC and NEA.
3. University student who will be interested about NTC and NEA.
4. NGO's and INGO's
5. Personnel of NTC and NEA.
6. All other interested individuals and parties

1.8 Limitations of the study

1. This study concentrated on budgetary system and its effect on comprehensive profit planning of sample organizations.
2. The study had covered the analysis of 5 year data covering the FY 2067\68 to 2071\72.
3. The analysis was based on planning document provided by the top management of sample organizations and published books and booklets.
4. Findings of this study may not represent to other settings.

1.9 Organization of the study

The whole study is divided into five different chapters. They are:

Chapter I Introduction

This chapter includes the background of the study, introduction of NTC and NEA, statement of problem, purpose of study, Theoretical/Conceptual Framework, significance of the study and the limitations of the study.

Chapter II Review of Literature

This chapter deals with the review of available and literature. It includes conceptual review of books, reports, thesis and journals, review of previous works research gap.

Chapter III Research Methodology

This chapter includes the research methodology used in the study which includes research design, population and sample, sources of data, data collection and processing procedure and data analysis tools and technique.

Chapter IV Results

This chapter is most important and plays vital role in this study. This chapter deals with the results and findings of the study carried to meet the objectives of the study.

Chapter V Conclusion

This chapter presents of the brief discussion, conclusions and implications of whole research report. It also provides some useful suggestion and recommendations to concerned parties. References and appendix are also presented at the end of the study.

CHAPTER II

REVIEW OF LITERATURE

2.1 Conceptual Framework

2.1.1 Concept of Budgeting

A budget is numerical plan of action, which generally covers the areas of revenues and expenditure. A budget is a quantitative expression of plan of action and an aid to coordination and control. A budget may be formulated for an organization as a whole or for its sub- units. Budgets, basically, are forecasted financial statements – formal expressions of managerial plans. They are targets that encompass all phases of operations including sales, production, purchasing, and manpower and financing (Bajracharya, et. all, 2015).

According to the Hilton (2004), "a budget is detailed plan expressed in quantitative terms that specifies how resources will be acquired and used to develop a budget constitute a budgeting system."

The process of preparing and using budget to achieve management objective is called budgeting. Comprehensive profit planning and control is a new terms in the literature of business. The profit planning and control can be defined as process of management that enhances the efficiency of management. The master budget is a summary of all phases of an organization's plans and goals for the future. It sets specific target for sales, production, distribution, and financing activities, and it generally culminates in a projected statement of net income and a projected statement of cash position. In short, it represents a comprehensive expression of management's plans for the future and how these plans are to be accomplished.

Budget can be classified into various functional budgets with reference to planning and control. It includes the three main budgets:

- Operational budget
- Financial budget
- Special budget

Another classification of budget is:

- Fixed/ static budget
- Flexible/ variable/sliding budget.

The purposes of budgeting are as follows:

1. To determine future expectations and goals in clear and formal terms for avoiding confusion and facilitating their attainability (koirala, et. all, 2012).
2. To communicate expectations to all concerned so that they are understood, supported and implemented (koirala, et. all, 2012).
3. To provide detail plan of action for reducing uncertainty and for the proper direction of individual and group efforts to achieve goals (koirala, et. all, 2012).
4. To coordinate the activities and effort in such way that resources are used effectively and efficiently (koirala, et. all, 2012).
5. To provide means of measuring and controlling performance of individual or unit and to supply information on the basis of which, necessary action can be taken.
   (Koirala, et. all, 2012)

2.1.2 Concept of profit

Profit is the reward received by entrepreneur for his contribution in the productive process. It is the income of the entrepreneur. It is the residual income which results after all other factors of production (i. e., land, labour, and capital) have been paid off. It is the excess of income over the cost of production. The difference between total revenue and total cost is known as profit (Bhusal, et. all, 2013)

Thus, profit = total revenue – total cost.

According to the professor Hansen, “Profits are residual income left after the payments have been made.” Similarly F. B. Hawley said, “Profit is the reward for taking risk.” Profit is the primary objective of a business (Nimalathasan, 2009). In point of view of the heavy investment which is necessary for the success of most enterprises. Profit in the accounting sense tends to become a long term objective which measures not only the success of the product, but also of the development of the market for it. It is determined by matching revenue against cost associated with it. Only those costs are placed against revenue, which have contribution in the generation of such revenue. An enterprise should earn profits to survive and grow over a long period of time. It provides evidence concerning the earnings potential of a company and how effectively a firm is being managed. If the enterprise fails to make profit. Capital invested is eroded and if this situation prolongs the enterprise ultimately ceases to exist. Profit and profitability are two different terms. Profit means as an absolute measure of earning capacity, while profitability is relative measure of earning capacity. Profitability is defined (Nimalathasan, 2009) as “the ability of given investment to earn a return from its use’. The words profitability is composed of two words profit and ability. The word profit has already been defined but the meaning of profit differs according to the use and purpose of the enterprise to earn the profits. Thus the word profitability may be defined as the ability of given investment to earn a return from its use.

Nimalathasan (2009) mentioned that the profit is the primary objective of a business, which measures not only the success of a product, but also of the development of the market for it. Further profit is the report card of the past, the inventive gold star for the future.

Profit as a reward to owner of the capital but with the return to capital as an objective of a firm’s activities. Velnamby and Nimalathasan (2009) noticed the profitability will provide more accurate view of the firm’s performance. Pandy (1979) indicated that recent experience in countries with totally planned economies indicated that economists are probably right in emphasizing the importance of overall profitability as a criterion for the efficient operation of an enterprise. Profit is use to test the efficiency and use to measure the control and worth of the investment to the owners, margin of safety to the creditors, source of extreme benefits to the employees, to the Government a measure of taxable capacity and the basis of legislative action, to the country profits are an index of economic progress, national income generated and rise in the standard of living.

2.1.3 Concept of planning

Planning is the first and foremost function of management. It precedes all other activities of management. Planning decides in advances as to what is to be done and how it is to be done, when it is to be done, where it is to be done, who will do it and how results are to be evaluated. Thus, it is deciding today what to do in the future. Planning direct efforts and resources of an enterprise towards the common objectives. Planning is an intellectual process. It includes thinking before doing.

Planning requires both creativity and analysis in defining business opportunities and constraints. It is the process of guiding the business enterprise toward its clearly specified objectives with the clearest possible view of the future. Both deciding what is desired and determining the actions required are involved in planning (kc, 2011).

According to the Peter ducker, "Planning function of management is the continuous process of making present entrepreneurial decisions systematically and with the best possible knowledge of their futurity, organizing systematically the efforts needed to carry out these decisions and measuring the result to these decisions against the expectations through organized systematic feedback."

George R. Terry defined, "Planning is the selecting and relating of facts and the making and using of assumptions regarding the future in the visualization and formulations of proposed activities believed necessary to achieve desired result." Similarly M. E. Hurley said, "Planning is deciding in advances what is to be done. It involves the selection of objectives, policies, procedures and programmes from among alternatives."

The steps involves in the planning are as follows:

1. Being aware of opportunities.
2. Establishing objectives.
3. Developing planning objectives.
4. Identifying alternative courses.
5. Evaluating alternative courses.
6. Selecting the best alternatives.
7. Formulating supporting plans.
8. Converting plans into budgets.
9. Follow up.

2.1.4 Concept of profit planning

Profit planning is a vital part of any business plan structure for a small or medium business. The goals of small business owners include ensuring that the business makes profit year on year, and that it is sustained over a period of time for growth. The business plan includes a forecast that tries to anticipate the business growth and determine the revenues that could be generated in that particular year.

Here's a look at the basic of profit planning for your business:

1. Evaluate your business operations: Profit planning and forecasting enables a comparisons between projected cost and spends, and the actual costs that your business is incurring. This can help the team decide on improving cost efficiency and closing up the gaps. It also enables better decisions making like which resources to invest in or cut costs form. Proper profit planning will ensures that the business does not spend more than the necessary or end up not investing enough in resources that are required (shah et. all, 2016).
2. Forecast marketing strategies: Marketing is the one of the highest areas of expense for small businesses because marketing efforts are directly related to getting leads for the business. The company's marketing efforts are categorized into various areas, and each of these need to be evaluated for the employees and resources required fulfill them. If marketing costs are not

estimated properly it could affect profits, and the company will unnecessarily spend more on marketing. Profit planning helps to avoid this scenario (shah et. all, 2016).

3. Anticipate financial planning: Planning funds to allocate across department and procedure need to begin well in advance. Profit planning anticipates the company's financial ability to make the maximum use of resources, with efficiency in costs and finally high profit making potential (shah et. all, 2016).
4. Carve out hiring requirements: After the financial projection is made and the business plan structure is ready, the company needs to evaluate if they have enough staff to carry out all the operations. Profit planning also estimates the number of personnel required, vis-a- vis the work they generate which has a bearing on the company's revenue and profits. Planning cost for hiring requirements is also an important part of this. Profit planning is crucial business activity that prepares the company for the coming year, helps spread out company resources efficiently and motivates the major stakeholders of the company to strive towards year on year growth. Profit planning needs to be an activity that is carried out every year. After the end of the year, there also need to be an audit that compares the projections to the actual profits. This guarantee that the company is prepared and has a well thought out strategy to improve every time and maximize profits and performance (shah, et. all, 2016).

2.1.5 Fundamental Concept of Profit Planning and Control

Basically, "fundamental of budgeting concerned effective implementation of the management process in resources by complex endeavours. It desires management orientations activities and approaches necessary for proficient and sophisticated application of comprehensive PPC. The fundamental needs to be established on a sound foundation of managerial commitment"*(Welsch, Hilton and Gordon; 2006: 31).*

Some important fundamentals are as follows: a management process that includes planning, organizing, staffing, leading and controlling; a managerial commitment to effective management participation by all levels in the entity; an organization structure that clearly specifies assignment of management authority and responsibility at all organization levels; a management planning process; a management control process; a continuous and consistent coordination of all the management functions; continuous feed forward, feedback, follow up and re-planning through defined communication channels; a strategic (long range) profit plan; a tactical (short range) profit plan; a responsibility accounting system; a continuous use of the exception principle and a behavioural management program

2.1.6 Establishing the Foundation for Budgeting or Planning

To establish sound foundation for initiating a budgeting program, the following steps should be followed:-

Step 1: "There must be commitment by the top management to the broad concept of budgeting or PPC and a sophisticated understanding of its implication and operations" (*Welsch, Hilton and Gordon; 2006:59*). Step 2: "The characteristics of the enterprise and the environment in which it operates including the controllable and uncontrollable variables must be identified and evaluated so that relevant decisions may be made over the characteristics of a budgeting or PPC program that would be effective and practical" (*Welsch, Hilton and Gordon; 2006:59*). Step 3: "There should be an evaluation of the organization structure and assignment of managerial responsibility and implementation of changes deemed necessary for effective planning and control" (*Welsch, Hilton and Gordon; 2006:59*). Step 4: "There must be evaluation and reorganization of the accounting system to ensure that it is tailored to the organization responsibilities so that it can provide data particularly useful for planning and control purpose" (*Welsch, Hilton and Gordon; 2006:59*). Step 5: "A policy determinations must be made about the time dimensions to be used for managerial budgeting or PPC purposes" (*Welsch, Hilton and Gordon; 2006:59*). Step 6: "A program of budget education should be developed to inform management at all levels about (a) the purpose of the program; (b) the manager in which it will operate, including the basic management policies and guidelines for the administration; (c) the responsibility of each level of management in the program; and (d) the ways in which the program can facilitate the performance of each manager's function" (*Welsch, Hilton and Gordon; 2006:59*).

The main characteristics of good budgeting are as follows: Budgeting may be formulated for the organization as a whole as for any subunit; A good system of accounting is also essential to make the budgeting useful; a budgeting is a quantitative expression of a plan of action and aid to co ordination and implementation; A good budgeting system should involve persons at different levels while preparing the budgets; the subordination should not feel only imposition on term and Budgets are designed to carry out a variety of function planning, evaluating activities and implementation" *(Rathman; 1974:21- 22).*

2.1.7 Process of Budgeting or Planning

The main objective of a business firm is to make an excess of revenue over expenses so as to maximize profit. But it is not a matter of dream or chance. There are no magic formula of boosting the figure of profit overnight. Budgeting, if followed properly, can increase the chances of making profits within the given environment. A systematic budgeting should encompass the following procedure:

1. Identification and Evaluation of External Variable: Management planning must focus on how to manipulate the controllable variables. Moreover, there must be managerial planning of how to work with the non controllable variables. That is for both kinds of variable, how can management take advantage of potential favorable impacts and minimize potential unfavorable impacts and minimize potential unfavorable impacts on the enterprise? By relevant variable we mean those that will have a direct and significant impact on the enterprise. A particularly, significant phase of this analysis includes an evaluation of the present strength and weakness of the enterprise. Planning must necessarily status with on objective and returns understanding of the present status of products, service, market, profit and returns on investment cash flow, availability of capital, productive capabilities, and the competence of both management and non management personnel *(Welsch, Hilton and Gordon; 2006).*

2. Development of Broad Objective of the Enterprise: Development of the broad objective of the enterprise is a responsibility of executive management. Based on a realistic evaluation of the relevant variable and an assessment of the strengths and weakness of the organization, executive management can specify or restate this phase of the managerial budgeting *(Welsch, Hilton and Gordon; 2006).*
3. Development of Specific Goal for the Enterprise: The primary purpose of the goal phase of the PPC or managerial budgeting process is to bring the statement of broad objective into sharper focus and to generate more specific planning information from the realm of general information. It provides both narrative and quantitative goals that are definite and measurable *(Welsch, Hilton and Gordon; 2006).* It should be developed by executive management as the second component of the substantive plan for the upcoming budget year. These are specific goals that relate to the enterprise as a whole and to the major responsibility centers.
4. Development and Evaluation of Company Strategies: Company strategies are the basic ways and tactics that will be used to achieve planned objective and goal. A particular strategy may be of short term or long term. The purpose of developing and disseminating enterprise strategies is to find the best alternative for attaining the planned broad objectives and specific goals. Executive management must be creative and directly involve in the development of new strategies that focus on "how" and thus which outline a plan of action for the enterprise *(Welsch, Hilton and Gordon; 2006).*
5. Executive Management Planning Instructions: The executive planning instruction, issued by top management, communicates the planning foundation that is necessary for the participation of all levels of management in the development of the strategic and tactical profit plan for the upcoming budget year. Executive leadership is fundamental in developing and articulating this planning foundation including the formulation of relevant strategies (*Welsch, Hilton and Gordon; 2006: 79).*
6. Preparation and Evaluation of Project Plan: Project plan encompass variable time horizon because each project has a unique time dimension. Project plans

encompass such item as plans for improvement of present product, new and expanded physical facilities, and entrance into new industries, exit from products and industries, new technology and other major activities that can be separately identified for planning purposes. The nature of project is such that they must be planned as separate units. During the formal planning cycles management must evaluate and decide upon the plan status of each project in process and select any new projective to be initiated during time dimensions converted by the upcoming strategic and tactical profit plan *(Welsch, Hilton and Gordon; 2006).*

7. Development and Approval of Strategic and Tactical Profit Plan: The strategic long range and tactical short range profit plans normally should be developed concurrently for all practical purpose and that the executives in charge of each of the responsibility centers throughout the firm should participate in their development in harmony with planning premises. Meaningful participation in the planning process generates positive behavioral effects. A manager of each responsibility center has to initiate immediate activities within his own functional sphere to develop a strategic long range profit plan as soon as he receive the planning premises and procedural instructions *(Welsch, Hilton and Gordon; 2006).*
8. Implementation of Budgeting or Planning: Implementation of plan, developed and approved in the planning process involves the management function of leading as well as motivating subordinates in attaining enterprise objectives and goals. For that, effective management at all levels requires in the enterprise to communicate the objectives, goals, strategies, and policies and make the subordinates to be understood. On the other hand, there are many facets involved in management leadership and each of them stands on their own values and norms. Thus under managerial budgeting process, management should be aware in establishing realistic and attainable goals and objectives; to the overall enterprise and to each responsibility center *(Welsch, Hilton and Gordon; 2006).*
9. Use of Periodic Performance Report: As profit plan are being implemented during the period of time specified in the tactical plan, periodic performance

reports are needed. These performance reports are prepared by the accounting department on a monthly basis. Also some special performance reports are prepared more often on an “as needed” basis. These performance reports (a) compare actual performance with planned performance and (b) show each different as a favorable or unfavorable performance variation *(Welsch, Hilton and Gordon; 2006).*

10. Use of Flexible Expenses Budgets: The flexible expenses budget is also known as the variable budget, sliding scale budget; expenses control budget or formula budget etc. The flexible budget concept completely applies only to expenses. It is completely separate from the profit plan, but used to complement it. In the context of Nepal, most of the companies’ especially public enterprises do not have the practice of using flexible budget procedures. And rests integrate flexible expense budget to the profit planning procedures *(Welsch, Hilton and Gordon; 2006).*
11. Implementation of Follow-up: Follow up is an important part of effective control. Because performance reports are based on assigned responsibilities, they are the basis for effective follow up actions. It is important to distinguish between cause is primary a responsibility of line management. Analysis to determine the underlying causes of both favorable and unfavorable performance variances should be given immediate priority “In the case of favorable performance variances, the underlying causes should also be identified. The case seldom requires corrective action. Rather the underlying cases of favorable variances often provide valuable information for improving effective and for developing positive re-enforcement are to the less successful operations and employees” *(Welsch, Hilton and Gordon; 2006).* Finally, there should be a special “follow up of the prior follow up action”. This step should be designed to (1) determine the effectiveness of prior corrective actions and (2) provide a basis for improving future planning and control procedures *(Welsch, Hilton and Gordon; 2006).*

2.1.8 Budgeting as a tools of Profit Planning and Control

A budgeting is a written plan for the future. The manager of firms which use budgets, are forced to plan ahead. Thus, these firms tend to do well because they anticipate problems before they occur. A firm without financial goal may find it difficult to make proper decision. A firm with specific goals, in form of a budget, makes many decisions ahead of time. Budget helps a firm to control its costs by setting guidelines for spending money for undead items.

A concept of comprehensive budget covers its use in planning, organizing and controlling all the financial and operating activities of the firm in the forthcoming period. Budgeting summarize the estimated result of future transaction for the entire company in much the same manner as the accounting process records and summarize the results of completed transactions*(Lynch, 1989).*

Adams (2001), views budget as a future plan of action for the whole organization or a sector thereof. Budgets are plans that deal with future allocations and utilizations of resources to different activities over a given period of time. For any organization to make progress or achieve its goal, it needs capital and to be able to make profit, it requires planning of its resources, which can only be achieved through budgeting, hence budgeting serves as tool for financial planning.

“Budget as a tool of planning and control is clearly related to the broader system of planning and control in an organization. Planning involves the specification of the basic objectives that the organization will pursue and fundamental polices that will guide it. In operation term, it involves the step of setting objectives, specifying goals, formulating strategies, and expressed in financial terms, for the operation and resources of an enterprise for same specified period in the future”*(Khan and Jain; 1989: 296).*

2.1.8.1 Objectives of Profit Planning

The main objectives of profit planning are as follows: To state the firm's expectation (goal) in formal terms clearly to avoid confusion and facilitates their attainability; To communicate expectation to all concerned with the management to the firm so that they are understood, supported and implemented; To provide a detailed plan of action for reducing uncertainty and for its proper direction of individual and group efforts to achieve goals; To co-ordinate the activities and efforts in such a way that the use of resources is maximized and to provide a means of measuring and controlling the performance of individuals and units and to supply information based on which the corrective action can be taken(Shah, et. all, 2016).

2.1.9 Development of Profit Planning

2.1.9.1 Sales Budget/ plan

A sales planning is the first step of master budgeting. It displays the projected sales in units and rupees. It provides an estimate of goods to be sold and revenue to be a realized from sale of goods and services. It is an essential part of profit planning and control because it is the basis of effective other future plans. If sales plan is not realistic, most of the other parts of overall profit plan are also not realistic. Sales plan forms a fundamental basis on which all other plans or budgets are built up.

Sales budget is usually presented both in unit and rupees. The preparation of sales plan is based upon the sales forecast. A comprehensive sales plan includes two separate but related plans the strategic and tactical sales plan. Strategic or long term sales plan covers 5 to 10years. Tactical sales plan covers not more than one year periods. A comprehensive sales plan incorporates such management decisions as objectives, goads, strategies and premises. Both long term and short term sales plans must be developed in harmony with comprehensive profit plan.The primary purposes of sales plan are as follows: to reduce uncertainty about future revenues; To incorporate management judgments and decisions into the planning process; To provide necessary information for developing other elements of comprehensive profit plan; To facilitate management's control of sales activities; to plan for future marketing expenses and arrange for manpower needed(shah, et. all, 2016).

2.1.9.2 Sales Forecasting and Sales Planning

A Sales forecast is statement or a quantified assessment of future conditions about the sales on one or more explicit assumptions. A forecast should always state the assumption upon which it is based. A forecast is not a plan. It should be viewed as only one input for the development of sales plan. The management of the company may accept, modify or reject the forecast.

In contrast, a sales plan incorporates the management decisions that are based on forecast, other inputs, and management judgments about such recited items as sales volume, prices, sales, efforts, production and financing. Hence all the sales forecast are not the sales plan but all the sales plans are sales forecast.

According to the Glenn A. Welsch, "A sales forecast is converted to a sales plan when management has brought to bear on its judgment, planned, strategies, commitment of resources and the managerial commitment to aggressive action to attain sales goal."

2.1.9.3 Strategic and Sales Plan

A comprehensive sales plan includes two separate but related plans i. e. strategic and tactical sales plan.

a. Strategic Sales plan

Strategic sales plan is the long range sales plan of an enterprise. It covers 5 to 10 years. It is broad and general. It is usually developed by year and annual amount. It is prepared on the basis of management established objectives, policies and strategies. Long term sales plan do not include detail plan. This is lump sum forecasting of sales. It is prepared by considering future market potentials, population changes, state of economy, industry projections, company objectives and long term strategies.

b. Tactical Sales Plan

Tactical sales plan is a short term sales plan. A general practice in planning for short term sales is to consider time period not more than 12 months future time period detailed by quarter and months for the first quarter. The tactical sales plan includes a detailed plan for each major product and for grouping of minor products. Short term sales plan are usually developed in terms of physical units and in sales rupees.

2.1.9.4 Components of a Comprehensive Sales Plan

A comprehensive sales plan includes both strategic sales plan and tactical sales plan. A strategic sales plan usually covers 5 to 10 years where as a tactical sales plan cover not more than one year periods. Following are the components of a comprehensive sales plan.

Table 2.1

Components of a Comprehensive Sales Plan

Component	**Strategic Plan**	**Tactical Plan**
Management policies and assumptions	Broad and General	Detailed and specific for the year
Marketing plan (sales and services revenues)	Annual amounts, major group	Detailed ; by product, time and responsibility
Advertising and promotional plan	General; by year	Detailed and specific for the year
Distribution(selling) expenses plan	Total fixed and total variable expenses; by year	Fixed and variable expenses; by month and by responsibility

Source: Shah, et.all, 2016

2.1.9.5 Developing comprehensive Sales Budget

Sales planning process is a necessary part of profit planning and control. A comprehensive sales plan includes both the strategic and tactical sales plan. It includes the following steps:

1. **Develop management guidelines for sales**
   All the participants in the sales planning process should be provided with specific management guidelines to be followed in sales planning. Therefore guidelines should specify sales planning responsibilities. The guidelines should emphasize objectives, goals and sales strategies. The guideline should direct attention to such areas like product emphasis, general pricing policies, marketing strategies and competitive position (Shah, et. all, 2016).
2. **Prepare Sales forecast**
   One or more sales forecast should be prepared. Each separate forecast should use different assumption which should be clearly explained in the forecast. The management guidelines should provide the broad assumption. The forecast should include strategic and tactical sales forecast which are consistent with the time dimensions used in comprehensive profit plan. Different method such as time series analysis, regression method, Delphi technique, sale force estimates etc can be used for sales forecasting (Shah, et. all, 2016).
3. **Assemble other relevant data**
   All other information relevant to developing realistic sales plan should be collected and evaluated. This information should relate both threats and opportunities and strength and weakness. The primary threats or constraints that should be evaluated are management capacity, source of raw material, or goods for sales, availability of labour force, capital availability, availability of alternative distribution channel etc. sales planning opportunities include resign of old product, introduction of new product, changes in sales territories (areas), attractive packaging, advertising innovation, new market strategies etc (Shah, et. all, 2016).

4. **Develop the strategic and tactical sales**
   Using the information provided in management guideline, sales forecast, and other relevant data, management develops a comprehensive sales plan. This process should recognize the importance of management goals both strategic and tactical. The process should involve participation by sales manager from the bottom to the top. Extensive participation by middle and lower level of manager is more appropriate and useful in developing tactical sales plan. The strategic sales plan should primary involve top management participation (Shah, et. all, 2016).
5. **Secure managerial commitment to attain the goals specified in the comprehensive sales plan**
   Top management must be fully committed to attain the sales goals which are specified in the approved sales plan. This commitment requires full communication to the sales manager of the goals, approved marketing plan and strategies by sales responsibility (Shah, et. all, 2016).

2.1.9.6 Methods of sales forecasting

The methods of projecting sales may vary with nature of organization, organizational structure of the business, environment in which business operates etc. In general, following method can be used for forecasting sales in an organization (shah, et. all, 2016).

Judgment Method

Judgment method is also known as personal judgment method or a rule of thumb method or non- mathematical method. In this method, sales forecast is made on the basis of personal judgment of executive or person responsible for sales forecasting. Judgment method includes Sales force composite, Sales Divisions Manager Composite and Chief Executive Decision.

Mathematical or Statistical Method

Under this approach, statistical and mathematical tools are used for the projections of sales. It includes Economic Rhythm Method, regression Method and Time series Analysis.

2.1.10 Production Budget/ Plan

Production planning is the second step in PPC in the manufacturing concern. The production plan is an important tool of planning, coordination and control in a manufacturing organization. It refers to the development of policies about production level, use of production facilities and inventory level. Production plan refers to the planning of units to be produced in budgeted period. It is prepared by considering sales plan, desired ending inventory and estimated initial inventory. Production plan specifies the no. of units to be produced of each product for each time period. The main areas of production planning are quantities planned in marketing budget, adjusted to confirm to production and inventory policy, volume of output which must be manufactured by product and interim time period. Production can be expressed in equation as below (shah, et. all, 2016):

Planned Production = Planned Sales + Final Inventory – Initial Inventory.

2.1.10.1 Objectives of Production Planning

Production planning refers to the development of policies about production level, use of production facilities and inventory level. It is concerned with the planning of units to be produced in the budgeted period. The main objective of production planning is to make sure that customer will be supplied their orders on their delivery dates and also the minimum overall cost by planning sequence of activities. The objectives of production planning are: To determine capacity of all manufacturing departments and to plan systematically, coordinated and related production activities within the scope of the organization to meet sales requirements; To achieve coordination among various departments relating to production; To make adequate arrangement of men, money, material, machinery and equipment relating to production; To decide about the production targets to be achieved by keeping in view the sales plan; To keep production operation continuous; To promote fuller utilization of plant and To achieve economy in production cost and time(shah, et. all, 2016).

2.1.10.2 General Considerations in Planning Production and Inventory Levels

General considerations in planning production and inventory levels are; total production requirement (by product) for the budget period; Inventory policies about levels of finished goods, work in process and the cost of carrying inventory; plant capacity policies, such s the limits of permissible departures from a stable production level throughout the year; Adequacy of manufacturing facilities [expansion or contraction of plant capacity.]; availability of direct material, purchased components and labor; Length of the processing time; economic lots or runs and timing of production throughout the budget period, by product and responsible centers. *(Welsch, Hilton and Gordon, 2006).*

2.1.10.3 Developing of Production Plan

Production manager must translate the quantity in the sales plan into units production requirements for the budgeted period for each product considering management inventory policy. Production requirements is planned considering planed sales, desire closing stock and estimated opening stock. Because the production plan is developed prior to the end of current year, the beginning inventory for the budgeted period must be estimated. The estimate is based on the states of the inventory at the date the budget is being prepared and it is adjusted for planned operations for the balance of current year. Ending inventory is based on the management policy. When the budgeted production for the budgeted period has been determined, the next problem is prorating total production requirement by interim periods during the budget year. An efficient production plan should represent the coordination been sales requirement, essential inventory level and stable production plan. The following steps should be followed to develop a production plan; to establish policies for inventory level; to plant the total quantity of each product that is be manufactured during the budgeted period and to schedule this production by interim time period(Shah, et. all, 2016).

2.1.10.4 Developing Production policy

There are three types of production policies which are as follows:

1. Stable production policy vs unstable inventory policy: In this policy, fixed units are to be produced equally in every month or specified period; while the final inventory of finished goods are to be unstable. 2. Unstable production policy vs stable inventory policy: In this policy, units of final inventory are to be stable at the end of each period and production units are to be fluctuated in each budgeted period. The no. of units produced and budgeted sales are directly related. 3. Flexible in both inventory and production policy: In this policy, production units and inventory level different from time to time in the specified budget period. 4. Just In Time (JIT) production policy: Either non inventory level or maintaining safe stock only (Welsch, Hilton, Paul and Gordon; 2001).

2.1.11 Cost Behaviour

1. Fixed Expense; These types of costs which remain constant in total upto certain level of output but fixed overhead rate per unit vary with the production or sales volume. Fixed overheads are also called periodic cost, capacity cost or uncontrollable costs. Rent and rates, salaries, depreciation, interests etc. are the examples of fixed overheads. 2**.** Variable Expense; These overheads are variable which vary positively with the production and sales units. They increase in total with the increase in volume of output or sales and vice versa. However, per unit overhead remains constant in each level of activity. Indirect material, indirect labour, commissions to salesman, fuel etc. are the examples of variable overheads. 3. Semi- variable Expenses; These overheads which remain constant for certain level activity and vary thereafter are called semi variable expenses. They are also called semi fixed costs. Telephone charge, electricity charge, water supply, repair and maintenance, supervision cost etc. are the examples of semi variable expenses or mixed expenses. The separation of mixed cost into fixed and variable component is known as segregation of mixed cost

(shah, et. all 2016).

2.1.12 Completion of Profit Planning:

The development of an annual profit plan ends with the planned income statement the planed balance sheet; and the planned statement of cash flows. These three statements summarize and integrate the detail plans developed by management for the planning period. At this point in profit planning, the budget director has an important responsibility. Aside from designing and improving the overall system, the budget director has been described as adviser to each responsibility center. Now the parts must be assembled into a complete profit plan.

The budget director should have a limited number of copies of the entire profit plan to control its distribution of specific schedules. It may be desirable to use loose leaf binding sp as to facilitate revision as circumstance warrant. Revision may involve one or more sub budgets, depending on the extent of the revision. The profit plan completion date is important, issuance of a profit plan after the beginning of the budget period is one sure way to destroy much of the budgets potential *(*Welsch, et. all*: 2001).*

2.1.13 Implementation of the Profit Planning:

The ultimate test of whether the effort and cost of developing a profit plan are worthwhile is its usefulness to management; this is a cost benefit test. We have emphasized that a profit plan should represent potentially attainable goals, yet the goals should present challenges to the enterprise. The plan should be developed with conviction that the enterprise is going to meet or exceed all major objectives.

After approval of a profit planning, the next step is its distribution to the center managers in the enterprise. Distribution instructions were illustrated as an important part of the budget manual. Recall that a limited number of copies of the plan should be prepared. Complete profit plan should be distributed to the vice- president and to the heads of certain staff groups. The guiding principle in establishing the distribution policy might be to provide one copy to each member of the management team according to his or her overall responsibilities while taking into account the problem of security.

After distribution of the profit plan, a series of profit conferences should be held. The top executives comprehensively discuss the plans, expectation, and steps in implementation. At this top level meeting, the important action, flexibility and continuous control should be emphasized. In particular, each manager must understand that the budget is a tool. The profit plan provides the manager of each responsibility center with this plan, the advertising function. Similarly, the finance executive has information about such thing as expected cash receipts cash payment, and capital expenditure. Thus, the planning budget becomes the basis for current operations and exerts important coordination and control effects (Welsch, et. all, 2001)

2.1.14 Planning of Cash Flows

Any company, no matter how big or small, moves on cash, not on profits. Businessman cannot pay the bills with the profits, but only in cash. In the end, businessman need to has enough money to pay business obligation or businessman will go out of business. On these grounds that cash budget is one of the most important schedules prepare during the budgeting process because, without cash a company/ business.

“A cash budget shows the planned cash inflows, outflows, and ending position by interim periods for a specific time span. Most companies should develop both long term and short term plans about their cash flows. The short term cash budget is included in the annual profit plan. A cash budget, basically, includes two parts, (1) the planned cash receipt, (2) the planned cash disbursements. Planning cash inflows and outflows gives the planned beginning and ending cash position for the budget period. Planning the cash inflows and outflows will include (1) the need for financing probable cash deficit or (2) the need for investment planning to put excess cash to profitable use”. *(Welsch, Hilton and Gordon; 2006).*

2.1.15 Ratio Analysis and its Relation in Profit Planning

The ratio analysis can be of invaluable aid to management in the discharge of its basic functions of forecasting, planning, co- ordination, communications and control. By an analytical study of the past performance of the business, it helps in predicting and projecting the future. It assists in communication by conveying information, which is pertinent and purposeful to those for whom it is meant. It promotes co-ordination by a study of the efficiency of the business and paves the way for effective control of business operations by undertaking and appraisal for both the physical and monetary targets. Hence, ratio analysis becomes an integral part of targets. It becomes an integral part of managerial budgeting system *(Goyal, and M.M., 1997).*

2.1.16 Performance Evaluation

Performance reporting for internal management use in an important part of a comprehensive profit planning and control system. The performance reporting phase of a comprehensive PPC program significantly influences the extent to which the organization's planned goals and objectives are attained. To indicate the extensive reporting requirements a business needs and to focus on performance reporting, the following overview of financial reports is presented and briefly explained; Report to owners- this is the traditional annual report to the owners and other special reports prepared to the owners. These reports, by and large, are based on "generally accepted accounting principles" and generally report data that have been subject to an audit by an independent CPA; special external reports- these are reports to government agencies, regulatory commissions, creditors, investigative agencies and other group external to the active management; frequently, these reports are extensive and constitute a significant management attention and Internal reports- these confidential reports are prepared within the company for internal use only. They do not have to meet the needs of external groups, nor the taste of "generally accepted accounting principles" but rather the taste of internal management needs(Welsch, Hilton, Paul and Gordon; 2001).

2.2 Review of Previous Works

2.2.1 Review of Previous Thesis

Reviews of some thesis of researcher are as follows:

Tiwari, (2014) has made research on "Profit planning in commercial Banks: A case study of Standard Chartered bank Limited." Objectives of the study were to highlight the current profit planning premises adopted and as effectiveness SCBNL Bank, analyze the variance of budgeted and actual achievements, study the growth of the business of the bank over the period, provide suggestion and recommendation for improvement of the overall profitability of the bank. Major finding of the study he banks provide funds for NGOs and scholarship for the schools and the bank is adopting new accounting policy prescribed by the NRB Loans, allowance and Bill purchasing hold the highest outlet of resources development.

Devkota, (2015) has made research on "Effect of Profit Planning on Profitability, With reference to Nepal Electricity Authority". Devkota's research based on the secondary source of data collection. Objectives of the study are: to examine the present practice and effectiveness of NEA; to analyze the various functional budget of NEA; to analyze the different performance activities time based and to point out the suggestion and recommendations for improving the profit plan. Major findings the studies are as follows: Actual and budgeted sales are found to be significant but the difference between budgeted and actual production is found to be vague. In spite of the fact, there is perfect correlation between budgeted and actual sales and production respectively; NEA has adopted the practice of preparing strategic as well as tactical managerial budgeting, but even the strategic plan cannot play vital role for its development; It is bearing a high fixed cost due to the technology than it is using till now, overstaffing and many more; actual sales are always less than actual production due to power loss which is an main problem of NEA, which affects its profit directly. It has not classified its overhead systematically, which creates difficulties in analyzing the expenses properly.

2.2.2 Review of Articles in Journal

Nair and Kaab, (2017) studied on Budgeting and Budgetary Control System: A study on Selected Indian Companies. This study aims to explore the relationship between budgetary control system and organizational efficiency, the issues related to budgeting and budgetary control system in an enterprise and to investigate ways by which organizational efficiency can be improved using budgetary control system. This study had taken primary as well as secondary data. The data collection methodology of the study is questionnaire. The study method is empirical which tests the feasibility of solutions by applying statistical measures. The major findings of this study are as follow: The study data analysis indicates that budgetary control system is implemented in most of the organizations but somehow it should be improved and there is a strong relationship between budgetary control system and organizational efficiency. The findings indicated that most significant barrier in BCS implementation is senior management. Hence, the senior management plays prominent role in implementation of BCS and the problems involved the management should be addressed in order to achieve organizational goals.

Polisetty, (2016) examined the impact of budgeting on the performance: A case study of Maha Cements. The data collection methodology of the study is questionnaire. The present study adopted a descriptive research design with data gathered through questionnaire administered to128 respondents. Non-parametric tool of chi square was employed to analyze the data. Hypotheses were tested and analyzed on a 5% level of significance. This study carried out to determine whether budgeting serves as effective means of planning; to determine is there any association between budgeting and management efficiency and to determine relation between the type of budget implemented and its impact in decision making and employee performance in work .The major findings of this study are as follows: There is significant relationship between budgetary planning and management efficiency and budgeting technique is of great importance in improving management efficiency in decision making and working performance of employees.

Mui Yee, Wong Sek Khin & Ismail (2016) studied on an analysis of budgetary goals impacting organizational performance. The study carried out to examine the characteristics of budgetary goals, to examine the extent to which perceived environmental uncertainty (PEU) will influence budgetary participation; to examine the extent to which budget characteristics, namely participation, feedback and evaluation, will influence perception of fairness; to examine the extent to which perception of fairness will influence goal acceptance; to examine the extent to which perception of fairness will influence goal commitment and to examine the extent to which goal acceptance will influence budgetary performance. This study used a conceptual method. According to the conceptual model, the link between characteristics of budgetary goals and performance is mediated by perception of fairness, goal acceptance and goal commitment. The model developed to empirically test. Findings of this study are as follows: there is a positive significant relationship between perceived uncertainty (PEU) (namely, state uncertainty, effect uncertainty and response uncertainty) and budgetary participation and budget participation and perception of distributive fairness among budgeters are positively related.

Choge, (2016) examined on an analysis of organization's budgetary control system & its link with performance management & decision making. In this study, primary and secondary data were collected. Secondary data sources were used to supplement primary data to enable the researcher get in-depth information concerning the topic of research. Statistical Package for Social Sciences (SPSS) was used to generate the descriptive statistics and also to generate inferential results. And Regression and correlation analysis was also used. This study carried out to explore are the influence of budgetary control on performance management and to establish the influence of budgetary control on decision making.Major findings of this study indicated that budgetary control was highly important in making managerial decisions; budgetary control also influenced decision making in the organization in regards to decision on performance indicators.

Abata, (2014) studied on Participative Budgeting and Managerial Performance in the Nigerian Food Products Sector. The objective of this study is to measure the effect of participative budgeting on managerial performance. This research study adopted a descriptive survey research. It tries to correlate the two variables of interest, that is, “participative budgeting” and “managerial performance” to determine if the two (2) variables are significantly interlinked. The findings revealed that there is a positive relationship between participatory budgeting and managerial performance. Participatory budgeting is significantly related to managerial performance but a weak relationship.

Siyanbola, (2013) studied on the impact of budgeting and budgetary control on the performance of manufacturing company in Nigeria. This study adopted a descriptive research design with data gathered through questionnaire administered to respondents. Non-parametric tool of chi square was employed to analyze the data. Hypotheses were tested and analyzed on a 5% level of significance. This study carried out to determine budgeting technique serves in a manufacturing company in Nigeria; to examine the budgeting aid the planning of a manufacturing company profit in Nigeria; to find out budgetary control affects the working performance of employees in a manufacturing company in Nigeria and to determine manufacturing companies in Nigeria lack adequate skill for planning and controlling policy formulations and implementations. Major finding of this study are that there is significant relationship between budgetary planning and control on organizational performance and effective budget control influences the result normally achieved.

Munirat and Muslimat, (2012) examined on the Impact of Budgeting as a Control Mechanism in Banking Industry: a Case Study of a Nigerian Bank. Data collected from the questionnaires were analyzed and presented in form of table, percentages and test for hypotheses using chi square at 95% level of significance.The study aims to determine relationship between budget and control mechanism in the banking industry and to find there was significant relationship between budget preparation and budget implementation in the banking industry. Majors finding of this study are there was a significant relationship between budget and control mechanism in the banking industry and there was also a significant relationship between budget preparation and budget implementation in the banking industry.

Silva and Jayamaha, (2012) studied on Budgetary Process and Organizational Performance of Apparel Industry in Sri Lanka. The objectives of this study are to find out whether there is a sound budgetary process in Sri Lankan apparel Industry or not and to determine there is a positive relationship between budgetary process and organizational performance. This study was used descriptive statistical method to analyze the respondent's data to evaluate the budgetary processes of the selected companies. In this research 50 companies are selected based on convenient judgment sampling method from 513companies in Sri Lankan apparel industry. The finding of this is that there is a positive relationship between budgetary process and organizational performance in the apparel industry in Sri Lanka.

Tsung Lu, (2011) studied on relationship among budgetary control system, budgetary perception and performance: a study of public hospital. The study carried out to find out relationship between budgeting control system and budgetary perceptions; to investigate the relation from budgeting planning, implementing, and controlling perspectives to budgetary perceptions and to examine the relationship between the budgetary perceptions and budgetary performance. A university-affiliated public hospital is chosen as the sample. Data are collected in two stages. In stage one, an in-depth interview is conducted with 10 budgeting managers to confirm the measurement variables and interview sample. In stage two, on hundred and fifty-six initial questionnaires are mailed to budgeting managers for anonymous response. In this study, descriptive statistics analysis and Pearson correlation analyses are employed to analysis the data for the purpose of understanding the sample characteristics and level of correlation among variables. Majors finding of this study are as follows: Budgetary perceptions and the influence of budgetary perceptions on performance in the medical industry and when budgetary feedback and participation is higher, the department managers' budgetary motivation tends to be higher, the budgetary attitude more positive, and the propensity to budgetary slack slower.

2.2.3 Summary of literature review

S. N.	Name	Year	Objectives	Findings
1	Nair and Kaab,	2017	To investigate the relationship between budgetary control system and organizational efficiency.	It concluded that budgetary control system serves different purposes within Indian organizations, in some organizations BCS is used for cost reduction and in other cases it used for maximize profitability as well as to minimize variances.
2	Polisetty,	2016	To determine whether budgeting serves as effective means of planning, determine is there any association between budgeting and management efficiency and determine relation between the types of budget implemented and its impact in decision making and employee performance in work.	It concluded that are there is significant relationship between budgetary planning and management efficiency, budgeting technique is of great importance in improving management efficiency in decision making and working performance of employees and there is significant relationship between budgetary planning and management efficiency.

3	Mui Yee, Wong Sek Khin & Ismail,	2016	To examine the characteristics of budgetary goals, examine the extent to which perceived environmental uncertainty (PEU) will influence budgetary participation,	There is a positive significant relationship between perceived uncertainty (PEU) (namely, state uncertainty, effect uncertainty and response uncertainty) and budgetary participation.
4	Choge,	2016	To analyze the organization's budgetary control system & its link with performance management & decision making.	It concluded that budgetary control effect on performance management and decision making.
5	Devkota,	2015	To examine the present practice and effectiveness of NEA, analyze the various functional budget of NEA, analyze the different performance activities time based and point out the suggestion and recommendations for improving the profit plan.	It concluded that there is perfect correlation between budgeted and actual sales and production respectively, NEA has adopted the practice of preparing strategic as well as tactical managerial budgeting, NEA has no sufficient cash surplus to pay for expenditure, lack of maintained its periodic performance report systematically and NEA was unable to meet its BEP sales.

6	Tiwari,	2014	To highlight the current profit planning premises adopted and as effectiveness SCBNL Bank, analyze the variance of budgeted and actual achievements, study the growth of the business of the bank over the period and provide suggestion and recommendation for improvement of the overall profitability of the bank.	It concluded that are banks provide funds for NGOs and scholarship for the schools, bank is adopting new accounting policy prescribed by the NRB, Loans, allowance & Bill purchasing hold the highest outlet of resources development and There is no significant relationship between budgeted and actual LABP.
7	Abata,	2014	To measure the effect of participative budgeting on managerial performance.	It concluded that there is a positive relationship between participatory budgeting and managerial performance.
8	Siyanbola,	2013	To find out impact of budgeting and budgetary control on the performance of manufacturing company in Nigeria.	It concluded that budgeting and budgetary control effect on the performance of manufacturing company in Nigeria.
9	Munirat and Muslimat,	2012	To determine relationship between budget and control mechanism in the banking industry and to find there was significant relationship between budget preparation and budget implementation in the banking industry.	It concluded that there was a significant relationship between budget and control mechanism in the banking industry and there was also a significant relationship between budget preparation and budget implementation in the banking industry.
10	Silva and Jayamaha,	2012	To find out whether there is a sound budgetary process in Sri Lankan apparel Industry or not and to determine there is a positive relationship between budgetary process and organizational performance.	It concluded that there is a positive relationship between budgetary process and organizational performance in the apparel industry in Sri Lanka.

11	Tsung Lu	2011	To find out relationship among budgetary control system, budgetary perception and performance of a public hospital.	It concluded that budgetary perceptions and the influence of budgetary perceptions on performance in the medical industry.

2.3 Research Gap

All the research studies are mentioned above concerned with the study of profit planning system that too basically related to the planning system of Nepalese public service utilities. The findings and conclusion of all those studies like to be same. The finding of those researches is not addressed the title of thesis directly. Devkota has done research on "Effect of Profit Planning on Profitability with reference to Nepal Electricity Authority." Major Findings of this study are Actual and budgeted sales are found to be significant but the difference between budgeted and actual production is found to be vague; there is perfect correlation between budgeted and actual sales and production respectively; NEA has adopted the practice of preparing strategic as well as tactical managerial budgeting. Therefore this study paper is designated to highlight the "Impact of sales and production budget on profitability, a case study of Nepal Electricity Authority and Nepal Telecom Limited". It means, the scope of the study is to find or identify the role playing by Budgeting that is adopting or practicing currently by public service utilities in increasing their efficiency. And on the other hand, for this study, this study will analyze the efficiency through the analysis of Production and Revenue because these are the determinant of profit earned or profitability of Nepal Electricity Authority and Nepal Telecom company ltd. So this study will be fruitful to those interested parties, scholars, students, teachers, civil society, businessman and government for academically as well as policy perspectives.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

This study is carried out to analyze, examine and interpret the budgeting, various functional budgets and its use in the process of planning profit and it's effectives in the public enterprise with the help of various financial statements, statistical tools etc. Research methodology is followed to achieve the objective of this research paper.

Five point Likert Scale was used to measure performance of the organizations. In this study, Return on equity was used to measure the performances of the company for past five years as a performance indicator. In this study, descriptive statistics and inferential statistics are calculated by SPSS 20 software.

3.2 Research Design

Research design is an organized and integrated system that guides the researchers in formulating, implementing and controlling the study. In this study, descriptive as well as analytical research design adopted.

3.3 Population and Sample

In this research, population was public service utilities and samples were Nepal Electricity Authority and Nepal Telecom. A public services utility belongs to three organizations. According to the Ministry of Finance, they are Nepal Electricity Authority, Nepal Telecommunication limited and Nepal Water Supply corporations. Two companies were selected, which represent 66.67 % of the population. These samples have taken in such a way that these samples have higher net capital investment each than Nepal Water Supply Corporations. Then convenience sampling used to draw the sample.

3.4 Sources of Data

The effectiveness of research depends upon the reliable sources of the data. So sources of data are very important things for the research. In this research, data has been collected from primary and secondary data. The primary data has been collected through providing 50 questionnaires to the NEA and NTC each organizations' staff. The sources of secondary data are given as below:

- Annual reports, maganizines of the sample organizations.
- Published and Unpublished reports of sample organizations.
- Office records and documents

Secondary data for this research covered the time period of 2067/68 to 2071/72.

3.5 Data collection procedure

Primary information is the original sources of the study to achieve the objectives of the study. As per the requirement of the study these information has collected from respected organization of public service utility. Information has collected through the respected organization published and unpublished data. Through the developing questionnaire distributed to the different departments' staff of respected organization.

3.6 Data processing Procedure

The computer program spss20 model was used for the data processing. The detail analysis process by preliminary includes descriptive statistics.

3.7 Data Analysis Tools and techniques

The collected data was arranged and presented in proper tables and formants. After arranging relevant data, they are analyzed by applying financial and statistical tools such as SPSS, mean, standard deviation, graphs, diagrams, correlation, etc. so that the finding could be presented and interpreted properly and clearly. They are shortly explained below.

- **Mean**

The sum of all the observations divided by the number of observations is called Mean. In such cases all the items are equally important. It is usually devoted by X. It is defined by the following formula:

Mean (X) = $\frac{\sum X}{N}$

Where,

$\sum X$ = the sum of observations

N = no. of observation

- **Standard Deviation (S.D.)**

The standard deviation is defined as the positive root of the mean of the squared deviations from their mean of a set of values. It is also known as Root Mean Square Deviation. It is usually devoted by the Greek letter δ (Small Sigma)

The SD is calculated by the following formula:

$$SD= \sqrt{\frac{\sum (X-\overline{X})^2}{N-1}}$$

- **Correlation Analysis**

This study included correlation as a tool for calculation of correlation between sales budgets, production budget profitability. It can be calculated by using following formula:

$$\text{Co-efficient of correlation (r)} = \frac{\sum (X-\overline{X})(Y-\overline{Y})}{\sqrt{\sum (X-\overline{X})^2 \sum (Y-\overline{Y})^2}}$$

The correlation coefficient measures the degree of correlation between Y on X. It should be between +1 and -1.

- **Regression Analysis**

This study was taken regression as major tool. Regression is significant tool for measure the effectiveness of independent variables on dependent variable. The regression model of this research was given below:

Regression Model

The multiple regression model of the study is

$Y = a+\beta 1X1 + \beta 2X2 + ei.$

Where,

Y = Dependent variable (ROE)

X1 = Sales budget

X2 = Production budget

a = constant

βi =Beta coefficient and

ei = Error term

In this study value of variables for regression equation is derived with the help of SPSS Statistics Version 20 software.

3.8 Reliability and validity of Data

Cronbach's alpha measured the reliability and validity of the data. Cronbach's alpha presented below:

Table 3.1

Cronbach's Alpha

Cronbach's Alpha	Items
.725	3

Source: SPSS calculation

From the 3.1, cronbach's alpha value were .725 indicating satisfactory internal reliability of the scale.

CHAPTER IV

RESULTS

4.1 Introduction

This chapter deals with data presentation and analysis. Collected data has been presented in proper format to achieve the objective of the study. Data analysis is an important stage of the research process. The purpose of analyzing the data is to change it from an unprocessed from to an understandable presentation. Raw data conveys little information as such. It must, therefore, be compiled, analyzed, and interprets carefully before its full meaning and implications can be understood. The purpose of analyzing data is to obtain usable and useful information. Different types of data require different methods of summary and presentation. The methods of data analysis and presentations are already mentioned in the third chapter.

4.2 Analysis of primary Data

The analysis of primary data includes the demographic profile, descriptive statistics and inferential statistics.

4.2.1 Demographic

The demographic characteristics of the respondents were given. As per the primary data, there were different types of the respondents. They were on the basis of age, gender and experience. The age group was divided into the four categorizes. They were 20-25, 26-30, 31-35 and 36-40. On the basis of gender, there were two male and female. And finally on the basis experience, there were three categorizes. They were less than five years, less than 10 yrs and less than 15 years.

Table 4.1

Respondents Profile

Gender	Frequency	Age group	Frequency	Experience (in years)	Frequency
Male	59	20-25	14	Less than 5	34
		26-30	36	Less than 10	41
Female	41	31-35	30	Less than 15	17
		36-40	20	Less than 20	8
Total	100		100		100

Source: Field Survey, 2017

According to the table 4.1, respondents were male and female of 59 and 41 respectively. The respondents were age group of four categorizes. And frequency of the age group was 14, 36, 30 and 20. Likewise respondents' experience was also divided into four groups. They were less than 5 years, less than 10 years and less than 15 years and less than 20years having frequency of 34, 41, 17 and 8 respectively.

Descriptive statistical method was used to analyze the respondent's data to evaluate the impact of budgeting on profitability of the selected companies. Table No. 4.2 illustrates the descriptive statistics of budgeting variables.

Table 4.2

Overall Descriptive Statistics

Particular	N	Mean	S. D.
Performance	100	3.74	.543
Sales budget	100	3.55	.609
Production budget	100	3.52	.577

Source: Source: Field Survey, 2017

As showed in Table 4.2, the N, mean and standard deviation were used to classify different levels of the sales budget, production budget and performance. The mean of performance, sales budget and production budget were 3.74, 3.55 and 3.52 respectively. Likewise, standard deviation of performance, sales budget and production budget were .543, .609 and .577 respectively. Standard deviation should be smaller for reliable data. Hence, performance has smaller standard deviation.

4.3 Sales Budget

The sales budget is the starting point for budgeting because budget for inventory levels, purchase and operating expenses all depend on the expected on the sales. Accurate sales forecasting is essential to effective budgeting. There is not a realistic sales plan in the public enterprises in the Nepal. Nepal electricity authority has not a proper planning of sales. Likewise Nepal telecom also followed the formality of the sales planning. In nonprofit organizations, forecast of revenue or some levels of services are also the focal points for budgeting. The target sales and actual sales data of NEA and NTC were given.

Table 4.3

Descriptive statistics of sales budget

S. N.	Statement	N	Mean	S. D.
1	Sales budget is useful to project sales and profit of my organization.	100	3.52	1.105
2	A sales budget reflects my organization's master plan for generating revenue.	100	3.66	.977
3	A sales budget is the first and most important of the organization's budget.	100	3.41	1.147
4	Sales budget shows the expected no. of sales units of a period and the expected price per unit	100	3.98	1.082
5	Sales budget provides a benchmark for performance that helps to identify and repair problems early.	100	5.01	0.112
6	Sales budget helps to reduce uncertainty.	100	3.60	1.073

Source: Field Survey, 2017

There were five levels of agree with regard sales budget's statement. The five levels strongly agree which was given 5 points, agree which was given 4 points and neither agree nor disagree which was given 3 points. Moreover, there was disagree which was given 2 points and strongly disagree given 1 point. A mean and standard deviation were worked out for the analysis. Strongly agree was indicated by thinking that sales budget provides a benchmark for performance with a mean of 5.01 and standard deviation of 0.112 In addition, to those who said agree was indicated by thinking that Sales budget shows the expected no. of sales units of a period and the expected price per unit with a mean of 3.98 and standard deviation of 1.082. In remaining statement, respondents were thinking nearly agree that were Sales budget helps to reduce uncertainty with mean 3.6 and standard deviation of 1.073, Sales budget is useful to project sales and profit of my organization with mean of 3.52 and s.d. of 1.105, A sales budget reflects my organization's master plan for generating revenue with mean of 3.66 and s.d. of .977 and a sales budget is the first and most important of the organization's budget with mean of 3.41 and s.d. of 1.147. Most of the statements were indicated as agree.

Table 4.4

Overall correlation between sales budget and Performance

Particular		Performance	Sales Budget
Performance	Karl Pearson correlation	1	.375**
	Sig. (2- tailed)		
Sales Budget	Karl Pearson correlation	0.375**	1
	Sig. (2- tailed)		
** Correlation is significant at the 0.01 level (2- tailed)			

Source: Source: Field Survey, 2017

From the table 4.5, correlation between the performance and sales budget were .375 which was reflected the positive relationship among them. Sales budget was independent variable whereas performance dependent variable. Increase in sales also increase in the performance of the organization.

4.4 Production Budget

The next budget after sales budget is production budget. After the completion of sales budget organization makes the production budget. According to the production budget organization estimate the no. of production units to be produced. It is developed on the basis of sales budget. Production units can be found by the following formula.

Production units can be found by the formula. Production units = planned sales +closing inventory – opening inventory

Table 4.5

Descriptive statistics of production budget

S. N.	Statement	N	Mean	S. D.
1	A production budget permits a my organization to track costs.	100	3.78	1.069
2	A production budget will help to maximize productivity.	100	3.55	1.067
3	A production budget will lead to minimize the cost.	100	3.16	1.022
4	Profitability in my organization is affected by production budget.	100	3.54	1.039
5	Production budget helps to determine how many units to be produced.	100	3.92	1.134
6	Production budget helps to make inventory adjustment.	100	3.50	.905

Source: Field Survey, 2017

Table 4.5, showed that descriptive statistics of production budget. There were five levels of agree with regard sales budget's statement. Agree was indicated by thinking that production budget helps to determine how many units to be produced with a mean of 3.92 and standard deviation of 1.134. In addition, to those who said agree nearly were indicated by thinking that a production budget permits a my organization to track costs with mean of 3.78 and s.d. of 1.069, A production budget will help to maximize productivity with mean of 3.55 and s.d. of 1.067, Profitability in my organization is affected by production budget with mean of 3.54 and s.d. of 1.039 and Production budget helps to make inventory adjustment with mean of 3.5 and s.d. of .905.

In remaining statement, respondents were thinking neutral that was production budget will lead to minimize the cost helps to reduce uncertainty with mean 3.16 and standard deviation of 1.022.

Table 4.6

Overall correlation between Production budget and Performance

Particular		Performance	Production Budget
Performance	Karl Pearson correlation	1	.371**
	Sig. (2- tailed)		
production Budget	Karl Pearson correlation	0.371**	1
	Sig. (2- tailed)		
** Correlation is significant at the 0.01 level (2- tailed)			

Source: Source: Field Survey, 2017

From the above table, correlation between the performance and production budget were .371 which was reflected the positive relationship among them. Production budget was independent variable whereas performance dependent variable. Increase in budgeted production also increase in the performance of the organization.

4.5 Performance

This study has taken performance as a dependent variable. Performance/ profitability measured by ROE. The descriptive statistics of performance were given.

Table 4.7

Descriptive statistics of performance

S. N.	Statement	N	Mean	S. D.
1	The budget process involves planning for future profitability of the organization	100	3.60	1.137
2	Budgeting is important tool that helps to take efficient decision making	100	3.77	.962
3	Budgeting is important tool that helps to increase profitability of the organization	100	3.98	1.018
4	There is relationship between budgeting and performance of the organization	100	3.82	1.029
5	Budget helps to make sustainable development	100	3.58	1.007 .
6	Budget helps to increase core competency of your organization	100	5.10	.957
7	Budget helps to increase productivity of the organization	100	3.96	.942

Source: Field Survey, 2017

Table 4.7, showed descriptive statistics of performance/ profitability. To strongly agree, respondents were indicated that budget helps to increase core competency of your organization with mean of 5.1 and s. d. of .957. In addition, to those who said agree were indicated by thinking that budgeting is important tool that helps to increase profitability of the organization with mean of 3.98 and s. d. of 1.018, budget helps to increase productivity of the organization with mean of 3.96 and s. d. of .942. And remaining statements were indicated by respondents that are thinking of agree nearly. Result concluded that the most of the statements of performance are indicated as agree.

4.6 Regression analysis on the relationship between budgeting and performance

The regression analysis was conducted to find, how budgeting affected performance. The respondent's overall mean score on performance was considered the dependent variable and budgeting is the independent variables. Thus mean aggregate scores for respondents' opinion on sales budget and production were regressed on the overall score for performance. The beta coefficients provided the relative importance various budgeting aspects. The highest beta coefficient value of budgeting aspect was expected to have highest influence on performance, while the second highest beta coefficient stands second in terms of relative significance and so on. The overall model was also statistically significant, where (R^2 = .169), the adjusted R Square value 0.152, which shows that this model has accounted for 15.20% of the variance in the dependent variable. The Regression results are shown in tables below

Table 4.8

Regression model

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.412[a]	.169	.152	.500
a. Predictors: (Constant), Production Budget and Sales Budget				
b. Dependent Variable: Performance				

Source: SPSS calculation

Table 4.9

Regression Coefficients

Model		Unstandardized coefficients		Standardized coefficients	T	Sig.
		B	Std. Error	Beta		
1	(constant)	2.269	.335		6.6774	.000
	Budgeted production (X)	.208	.108	.233	1.928	.057
	Budgeted Sales	.208	.114	.221	1.830	.047

Source: SPSS calculation

From the above results, the estimated regression equation has given below:

Y (performance) = 2.269+0.208 (sales budget) +0.208 (production budget) + ei.

On general aspects within budgeting were found to have significant influence on performance of NEA and NTC. Production budget and sales budget had the same beta coefficient of 0.208 and with influence on performance which reflected a beta coefficient of 0.208. That means production budget has made 20.8% effect on dependent variable profitability. Likewise sales budget also has made 20.8% impact on dependent variable profitability.

4.7 Analysis of secondary Data

Secondary data includes the budgeted sales and budgeted production of NEA and NTC. And there was also calculated ROE of NTC and NEA. The budgeted sales & budgeted production with ROE of NTC and NEA were given.

Table 4.10

Sales budget and Achievements of NEA

In million

Fiscal Year	In units			In Rs.		
	Budgeted Sales	Actual sales	Achievements	Budgeted sales	Actual Sales	Achievement
2067/68	3165.321	2686.986	89 %	20720.199	18118.392	87%
2068/69	3149.739	3041.954	97%	21191.660	20529.419	97%
2069/70	3539.021	3156.019	89%	28443.047	25875.458	91%
2070/71	3564.399	3496.312	98%	28644.872	28787.210	100.5%
2071/72	3790.977	3743.710	98%	31035.356	30798.670	99%

Source: Annual Report and Budget book of NEA

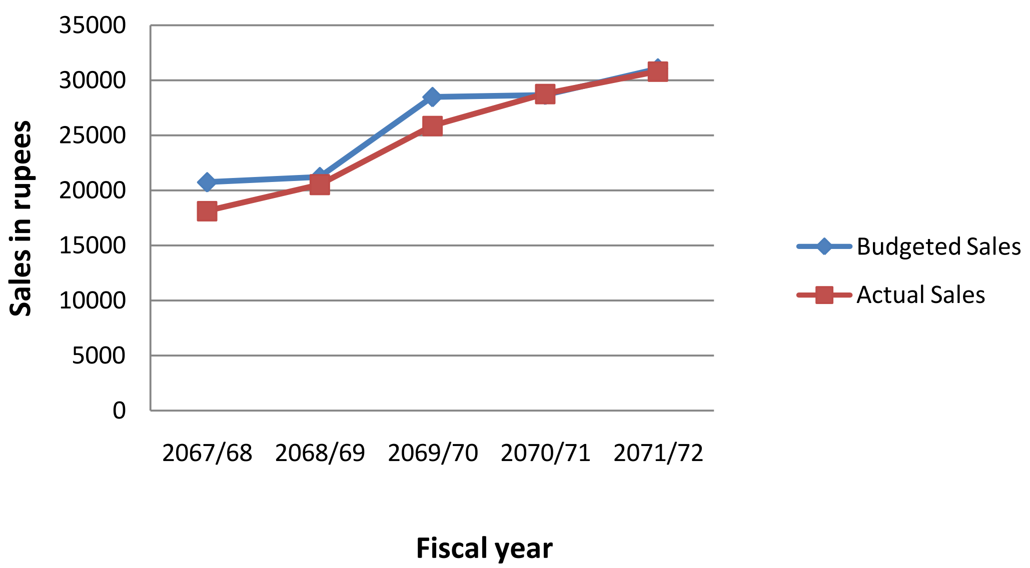
The above table signifies the budgeted and the actual sales budget of NEA. According to the table, in the FY 2067/068 budgeted sales of NEA was 3165.321 and has gradually increased from FY 2069/070 to the FY 2071/072, which was 3790.977 units but it decreased in the FY 2068/069 up to 3149.739 units. On the other side actual sales of NEA in the FY 2067/068 were 2686.986 units which increased gradually up to 2071/072 and reached up to 3743.710 units. The annual achievement was not less than 87 percent. The Targeted sales units were more than the actual sales units. The achievement of sales units was in the increasing ratio except the final year of this study period.

Similarly in the FY 2067/68 the budgeted sale was Rs. 20720.199 million. Annual targeted sales budget was increasing from the FY 2067/68 up to the FY 2070/71. In the FY 2071/72 budgeted sales was Rs. 31035.356 million. Actual sales amount was also in increasing trend. In the FY 2067/68 the actual sales was 18118.392 million, which is the 87 percent of budgeted sales. Likewise, in the FY 2071/72 the actual sales were Rs. 30798.670 million which is 99 percent of budgeted sales.

The attempt begins to present the NEA's sales performance and their achievement to know the relationship between planned and actual sales. During the study period, NEA's sales performance is not very good as in all the FY actual sales are less than budgeted sales except FY of 2070/71. In that FY NEA’s sales performance were 100.5 percent.

The correlation between actual and budgeted sales was 97.5 percent. That was significant at the 0.01 level (two tailed).

Graph 4.11
SALES TARGET AND ACHIEVEMENT



Plotted the data in the above graphics, shows that the budgeted and actual sales are in the increasing trend up to the fiscal year 071/72. But actual sales were lower than budgeted sales up to 069/70. Though both budgeted and actual sales were likely equal in 070/71 and finally equal in 071/72.

Table 4.12

Sales Budget and Achievements of NTC

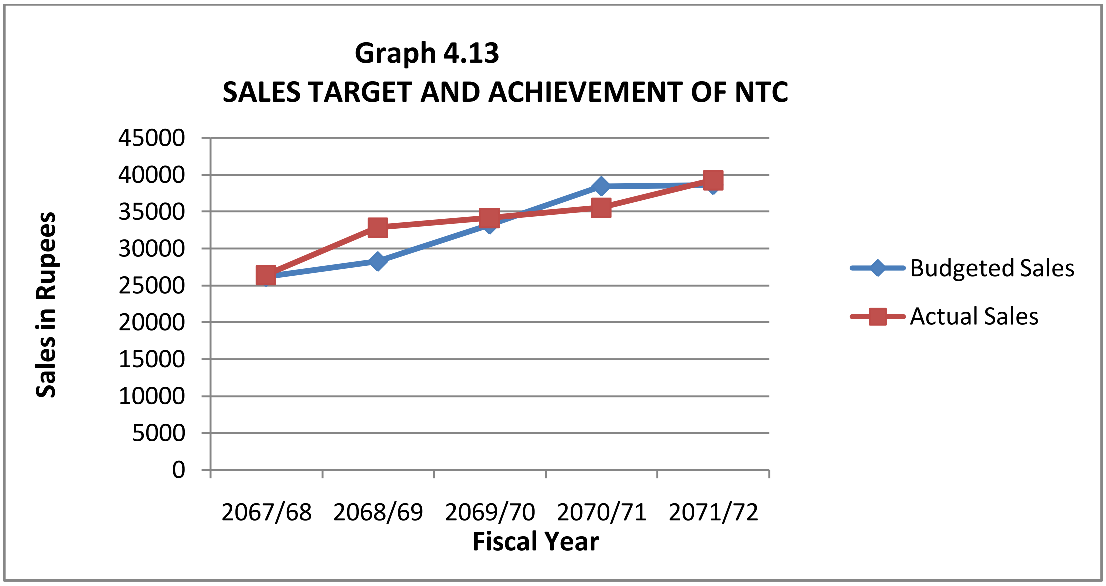
Rs. In millions

Fiscal Year	Budgeted sales	Actual sales	Achievements
2067/68	26191.252	26409.499	101%
2068/69	28265.910	32807.522	116%
2069/70	33273.715	34108.430	102.5%
2070/71	38434.458	35543.776	92.48%
2071/72	38622.775	39259.715	102%

Source: Annual Report and Budget book of NTC

The above table signified the budgeted and the actual sales budget of NTC. According to the table, in the FY 2067/068 a budgeted sale of NTC was Rs. 26191.252 millions and has gradually increased from FY 2067/68 to the FY 2071/72, which was Rs.38622.775 millions. On the other side actual sales of NTC in the FY 2067/068 was Rs 26409.499 millions which increased gradually up to 2071/072 and reached up to Rs 39259.715 millions. The annual achievement was not less than 92.48 percent. The Targeted sales were more than the actual sales. The achievement of sales was in the increasing ratio in overall. In the FY 2068/69 achievement of actual sales were 116 percent of budgeted sales which was highest actual sales achievement.

The attempt begins to present the NTC's sales performance and their achievement to know the relationship between planned and actual sales. During the study period, NTC's sales performance is so good as in all the FY actual sales are more than budgeted sales except FY of 2070/71.



Plotted the data in the above graphic, shows that the budgeted and actual sales are in the increasing trend up to the fiscal year 069/70. But actual sales were lower than budgeted sales in 069/70. But an actual sale was lower than budgeted sales in 070/71 and finally higher in 071/72.

Table 4.14

Production Budget and Achievement of NEA

In millions

Fiscal Year	Budgeted Production unit	Actual Production unit	Achievement
2067/68	2321.633	2125.84	92%
2068/69	2336.211	2358.993	101%
2069/70	2410.360	2291.96	95%
2070/71	2304.220	2297.88	99%
2071/72	2398.030	2336.88	97%

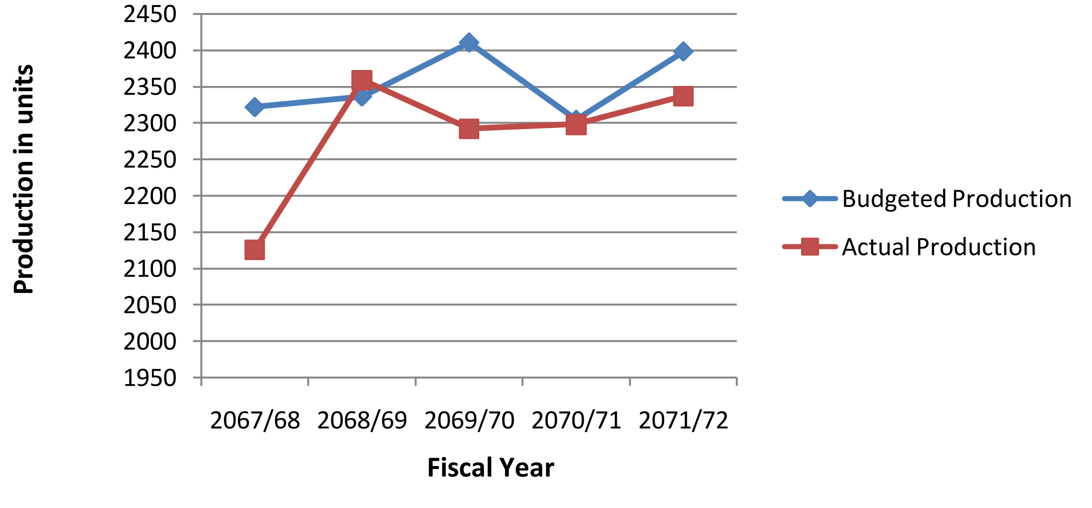
Source: Annual report and budget books of NEA

The table 4.14 signified the budgeted and the actual production budget of NEA. According to the table, in the FY 2067/068 budgeted production of NEA was 2321.633 units and budgeted production of FY 2071/72 was 2398.030 units. It showed that budgeted production units remain the increased at decreasing rate. On the other hand actual production units of FY 2067/68 were 2125.84 units and the FY 2071/72 reached up to 2336.88 units. It showed that the increasing trend in the actual production. The annual achievement was not less than 92 percent. The Targeted production units were less than the actual production units except FY 2068/69. In the FY 2068/69 achievement of actual production units were 101 percent of the budgeted production.

The attempt begins to present the NEA's production performance and their achievement to know the relationship between planned and actual production. During the study period, NEA's production performance is not so good as in all the FY actual sales are less than budgeted sales except FY 2068/69.

Graph 4.15

PRODUCTION TARGET AND ACHIEVEMEN T OF NEA



Plotted the data in the above graphics shows that actual production are in the increasing trend up to the fiscal year 068/069, but budgeted production was increasing up to Fy 2069/070. In Fy 2068/69, actual production greater than budgeted production. In fiscal year 2069/70, budgeted production was greater than actual production. It showed the fluctuation in actual and budgeted production over the fiscal year. Though both budgeted and actual productions are gradually increasing, there is a wide gap between budgeted and actual production.

Table 4.16

Production Budget and Achievement of NTC

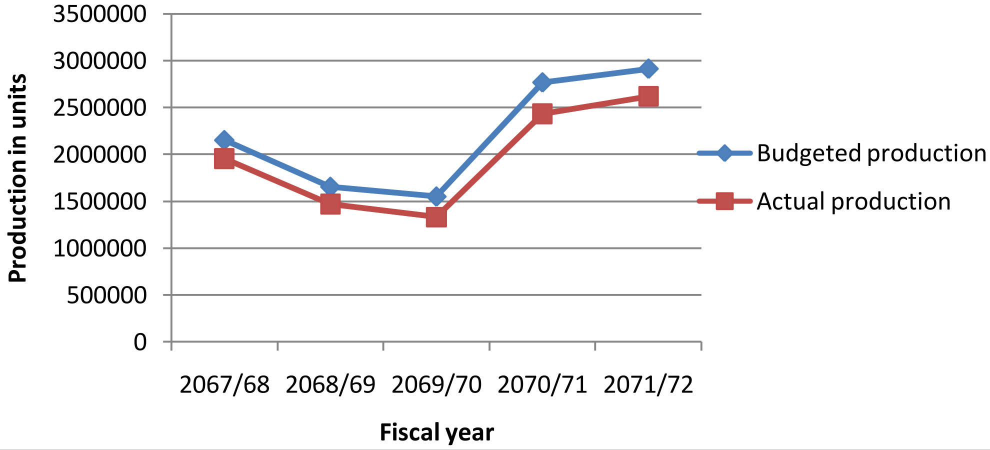
Fiscal Year	Budgeted Production unit	Actual Production unit	Achievement
2067/68	2151841	1958175	91%
2068/69	1654765	1472741	89%
2069/70	1551639	1334409	86%
2070/71	2766814	2434796	88%
2071/72	2912681	2621413	90%

Source: Annual report and Budget books of NTC

The above table signified the budgeted and the actual production budget of NTC. According to the table, in the FY 2067/068 budgeted production of NTC was 2151841 units and budgeted production of FY 2071/72 was 2912681 units. It showed that budgeted production units were the increased at decreasing rate. On the other hand actual production units of FY 2067/68 were 1958175 units and the FY 2071/72 reached up to 2621413 units. It showed that the increasing trend in the actual production. The annual achievement was not less than 86 percent and maximum achievement was 91percent. The Targeted production units were less than the actual production units. In the FY 2067/68 achievement of actual production units were 91 percent of the budgeted production.

The attempt begins to present the NTC's production performance and their achievement to know the relationship between planned and actual production. During the study period, NTC's production performance is not so good as in all the FY actual sales are less than budgeted sales.

Graph 4.17
PRODUCTION TARGET AND ACHIEVEMENT OF NTC



Plotted the data in the above graphics showed that the budgeted and actual production are in the decreasing trend up to the fiscal year 069/070, but both are increasing trend in the Fy 2070/071 and 2071/72. It shows fluctuation. Though both budgeted and actual productions are gradually increasing, there is a narrow gap between budgeted and actual production.

Table 4.18

Impact of BS & BP on ROE

(In '000')

Year	NTC			NEA		
	BS	BP	ROE (%)	BS	BP	ROE (%)
2067/68	26191252	2151.841	22.48	3165.321	2321.633	(22.24)
2068/69	28265910	1654.765	23.45	3149.739	2336.211	(42.76)
2069/70	33273715	1551.639	21.07	3539.021	2410.360	(13.17)
2070/71	38434458	2766.814	20.10	3564.399	2304.220	(26)
2071/72	38622775	2912.681	17.98	3790.977	2398.030	(2)

Source: Annual report and budget books of NEA and NTC.

The table 4.7, showed the impact of budgeted sales and budgeted production on the return on equity of NTC's and NEA's. The calculation of ROE had included in the appendix.

The budgeted sales and budgeted production of NTC were increasing gradually. But ROE were decreasing gradually in accordance with simultaneously fy from the 2067/68. Return on equity remains the positive in the final fy i.e. 17.98 percent.

The budgeted sales and budgeted production of NEA were increasing gradually. Likewise, ROE were increasing gradually in accordance with simultaneously fy from the 2067/68. In the fy 2067/68 roe was (22.24) percent. It was negative return on equity. Return on equity remains in the final fy i.e. (2) percent. It showed that roe was decreasing gradually. It means decreasing in negative roe refers increasing accordance with increasing on budgeted sales and production.

4.7.1 Regression of coefficient

The regression models were given below:

Table 4.19

NEA's Regression of coefficient

Model		Unstandardized coefficients		Standardized coefficients	T	Sig.
		B	Std. Error	Beta		
1	(constant)	3.962			1.324	.317
	Budgeted production (X)	1.10E-09	.000	.344	.771	.521
	Budgeted Sales	3.339E-10	.000	.610	1.368	.305
a. Dependent Variable: ROE						

Source: SPSS calculation

From the 4.10, the estimated regression equation has given below:

Y (performance) = 3.962 + 1.104 8E-09 (production budget) +3.339E-10 (sales budget) + ei.

On general aspects within budgeting were found to have insignificant influence on performance of NEA. Production budget had the beta coefficient of 1.104E-09 and sales budget had 3.339E-10 beta coefficient and made influence on performance by very little percentage that are 0.0000001104% and .00000003339% respectively. And finally t values were more than 0.05 levels.

Table 4.20

NEA’s Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.850[a]	.722	.444	.1131
a. Predictors: (Constant), Budgeted Sales, budgeted production (X)				
b. Dependent Variable: ROE				

Source: SPSS calculation

Table 4.12, showed the model summary of the NEA’s. The independent variables were budgeted sales and production. And dependent variable was ROE. The overall model was also statistically significant, where (R^2 = .722), the adjusted R Square value 0.444, which shows that this model has accounted for 44.4 percent of the variance in the dependent variable.

Table 4.21

NTC’s Regression

Model		Unstandardized coefficients		Standardized coefficients	T	Sig.
		B	Std. Error	Beta		
1	(constant)	.269	.028		9.491	.002
	Budgeted Sales (X)	2.66E-08	.000	.777	2.136	.122
a. Dependent Variable: ROE						

Source: SPSS calculation

From the table 4.10, the estimated regression equation has given below:

Y (performance) = .269 + 2.66E-08 sales budget + ei.

On general aspects within budgeting were found to have positive influence on performance of NTC. NTC's has not prepared production budget. Budgeted Sales assumed as production budget. Therefore production budget is excluded by SPSS software as independent variable which was shown in above table. Sales budget had 2.66E-08 beta coefficient and made influence on performance by very little positively. And finally t values were more than 0.05 levels.

Table No. 4.22

NTC's Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.777	.603	.471	0.154829
a. Predictors: (Constant), Production Budget, budgeted sales (X)				
b. Dependent Variable: ROE				

Source: SPSS calculation

Table 4.9, showed the model summary of the NTC's. The independent variables were budgeted sales and production. And dependent variable was ROE. The overall model was also statistically significant, where (R^2 = .603), the adjusted R Square value 0.471, which shows that this model has accounted for 47.1 percent of the variance in the dependent variable.

4.8 Major findings of the study

On the basis of comprehensive analysis of the available data, the following findings were drawn.

1. NEA and NTC has the practices of preparing short range sales budget but long range sales budget is not prepared in detail.
2. NTC has set the sales target but there is a not practice of making production budget. Sales budget taken as production budget.
3. According to the primary data, there is positive relationship among profitability and sales budget and production budget of NTC. Overall Correlation of sales budget and production budget to profitability were 37.5% and 37.1% on 0.01 levels respectively. The result of the study showed that there exists positive relation between budgeting and performance supports earlier findings of Polisetty(2016), Tsung Lu(2011), Siyanbola(2013) and Nair & Kaab(2017).
4. Overall regression model showed that sales budget and production budget have positive impact on profitability. It has R^2 = 16.9%. By the 16.9% explained on profitability by sales and production budget.
5. According to the secondary data, overall regression model showed that sales budget and production budget have positive impact on profitability of both Organizations. NEA's has R^2 = .722. By the 72.2% explained on profitability by sales and production budget. Likewise, NTC's has R^2 = .603. By the 60.3% explained on profitability by sales and production budget. Finding of this study support with earlier findings of Choge, (2016).
6. Regression analysis of NTC showed that sales budget and production budget impact on profitability insignificantly. NTC's net profit was in decreasing gradually than the previous year. It has regression that is Y (performance) = .269 + 2.66E-08 sales budget + ei. Where, sales budget and production budget can make impact on profitability by .000000266%.
7. Regression analysis of NEA showed that sales budget and production budget impact on profitability positively. It has regression line as Y (performance) = 3.962 + 1.1045E-09 (production budget) +3.339E-10 (sales budget) + ei.

8. NEA has increasing trend in actual sales and actual production. Actual sales budget as 3743.710 millions in unit and 3790.977 units in millions as budgeted on the fiscal year of 2071/72. Achievement of sales budget was by 98%. Whereas actual production was 2336.88 m. and budgeted production was 2398.030 millions. Achievement of production budget was by 97%.
9. Likewise NTC has also increasing trend in actual sales and actual production. Actual sales budget as 39259.715 million and 38622.775 millions as budgeted on the fiscal year of 2071/72. Achievement of sales budget was by 102%. Whereas actual production was 2621413 units and budgeted production was 2912681 units. Achievement of production budget was by 90%.

CHAPTER V

CONCLUSION

5.1 Summary

Public enterprises play a vital role in the development of an economy. The roles of public enterprises are different from country to country basically due to political philosophy of existing government. Usually it comes into existence either by the way of deliberating policy of the government to bring certain activities. In Nepal, the purpose of establishing Public enterprises was to make control over economy and to generate revenue to the government by providing basic goods services that are neglected by the private sector, to the citizens. They are found to be success in their goals basically up to the government launched the policy of free economy.

Budgeting is the significant tool of business operation. It helps to achieve objectives and goals to the enterprise. Profit is the essential part of every business organization. What we said earlier was that without profit, any enterprises cannot run for long term.

The study has tried to examine the effectiveness of profit planning and the use of budgets as a tool for profit planning in public enterprises. Nepal telecom and Nepal Electricity Authority were taken as reference public enterprise.

The study has tried to analyze and examine the practice, procedure and techniques of preparing various functional budgets. It has also tried to answer the certain questions stated.

The basic objective of this study is to examine the impact of budgeting on profitability of Nepalese public enterprises. In addition other sub-objecting are laid down with consistent to the basic objective. For the fulfillment of these objectives, various functional budgets are analyzed in detail. The scope of the study is limited for micro level analysis the five years (FY 2067/2068 to 2071/2072). Trend of data have been used to analyze the quantitative data wherever necessary.

The study has been organized in five main chapters consisting of introduction, literature review, research methodology, and presentation, analysis of data and summary, conclusion and recommendation.

5.2 Conclusion

After analyzing the present practice of budgeting in NEA and NTC, the followi conclusion can be drawn.

1. After the detailed study it is found that there is not complete and comprehensive budgeting system. NEA and NTC does not prepare long-term strategic profit plan, but it prepares only a short term profit plan which is usually refereed as budget. The time period covered by the budgets is only one fiscal year.
2. Various statistical tools show the positive relationship between profitability and budgeted sales & budgeted production. The net profit of NTC for five years is positive, but it is fluctuating which is a serious matter for thinking. The net profit of the NEA for five years is negative but the profit is increasing in trend.
3. There is no systematic performance evaluation for employees and any fair system of reward and punishment to employees on the basis of their work performance. There is no piece wage system of salary payment. All employees get fix amount as a salary at the end of month.
4. Actual sales and actual production are less than budgeted sales and production.
5. NEA and NTC have been facing more problems in profit planning system. Management of the corporation has not adequate knowledge about the nature of profit planning, and Co-ordination between managerial responsibilities. So it has no satisfactory achievement of specific goals that were targeted.
6. According to the primary data, there is positive relationship among profitability and sales budget and production budget of NTC and NEA. Likewise, correlation between profitability and sales budget & production budget was positive.

7. Similarly, result of overall regression model and regression showed that both organizations have sales budget and production budget impact on profitability by positively.
8. According to the secondary data, result of regression and regression model showed that both organizations have sales budget and production budget impact on profitability by positively. Changes in sales budget and production budget also make changes in profitability.
9. NEA and NTC have increasing trend in actual sales and actual production but that has not satisfactory level.

5.3 Implications

The recommendations for the respective references organization are as follows:

1. To achieve the targeted growth rate in sales revenue and production, NEA and NTC should make realistic forecast. Sales and production forecasting should be made after analyzing all variables that affect the sales and production.
2. NTC and NEA shall follow a strict credit collection policy to collect account receivable in time because it helps to reduce the burden of working capital.
3. NEA shall utilize its optimum capacity by importing the modern technology around the world and by making a group of effective management.
4. NEA has suffered from the loss, which is a main reason of reducing sales revenue. Therefore, leakage of the electricity shall be controlled promptly. The most important aspect is to motivate its employees engaged in transmission and distributions line to control the leakage.
5. NTC's profit for the five years is decreasing in trend. So, NTC should make performance evaluation periodically and launch different types of facilities that will help to increase in sales. And that also helps to increase in profit.

Recommendation for Future Research

1. Further researcher should be increased the sample size. This makes more reliability of study.
2. Further researcher also can be increased the year of data covered. This makes more reliability of study.
3. The further researcher can be studied other sector such as financial sector, industrial sector and social sector or whole sector of public service utilities about the practices of budgeting. This makes know the performance of the other sector public service utilities.
4. Researcher should be researched other part of organization such as impact of human resource, management. It helps to know the organizations performance.
5. Researchers are research every year by year and find out the situation of the public organization. However, it is not change the organization so further researcher should be research deeply and effectively to find out the problem of implementation.

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Appendix- 1

Questionnaires Related to Likert five points scale

The Questionnaire are baseline to conduct a research work entitled " Impact of sales and production budget on Profitability, a case study of NEA and NTC", in partial fulfillment for the degree of Master of Business Studies (MBS). Here, number 1 to 5 that indicates strongly disagree to strongly agree.

S.N.	Sales Budget	1	2	3	4	5
1	Sales budget is useful to project sales and profit of my organization.					
2	A sales budget reflects my organization's master plan for generating revenue.					
3	A sales budget is the first and most important of the organization's budget.					
4	Sales budget shows the expected no. of sales units of a period and the expected price per unit					
5	Sales budget provides a benchmark for performance that helps to identify and repair problems early.					
6	Sales budget helps to reduce uncertainty.					
	Production budget					
7	A production budget permits my organization to track costs.					
8	A production budget will help to maximize productivity.					
9	A production budget will lead to minimize the cost.					
10	Profitability in my organization is affected by production budget.					
11	Production budget helps to determine how many units to be produced.					
12	Production budget helps to make inventory adjustment.					

	Performance					
13	The budget process involves planning for future profitability of the organization					
14	Budgeting is important tool that helps to take efficient decision making					
15	Budgeting is important tool that helps to increase profitability of the organization					
16	There is relationship between budgeting and performance of the organization					
17	Budget helps to make sustainable development					
18	Budget helps to increase core competency of your organization					
19	Budget helps to increase productivity of the organization					

Seal of the Company

Date:-………………………….

Signature:

Designation of respondents:-
…………………………………………………………………..

Name of respondents:-
……………………………………………………………………

Appendix- 2

Calculation of Return on Equity of NTC

$$\text{Return on Equity} = \frac{\text{Net profit after tax}}{\text{Shareholder equity}}$$

For 2067/68

ROE = 12120298794/53893886985

= 22.5%

For 2068/69

ROE = 11605269582/49474560053

= 23%

For 2069/70

ROE = 11299175997/53635694828

= 21.07%

For 2070/71

ROE = 11553724269/57476727479

= 20.10%

For 2071/72

ROE = 14556338378/80998443442

= 17.98%

Appendix -3

Calculation of Return on Equity of NEA

$$\text{Return on Equity} = \frac{\text{Net profit after tax}}{\text{Shareholder equity}}$$

For 2067/68

ROE = -6089223705/27372357884

= - 22.14%

For 2068/69

ROE = -9947876239/23261497863

= -42.76%

For 2069/70

ROE = -3405415908/25848150561

= -13.17%

For 2070/71

ROE = -6808359143/26180689996

= -26%

For 2071/72

ROE = -5129756138/25545522344

= -2%

Appendix 4

Nepal Telecommunication company ltd.

Actual Sales Summary of Last Five Years

Rs. in millions

Fiscal Years	2067/68	2068/69	2069/70	2070/71	2071/72
PSTN Telephone	4871.928	4921.799	5123.528	3695.949	3504.357
Data	-	-	30.469	1550.031	1705.530
Mobile service	13300.413	15127.873	16472.253	18468.947	21106.15
CDMA mobile	2431.312	2045.808	1547.737	1211.173	1267.699
Other	5805.846	10712.042	10934.443	10617.676	11675.979
Total	26409.499	32807.522	34108.43	35543.776	39259.715

Appendix -5

Nepal Electricity Authority

Actual Sales Summary of Last Five Years

Rs. in million

Fiscal Years	2067/68	2068/69	2069/70	2070/71	2071/72
Domestic	7619.051	8967.767	11247.769	12622.114	12706.545
Trading	1953.714	2259.501	2994.001	3359.686	3735.001
Non trading	1001.092	1091.523	1355.164	1486.625	1644.448
Industrial	6389.848	7102.367	8885.214	9844.176	11064.837
Export	215.425	34.990	32.218	30.904	39.358
Miscellaneous	939.262	1073.271	1361.091	1443.767	1608.481
Total	18118.392	20529.419	25875.458	28787.210	30798.67

IMPACT OF SALES AND PRODUCTION BUDGETS ON PROFITABILITY;

A case study of Nepal Telecommunication Company and Nepal Electricity Authority

A Thesis proposal

By

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Central Department of Management

Exam Roll no.: 617/15

T. U. Regd. No.: 7- 2- 32-7-2010

Submitted in Partial Fulfillment of the Requirement of Degree of

Masters of Business Studies (MBS)

In the

Faculty of Management

Tribhuvan University

Kirtipur, Kathmandu

June, 2017

1. Background of the study

Nepal started planning economic development and established national planning commission after 1956. Then, give effort to obtain rapid economic growth. Public enterprises those support economic activities so that it is back bone of the country. Main objectives of establishing public enterprises in Nepal are to provide basic goods and services to consumer at reasonable price, to build the infrastructure of development, to contribute on economic growth development & infrastructure development and to promote social justice. Here, an effort has attempted to understand the impact of budget on profitability in public utility. To understand it more precisely and convey information for further use of this research, different sector of Nepalese public enterprise such as Industrial sector, Trading sector, Service sector, Public utility service sector, and financial sector. From these different sector, public utility service sector undertaken for study and analysis (https://www.mof.gov.np/yellowbook).

There are three public enterprises operating under public utility service sector as given below:

a. Nepal Electricity Authority.
b. Nepal Telecommunication Company Ltd.
c. Nepal Drinking Water Supply Corporation.

The main aim of budgeting is to present the future forecasting, numerically expressed in an appropriate format so as to properly control scarce resources. A budget must be prepared in advance of commencing operations, stating what and how things are to be done. It covers a definite period of time, usually one year. Budgeting is an artistic work as well as, in which numerical plan is presented in well structured schedules. Budgets, basically, are forecasted financial statements – formal expression of managerial plans that encompass all phases of operation including sales, production, purchasing, manpower and financing the annual budget may, then, be broken down by month, weeks and days of operations. The budget involves the statement of plans, the coordination of these plans into well-balanced programs, and the constant watching of actual operations to endure that they are kept in line with the predetermined plans (Bajracharya, et. al, 2015).

Business budgeting is a basic and essential process that allows businesses to attain many goals in one course of action. There are several goals that many businesses seek to achieve (or should be trying to work toward) when they create and implement a budget. These goals include control and evaluation, planning, communication, and motivation (Lucey, 2004), suggests that budgeting is a process of planning the financial operations of a business. Budgeting as a management tool helps to organize and formulize management’s planning of activities. Budgeting as a financial tool is useful for both evaluation and control of organizations for the planning of future activities. Budgeting as a tool in financial management regularly prepares performance plans and budgets requests that describe performance goals, measures of output and outcomes in various activities aimed at achieving performance goals. This helps in the sense that annual plans set forth in measurable terms form the levels of performance for each objectives in the budget period. A company should earn profit to survive and grow over a long period of time. Profits are essential, but it would be wrong to assume that every action initiated by management of a company should be viewed at maximizing profit. Therefore, profitability shows the overall efficiency of the company.

The budget is a planning document which contains a number of financial and / or nonfinancial information that refers to the activities that will take place in the future. Budgeting is the activity of recording financial and / or non-financial elements into the budget (Achim, 2009a). Blumentritt defines budgeting as “the process of allocating an organization's financial resources to its units, activities and investments” (Blumentritt, 2006), while Horngren et al. sees budget as the quantitative expression of a proposed plan of action by management for a specified period and an aid to coordinating what needs to be done to implement that plan (Horngren et al., 2004).

2. **Statement of the problem**

The overall performance of the enterprises is not satisfactory as per their annual reports, economic survey, government report, Nepal Rastra Bank’s report published articles. One of the main reason of poor performance is poor planning, controlling and process by decision making by the management. Nepal Telecom Corporation and Nepal Electricity Authority are major public enterprises functioning in public sector has not been able to manage and supply of services in both urban as well as rural areas of Nepal. Systematic distribution of communication services is the main constraint of NTC.

NEA, the major leading public Enterprise functioning in public utility sector has not been able to generate and supply electricity to rural areas. It has not completed many projects yet. Moreover, no enterprise can survive without profit. The success or failure of any enterprise is measured on the basis of profitability or surplus. The profit depends on the systematic budgeting and financial performance.

The study will deal with the following problems:

1. What are the present conditions and practices of NTC and NEA organizations relating to production and distribution of the electricity and telecommunications services in the country?
2. What is the trend of sales and production budget of NTC and NEA organizations?
3. What is the effect of sales and production budget on profitability of NTC and NEA organizations?

3. Purpose of the study

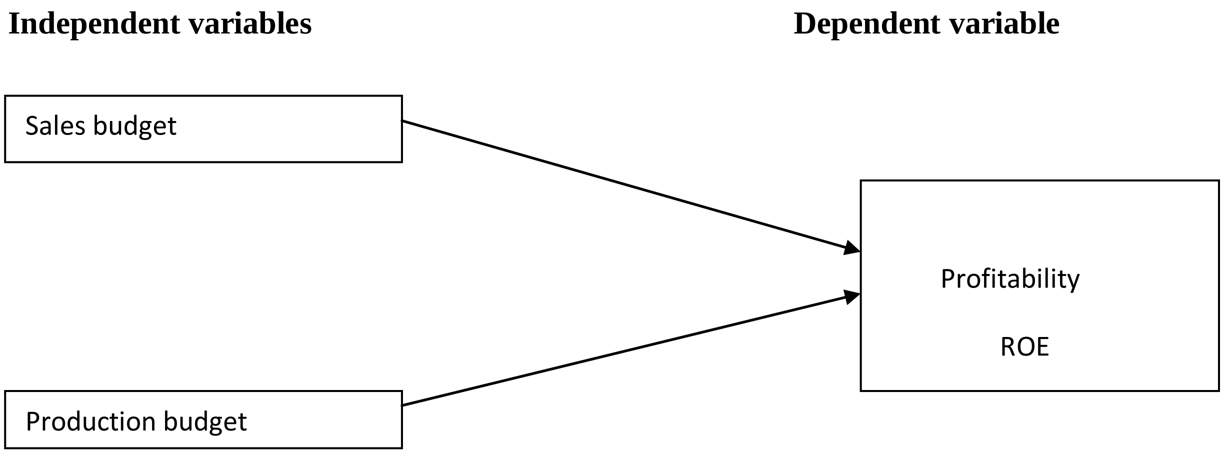
The general objective of this study will be analyzed the impact of sales and production budget on profitability of sample organizations with the following specific objectives:-

1. To examine the present conditions and practices of NTC and NEA organizations relating to production and distribution of the services and electricity in the country.
2. To analyze the trend of sales budget and production budget of NTC and NEA organizations.

3. To examine the impact of sales and production budget on profitability of NTC and NEA organizations.

4. Conceptual Framework

The interest of this research is to make detailed analysis about the performance of the organization. There are two independent variables which are the budgets. These two variables are sales and production budget.



According to the conceptual framework variables were divided into two parts one is the independent and another is dependent variable. Sales budget and production budget are independent variable where profitability is dependent variable. Profitability measured by Return on Equity. Sales budget is the first and most important budget of the organization. Likewise production budget is also significant budget of the organization. Any changes in the independent variables make also changes in the dependent variable.

5. Significance of the study

Profit is the most important indicator for judging managerial efficiency. No organization can exist without profit which happens through the efficient application of various types of budgets. So, it is necessary to analyze the various types of functional budgets for comprehensive profit planning. This study is concentrated to analyze and examine the impacts of budgets in profitability in Nepal Electricity Authority and Nepal Telecom.

This study will be important for the following groups, organization and individual

1. Future researchers
2. Board of directors and management body of NTC and NEA.
3. University student who will be interested about NTC and NEA.
4. NGO's and INGO's
5. Personnel of NTC and NEA.
6. All other interested individuals and parties

6. Limitations of the study

1. This study will concentrate on budgetary system and its effect on comprehensive profit planning of sample organizations.
2. The study will covered the analysis of 5 year data covering the FY 2067\68 to 2071\72.
3. The analysis will be based on planning document provided by the top management of sample organizations and published books and booklets.
4. Findings of this study may not represent to other settings.

7. Literature review

In general the term budget is seen as representing a list (a document) in which are placed face to face predictable revenues and expenditures of a particular economic entity, for a specified period. This approach corresponds to reality, but at a more detailed analysis, this expression reflects a methodological category specific to finance, seen as a scientific discipline. Under this, budget can be interpreted as a general finance specific methodological process through which, it highlights how formation and sizing of financial resources it is done in particular economic entities, on the one hand, and the distribution to various destinations of resources for the fulfillment of predetermined targets, on the other hand.

The budget is a planning document which contains a number of financial and / or nonfinancial information that refers to the activities that will take place in the future. Budgeting is the activity of recording financial and / or non-financial elements into the budget. Blumentritt defines budgeting as “the process of allocating an organization's financial resources to its units, activities and investments" (Blumentritt, 2006), while Horngren et. al. sees budget as the quantitative expression of a proposed plan of action by management for a specified period and an aid to coordinating what needs to be done to implement that plan (Horngren et al., 2004).

The income budget represents the financial estimation for sales of company's products and services and the expenditure budget is the financial estimation of resource consumption necessary to achieve company's objectives. So, the budget is a financial or quantitative statement, containing the plans and policies to be pursued during a specific time period (typically a year). All decisions made at the company's level (technical, economic, organizational and others) result in affecting the existing financial balance and determine the need for a new balance, employing for this purpose changes in the level and structure of funds and resources needed to finance them. The new financial balance requires reliance on a higher level of financial indicators by budgeting. The income and expenditure budget is therefore the company's financial program with which it predicts revenues, expenditures and financial results of its activities, own funds and the loan, businesses relationships, payments to the budget and others.

Profits are the excess of income over cost of production. The expenses made on raw material, labor, interest, fuel, power are included in cost. There is controversy as to the definition of the term profit itself. Ordinarily, the term profit is defined in terms of accounting concept. According to accounting definition "profit is the residual of sales revenue minus the explicit cost of doing business." This profit is the amount available for ownership or equity after payment is made to all other factors used by the firm. J.M. Keynes held the view that profits resulted from favorable movement of the genera price level. Mr. John Robinson Chamberlin opined that greater degree of monopoly power, the greater the profits made by the entrepreneur (*Joshi, 2004:276&277*)

8. Research Methodology

Research methodology is a way to systematically solve a research problem by logically adapting various steps. The study is being conducted with the intention to check out the impact of budgeting on the profitability of NTC and NEA. The major aims of the research include highlighting the importance of budgeting for profitability.

This chapter looked at the research methodology as used in the study. This chapter presents the following; research design, the population of the study, the sample and sampling techniques, instruments for data collection and method, data analysis and presentation methods and the research procedures.

8.1 Research Design

This research will be descriptive and analytical in nature. It will deal with what information is to be collected from which sources and by what procedures. If research design is good, it ensures that the information obtained is relevant to the research questions and collected by objective and economic procedures.

8.2 Population and Sample

At present, there are 3 public utility sector enterprises operating in Nepal. They constitute the population sample. Among them, Nepal Telecom and Nepal Electricity Authority are selected as a sample for the study to examine the impact of Budgeting on the profitability of the Nepal telecom and Nepal Electricity Authority. Five years data will be to conduct the study from 2067/68 to 2071/72.

8.3 Sources of Data

The study will use the primary and secondary data to fulfill its objectives. The primary data has been collected through providing 50 questionnaires to the NEA and NTC each organizations' staff. The sources of secondary data for this research will cover the time period of 2067/68 to 2071/72. Secondary data will be collected from the published statistics such as annual reports, periodicals, newspapers, magazines, economic journals, reports of sample organization.

8.4 Data Collection and Processing Procedure

Data will be collected through the respected organization published and unpublished data. Through the developing questionnaire distributed to the different departments' staff of respected organization. The validity and reliability of data collection depends upon the data provided by the organizations**.** The data will be processed in ms excel and SPSS 20 software.

8.5 Data analysis tools and techniques

This chapter includes the presentation and analysis of collected data by using various financial and statistical tools and major findings. The collected data will be arranged and presented in proper tables and formants. After arranging relevant data, they will be analyzed by applying financial and statistical tools such as SPSS, mean, standard deviation, graphs, diagrams, correlation, etc. so that the finding can be presented and interpreted properly and clearly.

9. Chapter plan

The whole study is divided into five different chapters. They are:

Chapter I Introduction

This chapter includes the background of the study, introduction of commercial banking industry of Nepal, statement of problem, purpose of study, Theoretical/Conceptual Framework, significance of the study and the limitations of the study.

Chapter II Review of Literature

This chapter deals with the review of available and literature. It includes conceptual review of books, reports, thesis and journals, review of previous works research gap.

Chapter III Research Methodology

This chapter includes the research methodology used in the study which includes research design, population and sample, sources of data, data collection and processing procedure and data analysis tools and technique.

Chapter IV Results

This chapter is most important and plays vital role in this study. This chapter deals with the results and findings of the study carried to meet the objectives of the study.

Chapter V Conclusions

This chapter presents of the brief discussion, conclusions and implications of whole research report. It also provides some useful suggestion and recommendations to concerned parties.

Similarly, at the beginning of the study table of contents, approval sheet, viva voce sheet, acknowledgement, table of contents, list of tables and figures and abbreviations and abstracts are presented and references and appendix are also presented at the end of the study.

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