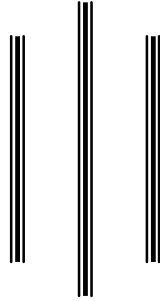


Cash Flow Analysis of Nepal Telecom (NTC)



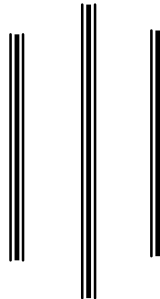
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Submitted to:-

Office of the Dean

Faculty of Management

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In Partial Fulfillment of the Requirement for the Degree of

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

Kathmandu, Nepal

August, 20011

RECOMMENDATION

This is to certify that the thesis:

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“Cash Flow Analysis OF Nepal Telecom”

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

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We have conducted the viva-voce examination of the thesis presented by

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“Cash Flow Analysis of Nepal Telecom”

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Viva-voce Committee:

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Member (External Expert)

Head, Central Department of Management:

Date:

DECLARATION

I hereby declare that the work reported in this thesis entitled "**Cash Flow Analysis of Nepal Telecom (NTC)**" submitted to office of Dean, Central department of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of requirement for the Master Degree in Business Studies (M.B.S.) under the supervision and guidance of Pro. Dr. Balkrishna Shrestha Central Department of management.

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Central Department of management

August, 2011

ACKNOWLEDGEMENT

The present study Cash Flow Analysis of Nepal Telecom (NTC) has been prepared for the partial fulfillment of the requirement for Master's Degree of Business Studies (M.B.S) from Tribhuvan University. The main contribution of this study lies in explaining and exploring the situation of cash flow of NTC as a tool of cash management. This study will help to improve the skill for planning and controlling cash. In addition, it is also useful for them who want to know about the situation of cash flow of NTC.

I would like to express my sincere gratitude to my thesis advisors **Pro. Dr. Balkrishna Shrestha**. Who guided throughout research work with providing valuable suggestions, supports and supervision. Without these remarkable help and guidance, this thesis would not have come in this form. I am also pleasant to express thanks to staffs of Central Library. I would like to express my sincere thanks to all, who had supported me to complete this study.

Finally, debt of gratitude is to my family, friends and colleagues for their outstanding encouragement to conduct this study.

Rajendra Prasad Timilsina

Table of Contents

	Page No.
Recommendation Letter	i
Viva-Voce Sheet	ii
Declaration	iii
Acknowledgement	iv
Table of contents	v
List of Table	viii
List of Figure	ix
Abbreviation	x

CHAPTER - ONE INTRODUCTION

1.1 General Background	1
1.2 A Brief Overview of Telecommunication	3
1.3 Statement of Problem	5
1.4 Objectives of the Study	6
1.5 Significance of Study	6
1.6 Limitation of Study	7
1.7 Organization of Study	7

CHAPTER - TWO REVIEW OF LITERATURE

2.1 Conceptual Framework	9
2.1.1. Funds Flow Analysis	10
2.1.2. Cash Flow Analysis	11
2.1.3. Cash Flow and Profitability	12
2.1.4. Cash Flow Statements	13
2.1.5. Importance of Cash Flow Analysis	15
2.1.6. Aims and Objective of Cash Flow Statement	16
2.1.7. Difference between Funds Flow Statement and Cash Flow Statement	17
2.1.8. Preparation of Cash Flow Statement	18
2.1.9. Indirect Approach to Cash Flow Statement	20
2.1.10. Direct Approach to Cash Flow Statement	23
2.2 Review of Related Studies	28
2.2.1 Review of Book	28

2.2.2	Review of Article and Journal	30
2.2.3	Review of Previous Studies	34
2.3.	Research Gaps	45

CHAPTER - THREE RESEARCH METHODOLOGY

3.1	Introduction	46
3.2	Research Design	46
3.3	Population and Samples	47
3.4	Sources of Data	47
3.5	Data Processing and Tabulation	48
3.6	Tools and Techniques Used to Analyze the Data	48
3.6.1	Statistical Tools	48
3.7	Research Variables	50

CHAPTER - FOUR DATA PRESENTATION AND ANALYSIS

4.1	Introduction	51
4.2	Net Cash Flow Analysis	51
4.3	Cash Position Analysis	53
4.4	Statistical Description of NCFOA, NCFIA, NCFFA and NCF	55
4.5	Cash Position Analysis	58
4.6	Statistical Description of Cash position	60
4.7	Correlation Analysis	62
4.8	Major Findings	64

CHAPTER - FIVE SUMMARY, COCLUSION AND RECOMMENDATION

5.1	Summary	66
5.2	Conclusion	67
5.3	Recommendation	67
	Bibliography	
	Appendix	

List of Table

	page no.
Table: 4.1 Net cash flow of NTC	52
Table: 4.2 Net cash position of NTC	56
Table: 4.3 NPBT and NPAT of NTC	60
Table: 4.4 Pearson Correlations Coefficient between any two of NPBT, CFOA, CFIA and CFFA	63

List of Figure

Figure: 4.1 Net cash Flow of NTC	53
Figure: 4.2 Cash flow bar diagram	54
Figure: 4.3 Cash balance at the end	57
Figure: 4.4 Cash balance at the beginning	57
Figure: 4.5 cash at beginning and ending balance	58
Figure: 4.6 cash position of the NTC	59
Figure: 4.7 NPBT and NPAT line	61
Figure: 4.8 NPBT and NPAT diagram	62

Abbreviation

A.D.	=	Anno Domini
B.S.	=	Bikram Sambat
CFFA	=	Cash From Financing Activities
CFIA	=	Cash From Investing Activities
CFOA	=	Cash From Operating Activities
Co	=	Company
CV	=	Coefficient of Variation
etc	=	Et Cetera
GR	=	Growth Rate
i.e.	=	That is
ISD	=	International Subscriber Dialing System
Ltd	=	Limited
M.B.S	=	Master of Business Studies
NCF	=	Net Cash Flow or (Net increase/decrease in cash)
NFC	=	National Finance Company
NPBT	=	Net Profit Before Tax
NPAT	=	Net Profit After Tax
NTC	=	Nepal Telecom
PVT	=	Private
r	=	correlation coefficient
RDL	=	Royal Drugs Limited
S.D.	=	Standard Deviation
STCL	=	Salt Trading Corporation Limited
STD	=	Subscriber Trunk Dialing
SD	=	Standard Deviation
T.U.	=	Tribhuvan University
US	=	United State
FY	=	Fiscal Year

CHAPTER - ONE

INTRODUCTION

1.1 Background of the Study

The term cash flow statement is an indicator of the amount of cash receipts and the amount of cash payments or disbursements during a specified period. Cash flow is the net amount of money received by an individual or business in a given period. If cash flows are budgeted correctly, enough funds should be available to meet cash payments as they occur. Cash flow should not be confused with profits and losses; many companies have gone out of business while making profits, simply because they ran out of cash" (www.cashflow.com). It is a statement which shows the inflows and outflows of cash and equivalents during the year. It is defined as a statement of company's ability to generate cash from various activities and their need of cash.

Cash flow management is the process of monitoring, analyzing, and adjusting cash flows. For small businesses, the most important aspect of cash flow management is avoiding extended cash shortages, caused by having too great a gap between cash inflows and outflows. Funds can be of two types they are either in the form of working capital or in cash. If the fund is considered as working capital then we have to prepare the funds flow statement whereas if the fund is taken as cash then we have to prepare cash flow statement.

There are different concepts regarding fund. Some concepts insist that only cash should be considered as fund and another concept states that fund is not only the cash but the financial resources which can be converted into cash can also be included in funds.

"Cash is the lifeblood of a business enterprise. It is the fuel that keeps a business alive. Without cash no activities can take place. So a business must have an adequate amount of cash to operate. As such of the decision makers must pay close attention to the firm's cash position and events and transaction that affect the cash position of the company is termed as cash flow analysis" (www.cashflow.com).

Cash flow analysis is the study of the cycle of the business cash inflows and outflows, with the purpose of maintaining an adequate cash flow for the business, and to provide the basis for cash flow management. Cash flow analysis involves examining the components of the business that affect cash flow, such as accounts receivable, inventory, accounts payable, and credit terms. By performing a cash flow analysis on these separate components, the company should be able to more easily identify cash flow problems and find ways to improve the cash flow.

A quick and easy way to perform a cash flow analysis is to compare the total unpaid purchases to the total sales due to the end of each month. If the total unpaid purchases are greater than the total sales due to the company would be need to spend more cash than receive in the next month, indicating a potential cash flow problem.

Cash flow is calculated by making certain adjustments to net income by adding or subtracting differences in revenue, expenses and credit transactions resulting from transactions that occur from one period to the next. These adjustments are made because non-cash items are calculated into net income and total assets and liabilities. So, because not all transactions involve actual cash items, many items have to be re-evaluated when calculating cash flow from operations. The other method of cash flow is calculated by different adjustments of operating activities, investing activities and financing activities within different operations.

Cash flows analysis is done through statement of cash flows. A cash flow statement is a statement of company's ability to generate cash from various activities such as operating, investing and financing and their need of cash. It is a statement which shows the inflows and outflows of cash and cash equivalents during the year. A cash flows statement is defined as "a statement of company's ability to generate cash from various activities and their need of cash" (Munakarmi, 2063: 13.9). The cash flow analysis is an essential ingredient which has its own special technique. Moreover we should analyze cash flow

ability of the firm to serve fixed charges. When the company issues the securities in greater amount with short maturity period, its fixed charges will be high. Fixed charges of any firm include principal plus interest payment on debt, lease payment and dividend on preferred stock. The firm should try to cover all fixed charges by analyzing expected future cash flows before assuming any fixed charges. The inability to meet the fixed charges may result in financial insolvency. Therefore the more stable future cash flow means the greater debt capacity of the company. Due to this reason, an analysis of the cash flow ability of the firm it's the best way to analyze its financial risk. As such an enterprise should prepare a cash flow statement and should present it as an integral part of its financial statement for each periods for which financial statement are presented.

Cash flow is calculated by making certain adjustments to net income by adding or subtracting differences in revenue, expenses and credit transactions (appearing on the balance sheet and income statement) resulting from transactions that occur from one period to the next. These adjustments are made because non-cash items are calculated into net income (income statement) and total assets and liabilities (balance sheet). So, because not all transactions involve actual cash items, many items have to be re-evaluated when calculating cash flow from operations.

1.2 A Brief Overview of Telecommunication

In this globalization and scientific era, telecommunication is getting more important, useful, and an indispensable aspect of our lives. It is one of the fastest, cheapest, comfortable and reliable media of communication. In the 21st century in which knowledge and information are the foundation for competitiveness, information technology will play a vital role in providing that competitiveness. As we leave the industrial age and enter the information age, it is clear that despite all the technical advances and globalization, the formula for economic success has remained the same, economic prosperity relies on

quick access to the critical network of information and commerce. In terms of market capitalization, the telecommunication industry ranked third in the world behind health care and banking. Telecommunication as an industry has combined sales of more than US \$ 800 billion world wide, of which three quarters comes from services and one-quarter from equipment sales. In the context of Nepal, Nepal Telecom is the chief tax payer among all other companies. The world's telecommunication network is the largest man- made machine of all time. With the change and development in science and technology, telecommunication is getting more and more advanced and made the whole big world like a small village. The newer mechanisms are more reliable, comfortable and less time consuming, which helps people to communicate distant places very easily and in less time

From 1970 B.S., telecommunication service was started as magneto telephone service in limited area was the first step for telecommunication service. Then on 1991 B.S., Telephone Head Office was established. Then only after 1992 B.S., telecommunication service was available to those general public, who can afford for it. On 2005 B.S. Mohan Akasbani service was started from Akashbani head office. On 2016, with amalgamating Akashbani Head Office and Telephone Head Office new Telecommunication Department was established under Ministry of transport and communication. This Telecommunication Department was turned into Telecommunication committee on 2026 Kartik 1st. According as policy of Sasthan Act 2028, to provide base for economic development though providing telecommunication service to general public, Telecommunication Department was turned into Nepal Doorsanchar Sasthan 2032 Asadh 1st. (www.ntc.net.np) "Nepal Doorsanchr Company Limited (Nepal telecom) was registered on 2060-10-22 under company Act 2053 and the notice to this effect was published in Nepal Gazette dated 26th Chaitra 2060, after dissolving the Nepal Telecommunication Corporation (NTC), as the mended provide by communication policy of 2060 B.S., to provide qualitative communication

services at least cost with applying open competitive environment. However, the company name was officially effected from 1st Baishak 2061 (13th April 2004) and the general public know it by the name of "NEPAL TELECOM" as its registered trade name.

Mission: “Nepal Telecom, as the progressive, customer spirited and consumer responsive entity, is committed to provide nation-wide reliable telecommunication services to serve as impetus to the social, political and economic development of the country.”

Vision: Vision of Nepal Telecom is to remain a market leader in information and technology sector in the in the country while also extending reliable and cost effective services to all.”

Goal: Goal of Nepal Telecom is to provide cost effective telecommunication services to every nook and corner of the country" (Annual Report: 2066).

1.3 Statement of Problem

Cash is a blood for every organization which spreads every part of activities within an organization. So, cash management in productive manner is given high priority by every organization. To manage the cash in effective way, there need effective controlling mechanism which provides different information to take decision for the management of cash in NTC. This study is attempt to analyze cash flow of NTC under different headings with linking each other to provide the insight knowledge to manage cash through application of cash flow analysis. For this, the present analysis is tried to find:

- What is the situation of NTC in its operation?
- What do the cash flow statements of the NTC indicate?
- Whether the NTC has managed the cash properly or not?
- Whether there are any irregularities in cash flow of the NTC or not?
- How far they have been able to keep the sound status items of business success?

1.4 Objectives of the Study

The main objective of this study is to analyze the cash flow of NTC to get the in-depth information related with cash management. This objective is associated with following objectives.

-) To analyze the trend of cash flow of NTC.
-) To examine, analyze and compare the cash flow of different headings (i.e. operating, investing and financing).
-) To identify the strengths and weaknesses of cash management of NTC.
-) To provide suggestions and recommendations for future improvement on cash flow and cash management.

1.5 Significance of Study

No organization can exist without cash. But mishandling of cash is also a type of disease for the organization for its failure because it is assumed that cash is blood for every organization. Every activities performed by organization directly or indirectly relates with cash in short run or long run. So, management is highly prioritized to manage cash by dividing the inflow and outflow of cash with segregating into different headings. These headings are: operating activities, investing activities and financing activities. These activities cover all activities of any organization. So, the study of cash flow analysis is considered as the integrated approach to management science. This study is focused on analysis and explanation of cash, cash flow budget and the cash position which are the key factors of any organization. The component of cash flow budget shows the financial health of organization in a critical way. The statement of cash flow reveal the solvency position of a firm. The information concerning statement of cash flow can be used to evaluate the ability to generate positive cash flow for the future periods, pay dividend and financial growth. On the other hand, the decision makers know the direction in which a strategy is likely to affect cash flow on the short term and over long term. This study is significant for the following purpose.

-) Useful to the concern person like management, policy maker and shareholders.
-) Beneficial to other related organization.
-) Helps to other new researchers.
-) Library asset for common use.

1.6 Limitation of Study

No research can be done without boundary. In that sense, the present study is also not free from limitations. These main limitations are the cause of time and cost which made following limitation for the study.

-) This study covers the data of only last five years from 2061/62 to 2065/66.
-) This study based on secondary data provided by NTC and other document published on different media. So, the accuracy of the study depends on the accuracy of the data.
-) This study limited only cash flow analysis of NTC as part of profit planning and control.

1.7 Organization of Study

This research study has been organized as followings chapters:

Chapter 1: Introduction This chapter is the introductory chapter which covers general back ground, introduction to the organization, focus of study, limitation of study, objectives of study etc.

Chapter 2: Review of Literature

This chapter reviews the existing literature in related area mainly it includes the fundamental concept and brief review of previous research work i.e. book, journal, internet and thesis.

Chapter 3: Research Methodology

This chapter describes the methodology employed for the study. It includes research design, data collection and method of analysis and key term.

Chapter 4: Presentation and analysis of data

This chapter is the main chapter of the study which applies different (financial and statistical) tools and techniques for the data to get analysis

Chapter 5: Findings, recommendation and conclusion

This is last chapter for the study which organizes major findings, issues, conclusions and recommendations.

Besides these chapters, bibliographies, appendix has been also included at the end of the study

CHAPTER - TWO

REVIEW OF LITERATURE

The word research is derived from French word i.e. re-searcher which means to seek again about what has in existence or both repetitions of research work in the sense to review as per its relevancy to the subject matter. The main objective of this chapter is to analyze the research work and clarify the study on a rational basis. But only limited numbers of studies have been conducted in the field of cash flow statement. The chapter has been divided into two sections and is organized as follows.

- Conceptual Framework
- Review of Previous studies

2.1 Conceptual Framework

"The term cash flow statement is an indicator of the amount of cash receipts and the amount of cash payments or disbursements during a specified period. Cash flow is the net amount of money received by an individual or business in a given period. If cash flows are budgeted correctly, enough funds should be available to meet cash payments as they occur. Cash flow should not be confused with profits and losses; many companies have gone out of business while making profit, simply because they run out of cash." (www.cashflow.com). It is a statement which shows the inflows and outflows of cash and equivalents during the year. It is defined as a statement of company's ability to generate cash from various activities and their need of cash.

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working capital then we have to prepare the funds flow statement whereas if the fund is taken as cash then we have to prepare cash flow statement.

There are different concepts regarding fund. Some concepts insist that only cash should be considered as fund and another concept states that fund is not only the cash but the financial resources which can be converted into cash can also be included in funds.

2.1.1 Funds Flow Analysis

"The funds flow statement consists of two terms 'funds and 'flow'. The 'funds' refers to all pecuniary resources that can be measured in terms of money. It may be interpreted as cash or working capital or all financial resources. 'Flow' means change in amounts of funds between two periods. Thus, the statement designed to highlight the change in the financial position of business is known as funds Flow Statement." (Dangol; 2064:360).

The balance sheet and income statement of a business shows the financial position at a given point of time and summary of revenue and expenses during the accounting period. But for evaluating the past performances, future potential of a business, a separate statement has to be prepared which is known as funds flow statement. For showing the changes in assets and liabilities from the end of one period of time to the end of another period of time a statement of changes in financial position or a funds flow statement has to be prepared.

The comparative study of two balance sheets of a company prepared for two different years for knowing the financial activities of a company is known as funds flow statement. Form where the funds have been obtained, which is known as sources and where the funds have been utilized, which is known as uses are shown by a funds flow statement.

"Funds flow statement is the statement of sources and uses of fund. Funds flow statement shows the sources from which the funds are received and the areas to which the obtained funds have been utilized. Funds flow statement indicates

various means by which funds were received during a particular period and the ways in which these funds were applied. Thus, the funds flow statement is an essential tool for financial analysis." (Koirala and others; 2064:310)

It explains the sources from which additional fund i.e. working capital has been arrived and the uses to which the fund or working capital has been employed. Funds flow statement is prepared on the basis of two balance sheets of subsequent dates and highlights the changes in the financial position of a concern. The main purpose of funds flow analysis is to get clear information about the financial transactions that bring changes in the companies' resources. The objective of funds flow statement is to disclose the cause of changes in the assets, liabilities and equity capital between two balance sheet dates. It highlights the changes in financial position of a concern and indicates the various means by which funds were obtained during a particular period and the ways to where these funds were utilized. By comparing balance sheets of two different dates funds flow statement is prepared which shows the inflow and outflow of the funds. It is a kind of financial tool which answers the following questions.

-) "From which source fund were received?
-) How many funds were received?
-) For what purpose the fund is used?" (Lucy T.;1998: 125)

2.1.2 Cash Flow Analysis

"Cash is the lifeblood of a business enterprise. It is the fuel that keeps a business alive. Without cash no activities can take place. So a business must have an adequate amount of cash to operate. As such of the decision makers must pay close attention to the firm's cash position and events and transaction that affects the cash position of the company is termed as cash flow analysis."

(www.cashflow.com).

Cash flow analysis is the study of the cycle of the business cash inflows and outflows, with the purpose of maintaining an adequate cash flow for the business, and to provide the basis for cash flow management. Cash flow analysis involves examining the components of the business that affect cash flow, such as accounts receivable, inventory, accounts payable, and credit terms. By performing a cash flow analysis on these separate components, the company should be able to more easily identify cash flow problems and find ways to improve the cash flow.

A quick and easy way to perform a cash flow analysis is to compare the total unpaid purchases to the total sales due to the end of each month. If the total unpaid purchases are greater than the total sales due to the company would be need to spend more cash than receive in the next month, indicating a potential cash flow problem.

Cash flow is calculated by making certain adjustments to net income by adding or subtracting differences in revenue, expenses and credit transactions resulting from transactions that occur from one period to the next. These adjustments are made because noncash items are calculated into net income and total assets and liabilities. So, because not all transactions involve actual cash items, many items have to be re-evaluated when calculating cash flow from operations. The other method of cash flow is calculated by different adjustments of operating activities, investing activities and financing activities within different operations.

2.1.3 Cash Flow and Profitability

Profits are accounting measures that may not reflect the economic reality of the firm. Increasing profits will not always result in higher stock prices. Profits of the firm depend on many factors such as method of depreciation; non operating gains; incomes, expenses and losses.

People often mistakenly believe that a cash flow statement will show the profitability of a business or project. Although closely related, cash flow and profitability are different. A cash flow statement lists cash inflows and cash outflows while the income statement lists income and expenses. A cash flow statement shows liquidity while an income statement shows profitability.

Many income items are also cash inflows. The sales of crops and livestock are usually both income and cash inflows. The timing is also usually the same as long as a check is received and deposited in to account at the time of the sale. Many expense items are also cash outflow items. The purchase of livestock feed (cash method of accounting) is both an expense and a cash outflow item. The timing is also the same if a check is written at the time of purchase.

All the available cash not the profit determines the firms' future investment and growth. Cash flows have earning potential and capture the economic impact of managerial decisions. Cash flow not the profit that determines the wealth.

2.1.4 Cash Flow Statements

A cash flow statement is one of the most important financial statements for a project or business. The statement can be as simple as a one page analysis or may involve several schedules that feed information into a central statement.

A cash flow statement is a listing of the flows of cash into and out of the business or project. A cash flow statement is a listing of cash flows that occurred during the past accounting period. A projection of future flows of cash is called a cash flow budget.

A cash flow statement is not only concerned with the amount of the cash flows but also the timing of the flows. Many cash flows are constructed with multiple time periods. For example, it may list monthly cash inflows and outflows over a year's time. It not only projects the cash balance remaining at the end of the year but also the cash balance for each month.

Working capital is also an important part of a cash flow analysis. It is defined as the amount of money needed to facilitate business operations and transactions, and is calculated as current assets less current liabilities. Computing the amount of working capital gives a quick analysis of the liquidity of the business over the future accounting period. If working capital appears to be sufficient, developing a cash flow budget may be not critical. But if working capital appears to be insufficient, a cash flow budget may highlight liquidity problems that may occur during the coming year.

Cash flows analysis is done through statement of cash flows. A cash flow statement is a statement of company's ability to generate cash from various activities such as operating, investing and financing and their need of cash. It is a statement which shows the inflows and outflows of cash and cash equivalents during the year. A cash flows statement is defined as "a statement of company's ability to generate cash from various activities and their need of cash." (Munakarmi; 2063: 13.9)

The cash flow analysis is an essential ingredient which has its own special technique. Moreover we should analyze cash flow ability of the firm to serve fixed charges. When the company issues the securities in greater amount with short maturity period, its fixed charges will be high. Fixed charges of any firm include principal plus interest payment on debt, lease payment and dividend on preferred stock. The firm should try to cover all fixed charges by analyzing expected future cash flows before assuming any fixed charges. The inability to meet the fixed charges may result in financial insolvency. Therefore the more stable future cash flow means the greater debt capacity of the company. Due to this reason, an analysis of the cash flow ability of the firm it's the best way to analyze its financial risk. As such an enterprise should prepare a cash flow statement and should present it as an integral part of its financial statement for each periods for which financial statement are presented.

2.1.5 Importance of Cash Flow Analysis

Cash flow statement is an important complement to the other major financial statements. Cash flow statement summarizes the operating, investing and financing activities of a business organization, reports the changes in cash over a period of time and explains the causes of changes. Enterprise needs cash to conduct their operation, to pay their obligation and to provide returns to their investors. Users of an enterprise financial statement are interested in how the enterprise generates and uses cash and cash equivalents.

Cash flow statement is important to provide information about inflows and outflows of cash and cash equivalents. It provides useful information to:

- a. Assess a company's ability to generate positive future cash flows.
- b. Assess a company's ability to meet its obligation, its ability to pay dividends and its need for external financing.
- c. Assess the reason for differences between income and associated cash receipts and payments.
- d. Assess both the cash and non cash aspects of a company's investments and financial transaction.
- e. Assess a company's quality of earning. The quality of earning refers to how closely income is correlated with cash flows. Higher the correlation the higher the earning quality.
- f. Assess a company's solvency, liquidity and financial flexibility. Solvency is the ability of a company to pay its debt as they mature. Liquidity is the ability to generate adequate amount of cash and also refers to assets and liabilities nearness to cash. Financial flexibility refers to adapt during a periods of financial adversity, to obtain financing to liquidate non operating assets for cash.

In other words the cash flow statement may help to answer the following:-

- a. If a company operates at a profit why is it continually short of cash?

- b. How can a company operate at a loss and still generate huge inflows of cash from operations?
- c. How was the company's growth and expansion financed?
- d. Was financing obtained during the period through issuance of debt or equity securities? If so what were the amount of cash obtained?
- e. Did the company use cash to retire any long term debt or equity securities during the period?
- f. Are the company's incomes producing activities using more cash than they are generating?
- g. Do operating activities consistently generate enough cash to assure prompt payment of operating expenses maturing liabilities interest obligation and dividends?

2.1.6 Aims and Objective of Cash Flow Statement

The cash flow statement of an enterprise is useful in providing information to the users of financial statements about the ability of an enterprise to generate cash and cash equivalents and the needs of the enterprise to utilize those cash flows. Its aim and objective are mentioned below:-

- a. Cash flows statement will help the financial manager to explain the situation of sufficient cash balance in hand despite the business incurred loss or short of cash balance even if the business is making huge amount of profit.
- b. Comparison between cash budget and cash flow statement may prove to be useful for the management for preparing cash budget for the periods to come.
- c. With the help of cash flow statement the management can find out the causes of changes in the cash position on two dates.
- d. Evaluation of financial policies can be done with the help of cash flow statement.

- e. As the cash flow statement helps the management to know and predict its cash position, it can plan its policy and make decisions regarding the redemption of debentures, purchase of fixed assets and so on.

2.1.7 Difference between Funds Flow Statement and Cash Flow Statement

- a. Concept:** Funds flow statement is based on working capital and cash flow is based on cash.
- b. Accounting:** Funds flow statement is based on accrual basis of accounting and cash flow statement is based on cash basis of accounting.
- c. Preparation:** Funds flow statement reveals the sources and application of funds and any difference represents net increase or decrease of working capital. Cash flow statement reveals the inflow and outflows of cash and difference represents the closing cash balance.
- d. Purpose:** Funds flow statement shows the causes of changes in working capital position of a firm between two balance sheets dates. Cash flow statement shows the causes of changes in cash position of a firm between two balance sheet dates.
- e. Usefulness:** Funds flow statement is useful in planning intermediate and long term financing. Cash flow statement is more useful for short term analysis and cash planning of the business.
- f. Schedule of changes in working capital:** To get information about current assets and liabilities it is necessary to prepare the schedule of changes in working capital before preparing funds flow statement whereas in cash flow statement it is not necessary to prepare the schedule of changes in working capital.

2.1.8 Preparation of Cash Flow Statement

The cash flow statement is distinct from the income statement and balance sheet because it does not include the amount of future incoming and outgoing cash that has been recorded on credit. Therefore, cash is not the same as net income, which, on the income statement and balance sheet, includes cash sales and sales made on credit. The cash flow statement is prepared on the basis of cash basis of accounting. While calculating operating profits for cash flow statement, adjustment for prepaid and outstanding expenses and incomes are made to convert the data from accrual basis to cash basis. The statement is prepared by taking the opening balance of cash, adding to this all the inflows of cash and deducting all the outflows of cash from the total. The statement is more useful for short term analysis and cash planning of the business. Cash flows statement shows the sources and application of cash. Following are the major sources and use of cash.

Sources of cash

- a.** cash from operation
- b.** sales of fixed assets
- c.** issues of shares
- d.** issues of debentures
- e.** raising long term loan
- f.** decrease in working capital

Uses of cash

- a.** cash loss from operation
- b.** purchase of fixed assets
- c.** redemption of redeemable preference shares
- d.** redemption of debentures
- e.** payment of dividend and income tax
- f.** increase in working capital

Cash flow is determined by looking at three components by which cash enters and leaves a company: core operations, investing and financing,

Operating

The operations component of cash flow reflects how much cash is generated from a company's products or services. Generally, changes made in cash, accounts receivable, depreciation, inventory and accounts payable are reflected in cash from operations. Cash flow is calculated by making certain adjustments to net income by adding or subtracting differences in revenue, expenses and credit transactions (appearing on the balance sheet and income statement) resulting from transactions that occur from one period to the next. These adjustments are made because non-cash items are calculated into net income (income statement) and total assets and liabilities (balance sheet). So, because not all transactions involve actual cash items, many items have to be re-evaluated when calculating cash flow from operations.

Investing

Investing activities are related with the purchase and sales of non current assets such as plant and machinery, land and building, furniture and fixture etc. Investing activities also include lending money and the purchase or sale of investments in securities. Changes in equipment, assets or investments relate to cash from investing. Usually cash changes from investing are a "cash out" item, because cash is used to buy new equipment, buildings or short-term assets such as marketable securities. However, when a company divests of an asset, the transaction is considered "cash in" for calculating cash from investing.

Financing

The financing activities section of the cash flow statement shows the sources of fund generated through owner's capital and borrowed capital. Changes in debt, loans or dividends are accounted for in cash from financing. Changes in cash from financing are "cash in" when capital is raised, and they are "cash out" when dividends are paid. Thus, if a company issues a bond to the public, the

company receives cash financing; however, when interest is paid to bondholders, the company is reducing its cash. The cash flows statement should be presented under informative approach in activity format. Under informative approach the cash flow statement may be presented using

1. Direct method
2. Direct method

2.1.9 Indirect Approach to Cash Flow Statement

Under indirect approach net profit or loss is adjusted for the effects of transaction of a non cash nature, any deferrals or accruals of past or future operating cash receipts or payments and items of income or expense associated with investing or financing cash flows. Operating activities relate to a company's primary revenue generating activities. It is the single major continuing source of cash. Operating activities are always within the management control and they provide base for management estimation of funds needed to rise from available sources. Cash flows from operating activities are generally the cash effects of transaction and economic events included in the determination of income.

Operating Activities

Under indirect method the net cash flow from operating activities is determined by adjusting net profit or loss for the effect of

-) Changes during the period in inventories and operating receivables and payables.
-) Non cash items such as depreciation; provisions, deferred taxes and unrealized gains or losses; and
-) All other for which the cash effects are investing or financing cash flows.

Alternatively the net cash flows from operating activities under indirect method may be present showing operating revenues and expenses, excluding non cash

items disclosed in the statement of profit and loss and the changes in inventories and operating receivable and payables during the period.

Investing Activities

It include lending money (investment) and collecting on those loan, buying and selling productive assets that are expected to generate revenues in future periods and buying and selling securities not classified as cash equivalents.

Investment activities are:-

-) Cash payments to acquire the fixed assets
-) Cash receipts from disposal of fixed assets
-) Cash payments to acquire shares, warrants or debt instrument of other companies
-) Cash advances and loan made to other parties
-) Cash receipts from the repayment of advances and loans made to third parties.

Financing Activities

It include borrowing money from creditors and repaying the amounts to borrower and obtaining resources from owners, repayment of borrowed funds/amount and payment of dividend to owners. The separate disclosures of cash flows arising form financing activities is important, because it is useful in predicting claims on future cash flow by providers of funds. Financing activities are:-

-) Cash proceeds from issuing shares or other similar instrument.
-) Cash proceeds from issuing debenture, loan, notes, bonds and other short or long term borrowings and
-) Cash repayments of amount borrowed.

Cash Flow Format under Indirect Approach

Net profit for the period	xxx
Add: Non cash and non operating expenses and losses (Item wise)	xxx
Less: Non cash and non operating income and gains (Item wise)	<u>(xxx)</u>
Funds from operation	xxx
Add: Decrease in current assets, other than cash (Item wise)	xxx
Increase in current liabilities (item wise)	xxx
Less: Increase in current assets, other than cash (Item wise)	(xxx)
Decrease in current liabilities (item wise)	(xxx)
C1: Net Cash from operating activities	xxx
 C2: Cash from Investing Activities:-	
Add: Sales of fixed assets	xxx
Cash from sale of equity or debt of other enterprises	xxx
Cash from the repayment of advances and loan made to other parties	xxx
Less: Cash payment to acquire property	(xxx)
Cash payment to acquire equity or debt of other companies'	(xxx)
Cash payment for advances and loans made to other parties	(xxx)
C2: Net Cash flows from Investing Activities	xxx
 C3: Cash flows from Financing Activities:-	
Issue of shares	xxx
Issue of debenture and bonds	xxx
Cash collection from loan and mortgage	xxx
Less: Redemptions of shares	(xxx)

Redemptions of debenture and bonds	(xxx)
Repayment of loan and mortgage	(xxx)
Dividend payment	(xxx)
C3: Net Cash flows from financing Activities	xxx
<i>Total Cash Flows [C1+C2+C3]</i>	<i>xxx</i>
Cash or Cash equivalent at the beginning	xxx
Cash or cash equivalent at the end of the period	xxx

(Dangol; 2064:439)

2.1.10 Direct Approach to Cash Flow Statement

When the direct method is used the cash flow statement does not begin with net income, rather, it shows cash collected from customer and is deducted cash used for various expenses. That is, major class of gross receipt and gross cash payments are disclosed.

Determination of Cash Flow from Operating Activities

Operating Activity only include transaction that relate to the calculation of net income. It involves the production or purchase and the sales of goods and services to customers. Cash flow from operating activities includes all cash flows form transaction that is not defined as investing or financing activities.

The cash flow from operating activities is primarily derived from the principal revenue producing activity of the enterprise. Examples of cash flows from operating activities are:-

-) Cash receipts form the sales of goods and the rendering of services.
-) Cash receipts form royalties, fees, commission, and other revenue.
-) Cash payments to suppliers of goods and services.
-) Cash payments to and on behalf of employees.
-) Cash payments or refunds of income taxes.

The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method. Under direct method information about major classes of gross receipts and gross cash payments may be obtained either.

- i. Changes during the period in inventories and operating receivables and payables
- ii. Other non cash items and
- iii. Other items for which the cash effects are investing or financing cash flows

Determination of Cash Flow from Investing Activity

Determination of cash flows from investing activities require to analyze the non operating incomes and expenses in income statement relating to

- i. Productive assets
- ii. Investment in share and debentures
- iii. Intangible assets
- iv. Short term investments other than cash equivalents

Determination of Cash Flow from Financing Activity

A company's transactions with its owners and long term creditors are typically called financing activities. Financing activities also include borrowing cash on short term basis. For determination of cash flow from financing activities items relating to

- Share capital equity
- Share premium
- Debenture
- Dividend proposed and
- Comparative balance sheets should be analyzed by preparing necessary accounts.

Cash Flow Format under Direct Approach

Cash inflows:

A: Sales	XXX
Add: Decrease in sundry debtors	XXX
Decrease in bills receivable	XXX
Increase in provision for bad debt	XXX
Increase in provision for discount	XXX
Bad debts recovered	<u>XXX</u>
	XXX
Less: Increase in sundry debtors	XXX
Increase in bills receivable	XXX
Bad debts	XXX
Discount allowed	XXX
Decrease in provision for bad debts	XXX
Decrease in provision for discount	<u>XXX</u>
(A) Collection from Costumers	<u>XXX</u>
B: Interest Income	XXX
Add: decrease in accrued interest	XXX
Less: increase in accrued interest	<u>XXX</u>
(B) Collection from Interest Income	<u>XXX</u>
C: Dividend Income	XXX
Add: Decrease in dividend receivable	XXX
Less: Increase in dividend receivable	<u>XXX</u>
(C) Collection from Dividend Income	<u>XXX</u>
Cash Outflows:	
D: Cost of Goods Sold	XXX
Add: Increase in inventory	XXX

Decrease in sundry creditors	xxx
Decrease in bills payable	<u>xxx</u>
	xxx
Less: Decrease in inventory	xxx
Increase in bills payable	xxx
Increase in sundry creditors	xxx
Discount received	<u>xxx</u>
(D) Payment to supplier	xxx
E: Salary and Wage Expenses xxx	
Add: Decrease in salary or wage payable	xxx
Increase in prepaid salary or wage	<u>xxx</u>
	xxx
Less: Increase in salary or wage payable	xxx
Decrease in prepaid salary or wage	<u>xxx</u>
(E) Payment to Employees	xxx
F: Income Tax Expenses xxx	
Add: Decrease in taxes payable	xxx
Increase in advance taxes	<u>xxx</u>
	xxx
Less: Increase in taxes payable	xxx
Decrease in advances taxes	<u>xxx</u>
(F) Payment of Government for taxes	xxx
G: Interest Expenses	xxx
Add: Decrease in interest payable	<u>xxx</u>
	xxx
Less: increase in interest payable	<u>xxx</u>
(G) Payment to Creditors for Interest	xxx

H: Insurance Expenses	xxx
Add: Decrease in insurance payable	xxx
Increase in advance insurance	<u>xxx</u>
	xxx
Less: increase in insurance payable	xxx
Decrease in advance insurance	<u>xxx</u>
(H) Payment for Warranty Service	<u>xxx</u>
I: Other Expenses	xxx
Add: Decrease in expense payable	xxx
Increase in advance payable	<u>xxx</u>
	xxx
Less: Increase in expense payable	xxx
Decrease in advance payable	<u>xxx</u>
(I) Payment for Expenses	<u>xxx</u>
Cash from Operating Activities before Extra Ordinary Items:	
(A+B+C-D-F-G-H-I)	xxx
Add: Increase in bank overdraft	xxx
Increase in short term loan	xxx
	xxx
Less: Decrease in bank overdraft	xxx
Decrease in short term loan	<u>xxx</u>
C1: Net Cash from Operating Activities	xxx
C2: Cash from Investing Activities:-	
Sales of fixed assets	xxx
Cash from sale of equity or debt of other enterprises	xxx
Cash from the repayment of advances and loan-	

made to other parties	<u>xxx</u>
	xxx
Less: Cash payment to acquire property (xxx)	
Cash payment to acquire equity or debt of other companies' (xxx)	
Cash payment for advances and loans made to other parties (<u>xxx</u>)	
C2: Net Cash flows from Investing Activities	<u>xxx</u>
 C3: Cash flows from Financing Activities:	
Issue of shares	xxx
Issue of debenture and bonds	xxx
Cash collection from loan and mortgage	<u>xxx</u>
	xxx
Less: Redemptions of shares	(xxx)
Redemptions of debenture and bonds	(xxx)
Repayment of loan and mortgage	(xxx)
Dividend payment	<u>(xxx)</u>
C3: Net Cash flows from Financing Activities	xxx
 <i>Total Cash Flows [C1+C2+C3]</i>	
	xxx
Cash or Cash equivalent at the beginning	xxx
Cash or cash equivalent at the end of the period	xxx

(Dangol; 2064:420)

2.2 Review of Related Studies

2.2.1 Review of Books

The books related to cash flow analysis and cash management has been selected to review. Besides these, the book related to manufacturing and economy of our country have also been reviewed my research is mainly based on cash flow of selected manufacturing companies. Cash is the basic and common needs of every business organization. Without cash nothing is

possible to operate and run in the organization, so it is the foundation of target point. It is the most important aspect of working capital. Cash is the basic input needed to use excess cash income profitable way. Any business organization should be able to maintain optimum level to cash to run the organization smoothly. If cash balance is excess the necessary then it will result disturbance in daily operation and will compel the organization to loss many business opportunities.

To run every function smoothly, corporate must adopt appropriate policy of cash, which made optimum cash management possible for improving the efficiency of cash management. Developing countries corporate are not adopting appropriate cash management policy, which includes time value of money. If time value of money is not considered in cash management the corporate should loss large amount of cash as interest for effective cash management, cash collection and disbursement policy must be effective.

Financial management is responsible not only for profitability but also for proper liquidity position. And the key for maintaining liquidity position is cash. Cash is lifeblood for organization. In business, to purchase merchandise, assets and other necessary things are purchased in credit, creditors must be paid at that time cash is important. Besides these cash is needed to reply short term as well as long term loan and liabilities. If the firm is unable to pay liabilities, it is compelled to terminate. The main part of working capital is cash. And working capital is to be managed to keep current assets efficiency in order to maintain the firm's liquidity while not keeping any assets as to high level.

Cash budget is planning of cash flow before doing the task. It shows the planned cash inflow, outflows and ending position by interim period for a specific time span. Cash budget is important accounting measure to make future certain in respect of cash or liquidity. It includes cash receipts and disbursement for specific time period. Cash budget is a long term and short term. It shows cash excess and deficit. Excess cash can be used for probable

activities and cash deficit shows the cash need for investment planning. Cash budget is a tool to estimate annual profit.

2.2.2 Review of Articles and Journals

Advanced and research based journals of finance are hardly found in Nepal. Very limited numbers of journals of finance cannot cover its full dimension. Though, in this section articles from various national and international journals are reviewed and the attempt is concentrated to build the sound conceptual framework of subject matter, which may help for the success of the study.

The journal of finance, published by American Finance Association for many decades is taken into account. In its volume XV of September 1960, Joseph C. Schabacker, at this article, "A study of cash planning in small manufacturing companies." is reviewed here, which is as follows:

Several significant investigations have been conducted to explain the causes of failure among small businesses. The most widely accepted theory forthcoming from such studies is that poor internal management is the predominant factor in failure. Businesses do not fail merely because they are small.

The purpose of this study is to explore one specific phase of the managerial job in small companies, namely the forward planning of cash requirements. Many small business owners allow themselves to be pressured into ad hoc decisions as a result of no advance planning. The research was designed to test the hypothesis that "the financial health of a small manufacturing firm is directly related to the amount of formal cash planning which is done".

A formal cash plan is here defined as a written forecast, as opposed to mental estimates. The definition of a small manufacturing company is a firm with 150 employees or less.

The solution of this problem involved a determination of the kinds of financial planning feasible, an analysis of how much is actually being done, and the

formulation of a minimum amount financial planning that should be accomplished.

A random sample of twenty-eight small machinery-manufacturing companies in the Los Angeles area was investigated. Financial and operational data were obtained through questionnaires and personal interviews with the president (or senior executive). In addition, information was collected from each company's outside auditor, from the bank loan officer, and from Dun and Bradstreet files.

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W.J. Baumol, at his article "The Transaction Demand for cash: An inventory theoretic Approach" on quarterly journal of economic (Vol. LXV, Nov.1952) identifies cash maintenance and demonstrates that the model of economic order quantities that is applicable to inventory management is perfectly applicable in cash management too. He has presented model in view of minimizing the opportunity cost of holding cash and maximizing the return on the available funds, the cash balance should be maintained at a minimum level and the funds not required from immediate use be invested in the marketable securities.

Ram M. Saksena at his article, "Towards more efficient cash management." On quarterly journal of management quality (Vol.No.5, 1974) identified that the term cash management has a meaning according to the purpose for which it is used and persons with varying branches of knowledge implies various meaning of cash. Economics considered cash, as the means to satisfy human want, the

lawyer the view that cash is the legal tender money issued by a determinate authority. However, our concern of the meaning of cash is an asset constituting the most liquid item among all the assets. But to obtain cash involves cost because corporation has to rise through issue to share or by borrowing with interest. In through generation money market procurement is liability and wasted opportunity unless it is not put to its optimal use.

Associated Professor S.P. Munankarmi in his article defined about cash flow analysis. It is an integral part of financial planning stated the importance of cash in organization by calling the lifeblood of business enterprises. According to him it is the fuel that keeps a business alive. So, a business must have adequate amount of cash to operate and decision makers should pay attention to the firm's cash position and events and transaction that affects the cash position of the company is termed as cash flow analysis.

Due to the increasing importance of cash flow analysis FASB stated that financial statement should pay attention to the firm's cash position and events and transaction that effects the cash position of the company is termed as cash flow analysis. Due to the increasing importance of cash flow analysis FASB stated that financial statement should include information about the sales and repurchase of its ownership securities about dividends payment and other distribution to its owners and about factors that affect a company's liquidity and solvency.

According to the articles profit are accounting measures that may be not reflect the economic condition of the firms that means profit can be manipulated and increasing profit will not always result in higher stock prices. Cash flow analysis not only recognizes profit but also goes a little further and measures the actual cash available for the firm. It is after all the available cash not the profit that determines the firm's future investment growth. As the articles suggest following are importance of cash flow statement:

-) A company's ability to generate positive future cash flow.
-) A company's ability to meet its obligations its ability to pay dividends and its need for external financing.
-) The reasons for difference between income and associated cash receipts and payments.
-) Both the cash and non-cash aspects of a company's investment and finance transaction.
-) A company's qualities of earning refer to how closely income is correlated with cash flow the higher the correlation the higher the earning quality.
-) A company's solvency liquidity and financial flexibility. Solvency is the ability of a company to pay its debt as they mature. The liquidity is the ability to generate adequate amount of cash and it also refer asset and liabilities. Financial flexibility refers to adoption during the period of financial adversity to obtain financing to liquidate non –operating assets of cash.
-) Net cash provided or used by operating activities.

Investing activities as the articles stated include the lending money (investment) and collection on loans buying and selling securities not classified as cash equivalent are defined as short term highly liquid investment that are readily convertible to known amounts of cash and must be sufficiently close to its maturity date. Determinations of cash flow from investing activities, the analysis of non operating incomes and expenses, statement relating to assets, investment in shares and debenture short term investment other than cash equivalent.

Net cash from financing activities and determined by the flow of short-term loans and over drafts. There may be some non-cash investing and financing payments and such payments are not reported in the statement of cash flow. The FASB concluded that non-cash portions of investing and financing activities should not reported in the statement of cash flow. However the board recognizes that non-cash investing and financing activities are important events

and so they should be disclosed by preparing a separate schedule for such activities.

As per the format of cash flow statement the article started further that section seven of Nepal Company Act 2053 B.S. mentions the company's books of accounts and accounting system to be adopted by the company. Articles 83 reporting statements which includes balance sheets income statement and cash flow statement and articles 84 of the act mentioned that the balance sheet and profit and loss account should be prepared in the prescribed format, but the cash flow statement is not prescribed as such in the author's opinion be presented in the format as prescribed by the FASB. The article concluded that an accurate cash flow projection being an integral part of financing plans help to avoid cash flow problems and also helps to keep borrowing cash as low as possible.

2.2.3 Review of Previous Related Thesis

Bajracharya, Subarna Lal (1990), "A Study of Cash Management in Nepalese public Enterprises, has studied the cash management practices in Nepalese public enterprises." He has taken 18 enterprises as a sample. According to his study, he concluded that,

) Most enterprises have periodic accumulation of surplus cash and corresponding cash shortage from time to time. However, one of the enterprises considered the implication of holding idle cash balance and few took on to account Cash management in public enterprises of is primarily based on the traditional practices. Lacking in a scientific approach, more serious aspects of cash management has been the any formalized system of cash planning and cash budgeting in many of enterprises, although the executive of some enterprises do have the practices of forecasting cash requirements on a formal basis.

) Modern practices with respect to debt collection, monitoring the payment behavior of customers and relevant banking arrangement in connection with collection of receivables has been virtually ignored in many enterprises.

) Majority of the enterprises didn't face any serious liquidity problem. However, this was not because of the effectiveness of cash planning and budgeting. The problem of liquidity actually didn't arise due to the coincidence of delay in payment creditors.

) By and large the potential benefit of investing surplus in marketable securities. These which failed to consider the cost of administering such investments.

) There had been wide variations over-time in the state of financial health of enterprises in terms of the composition of current assets to current liabilities as revealed by the relevant financial ratios.

) Neither interest rate nor the rate of inflation had any effect on the cash balance. Further there was very little evidence of effect on the cash balance holding in most case. Further he recommended for developing appropriate strategies for cash management. He stressed on cash planning and budgeting to cash project cash project cash surplus and cash deficit. Firm can accelerate the inflows as far as possible to decelerate outflows. He also stressed to maintain optimal level of cash and at last it can be better to invest idle fund in marketable securities.

Sainju, Sabin Prakash (2003), “Cash management in public manufacturing enterprises of Nepal: a case study o f Royal drug.” he has made conclusion indicating the poor cash management practices of Royal Drugs Limited (RDL). He concluded that

) Overall cash management practices have been found disappointing.

) Overall liquidity position of the firm has been found moderately dissatisfactory.

) Overall, yearly cash inflows and out flow in RDL is not properly managed. Surplus cash hasn't been properly employed to earn return by investing in short-term investment opportunities.

) Profitable has been found in very weak position.

) Overall cash budgeting practice of RDL is very poor.

On this study payable deferral period, inventory conversion periods and receivable collection period and their aggregate effect as cash management has not been identified i.e. cash conversion cycle of the company has not been identified which helps to analysis overall status of collection of not cash in organization.

Mr Kiran Neupane (2004) has conducted a research entitled in "A study of cash management of Nepalese Public Enterprise" (A case study of Salt Trading Corporation Limited. He has collected the data from secondary source that are published by the Salt Trading Corporation Limited and related information through the direct interview and questionnaire. The period covered is F.Y. 2055/56 to 2059/60. He has set the following objective.

) To study the existing cash management in STCL.

) To critically review the cash management technique procedure by STCL.

) To suggest appropriate cash management policy for future.

He has pointed the major findings of his research work are as follows:

- i) Cash management in the STCL is primarily based on the traditional practice lacking in scientific approach. A more serious aspect of cash management has been the absence of any formalized system of cash planning and cash budgeting in STCL.
- ii) Modern practices with respect of debt collection, monitoring the payment behavior of customers and relevant banking arrangement in collection of receivables have been virtually ignored in STCL.

- iii) The STCL could not make the best use of available cash balance prudently.
- iv) The average cash turnover time in a year is found 40 times which is in fluctuating trend over the study period.
- v) The average inventory conversion period into cash is found a little more than two month i.e. 62 days which is very slow.
- vi) The average payable conversion period is faster than average receivable period which is not a good single for the purpose of managing cash.
- vii) Average cash conversion cycle taken 64 days i.e. little more than two month which is not a good single for the cash management or cash collection efficiency of corporation is very low.
- viii) Management has taken liberal credit policy to sales of goods. Hence the cash and bank balance of the study period is in minimum.
- ix) No optimum cash balance is maintained. The cash and bank balance with respect to current assets has been fluctuating. Similarly is the cash with respect to the total assets.

Mr. Niraj Adhikari (2004) has submitted as dissertation in the topic "A comparative and Analytical Study on Cash Flow of selected Finance Companies" to the faculty of management T.U. in the course of partial fulfillment of M.B.S. The data are collected from both primary and secondary source. The period covered was from F.Y. 2054/55 to 2057/58. the basis objective of this research paper is to analysis the trend of cash flows of selected institute, to examine and compare the cash flow statement of those financial institution, to identify the strength and weakness of working capital management especially cash management of those financial institution.

Major Finding

(i) National finance company

-) In case of NFS the total cash flow from operating activities is in increasing trend in the first two year but in the final year it is decreasing.
-) Deposit mobilization/collection is in decreasing trend.
-) The amount of current liabilities and current assets are increasing trend.
-) The cash flow from investing activities is not regular.
-) Borrowing is in decreasing trend which in the final fiscal year has decreased to zero.

(ii) Lumbini Finance and Leasing Company

-) The amount of total cash flow from operating activities is in increasing trend in the first two year but in the final year it is decreasing.
-) Deposit mobilization/collection is in increasing trend.
-) The amount of current assets is decreasing in the first two years of the study period but it is increasing in the final year.
-) The amount of loan is decreasing in the first two years of the study period but it is increasing in the final year.
-) Cash flow from investing activities is in decreasing trend.
-) Borrowing is in decreasing trend.

Mr Rohit Kumar Dahal (2005) has conducted a research entitled "Cash flow budget analysis of service industry as component of profit planning and control" (A case study of Sagarmatha Insurance Company PVT Ltd)

He has set the following objectives:-

-) To analyze sales and expense budget with cash budget of Sagarmatha Insurance Co.
-) To draw the true picture of profit planning and control of Sagarmatha Insurance Co.
-) To evaluate various budget with actual result.
-) To find the trend of premium collection and investment and its impact of cash budget.

To accomplish the above objectives, Mr Rohit has made research covering the F.Y. 2055/56 to 2059/60. Research methodology is followed through secondary source of data and other essential information from primary source. His major findings are as follows:-

- i) The company follows traditional method for planning the cash.
- ii) The company possesses large amount of fund but it is not profitably invested. The company couldn't invest its available fund for national interest. The company is having narrow look for its investment. Even its return on investment is decreasing (10.4%) toward the end of study period.
- iii) The company does not follow the optimum cash balance process. There is high idle cash (15-20%) of total cash available with it which invested prudently would have heavy returns.
- iv) Though the total premium of company is increasing, its net profit is continuously decreasing.
- v) The company is under capitalized. It does not possess borrowed capital
- vi) The company does not seem applying the effective managerial tool "Profit palling and control" for controlling its activities.

Mr Suman Bhandari (2006) conducted a research entitled in "A Study of Cash Flow Analysis in Nepalese Public Enterprises (A Case Study of Salt Trading Corporation Limited)". He has collected the data from secondary sources that are published by salt trading corporation limited for the period from 2056/57 to 2061/62. He has set the following objectives:-

-) To analyze cash flow statement of Salt trading corporation.
-) To analyze functional budget associated with cash flows.
-) To reflect ability to generate cash flow in future periods.
-) To find out the ability to meet its obligation.
-) To provide suggestion and recommendation for effective cash management.

He has pointed the following major findings:

- 1) The company is not adopting the definite inventory policy because the levels of inventory were fluctuated.
- 2) The company has ability to pay short-term ability to pay short term obligation which shows the financial strength of company.
- 3) The debt serving capacity is satisfactory as indicated by average interest coverage ratio is 1.43 times.
- 4) The long term solvency position of company is not satisfactory as it has used more debt as compare to equity.
- 5) The average collection period is 26 days which shows the shows slow collection from debtors.
- 6) The cash flow from operating activities was not adequate to meet the short-term and long-term obligations. The trend of cash flow from operating activities was fluctuated.
- 7) The company has raised funds through loan and overdraft. It has not issued share except in the fiscal year of the study period which was also of very small portion. Due to such loan, the company paid more interest.
- 8) No optimum cash and bank balance were maintained. The bank and cash balance were fluctuated than indicated no definite policy was maintained regarding the amount of cash hold at the end of each year.
- 9) The cash flow per share was found highly fluctuated which shows the poor ability to pay dividend and current liabilities.
- 10)The company has not adequate cash and bank balance to meet it's short-term and long-term debts.

Mr Kiran Kumar Khadka (2008) conducted a research entitled on "A Comparative Study on Cash Flow of Bottlers Nepal Limited and Unilever Nepal Limited". The general objective of the study is to analyze the cash flow statements of the selected manufacturing companies comparatively. The specific objectives of the study are:-

-)To analyze the trend of cash flow of selected manufacturing companies
-)To examine, analyze and compare the cash flow statements of these companies.
-)To identify the strengths and weaknesses of cash management of the companies.
-)To provide recommendations to the concerned companies for future improvement on the basis of this study.

Major Findings:-

Unilever Nepal Ltd.

In the case of Unilever Nepal Ltd. the amount of the total cash from operating activities is in fluctuating trend. It is decreased in FY 2059/060, FY 2061/062 and FY 2062/063, but it is increased in FY 2060/061.

The amount of cash flow prior to change in working capital is in increasing trend. The amount has increased from FY 2059/060 to FY 2062/063.

The current assets amount is in fluctuating trend. The amount is decreased in FY 2058/059 and FY 2059/060, but the amount is increased in FY 2060/061 to FY 2062/063.

The current liabilities amount is in fluctuating trend. The amount is decreased in FY 2058/059 and FY 2062/063, but it is increased in FY 2059/060 to FY 2061/062.

In the case of Unilever Nepal Ltd. the amount of investing activities is in fluctuating trend. But there is no any investment amount in FY 2059/060. The amount is decreased in FY 2060/061, but the amount is increased in FY 2061/062 and FY 2062/063. The amount of financing activities is in increasing trend, but it is decreased only in second year. The amount is decreased in FY 2059/060; but it reveal increasing trend from FY 2060/061.

Bottlers Nepal Ltd.

In the case of Bottlers Nepal Ltd. the amount of the total cash from operating activities is in fluctuating trend. It is decreased in FY 2059/060 and FY 2061/062, but it is increased in FY 2060/061 and FY 2062/063.

The amount of cash flow prior to change in working capital is in fluctuating trend. The amount is increased In FY 2059/060 and FY 2062/063, but it is decreased in FY 2060/061 and FY 2061/062. So the amount is fluctuating for Bottlers Nepal Ltd.

The current assets amount is in fluctuating trend. The amount is increased in FY 2058/059, FY 2059/060 and FY 2061/062, but the amount is decreased in FY 2060/061.

The current liabilities amount is in fluctuating trend. The amount is increased in FY 2058/059, FY 2061/062 and FY 2062/063. But the amount is decreased in FY 2059/060 and FY 2060/061.

In the case of Bottlers Nepal Ltd. the amount of investing activities is in fluctuating trend. The amount is increased in second year but the amount is decreased in third year. But it is increasing trend from FY 2061/062 to FY 2062/063.

The amount of financial activities is in fluctuating trend. The amount is constant in first and second year. The amount of financial activities is same in both years. But the amount is decreased in FY 2060/061. There are no any financial activities in FY 2061/062 and the amount is positive in FY 2062/063.

Thapa, Pinki (2009) has conducted a research entitled in "An Analytical and Comparative Study on Cash Flow (With reference to Unilever Nepal Ltd and Dabur Nepal Pvt. Ltd)" He has collected the data from secondary source that are published in Annual report of these company. The period covered is F.Y. 2059/60 to 2063/64. He has set the following objective.

- a. To examine, analyze and compare the cash flow statement of these companies.
- b. To analyze trend of cash flow.
- c. To compare the cash flow different activities of companies.
- d. To compares the cash flow performance of individual companies.
- e. To recommend the appropriate suggestion to the concerned authorities for future improvement.

4.8 Major Findings

A. Dabur Nepal Private Limited

After studying all aspects of it we can find the following facts:

- a. All years of CFOA are positive. Positive cash flow shows the excess cash inflow than cash outflow.
- b. Total cash flow from separating activities is not stable. It is decrease, increase and decrease trend.
- c. Interest expenses and income both are volatile in nature.
- d. The DNPL is increasing its effectiveness day by day.
- e. Overall performance of the DNPL is satisfactory from the viewpoint of operating activities.
- f. CFIA of DNPL is negative in each year.
- g. It seems the company has purchase more fixed asset in each year.
- h. IN the FY 2062/63, the company had invested the highest amount.
- i. A purchase of fixed assets is highest in the year 2061/62.
- j. Increase in deferred revenue expenditure is only one year 2060/61.
- k. Sale of fixed assets is in all year but it is volatile in nature.
- l. CFFA is positive in the FY 2059/60 and 2062/63 and negative in the FY 2060/61, 2061/62 and 2063/64.
- m. CFFA shows rising fund in first and fourth year.

- n. CFFA shows only one items i.e. deferred finance from supplier in FY 2063/64.
- o. CFFA is not stable increasing or decreasing.
- p. Net cash flow was not positive in all years. IN the FY 2059/60, 2061/62 and 2062/63, there are negative cash flows and other remaining two years was positive.

B. Unilever Nepal Limited

- a. CFOA was positive in all years.
- b. CFOA of UNL is the highest in the FY 2059/60. It shows the higher cash inflow in this year.
- c. Comparative with FY 2059/60 it was declined if not comparison with FY 2059/60 it was increasing in latest two years. So, it is possible to increase incoming future.
- d. Net profit was increasing trend in volatile. So, it is also possible to increasing in coming future.
- e. CFOA was positive in all years. IT shows that the company can invest by its own fund.
- f. It has fluctuating CFOA during the study period.
- g. CFIA of UNL is positive in two years FY 2059/60 and 2063/64 and negative in 2060/61 to 2062/63 respectively.
- h. Negative FFIA express the investment in fixed assets.
- i. It seems the company has sold fixed assets more in FY 2059/60 and 2063/64 and had not purchases more fixed assets.
- j. In the FY 2062/63, the company had invest the highest amount.
- k. It is unstable trend in increasing and decreasing.
- l. CFFA of UNL is negative in all years.
- m. In CFFA of UNL there is only one item include i.e. dividend distribution. It shows company has achieved more benefits.
- n. In comparison with FY 2059/60 it was increasing trend.
- o. CFFA is not stable increasing or decreasing.

- p. Net cash flow was positive in all years except the FY 2062/63.
- q. It was increasing in FY 2061/62 and 2063/64, so it is possible to increasing in future years.

2.3. Research Gaps

There is gap between the present research and the previous research in terms of some objectives, tools for analysis, period of data and the organization. There are many of researches which are conducted mainly on cash management of public enterprises and private sector as well as NTC. But, It is therefore, the main issue of this study is to analyze the cash flow statement of NTC. Probably this might be the first research study on various financial and statistical tool carried on cash flow analysis of NTC. This study has used financial and statistical tool for cash flow analysis. It is mainly concern with NTC and data is taken in between 2061/62 to 2065/66. This study has been done to analyze the trend of cash flow of selected organization, to examine, analyze and compare the cash flow, to identify the strengths and weaknesses of cash management of NTC and to provide recommendations to the concerned organization for future improvement on the basis of this study.

CHAPTER - THREE

RESEARCH METHODOLOGY

3.1 Introduction

The knowledge of human being is rising through the getting answer of different questions like why, how, when, where, what etc. To answer these questions, they should gather information and analyze them to achieve their goals or satisfaction. "The research for gaining the knowledge about method of goal achievement, which we desire, is known as research methodology" (Joshi; 2001:12-13).

Research is to find out to gain knowledge about a phenomenon. Here re means repeatedly or again and again, and 'search' says to investigate or to find. Thus, Combine researching repeatedly is called research, which includes searching new facts, knowledge, principles and theories in scientific way Likewise; research needs various methodologies, tools, techniques etc. A systematic research studies needs to follow a proper methodology to achieve the pre mentioned objectives. "Research methodology is a sequential procedure and methods to be adopted in systematic study". The proper analysis of the study can be meaningful only on the right choice of research tools that help for meaningful conclusion. This chapter is mainly associated with research design, sample design, period of study, sources of data & data collection procedures, data processing & terms, methods, tools techniques, theories employed in the analysis & interpretation.

3.2 Research Design

"Research design is the plan, structure and strategy of investigation conceived so as to obtain answer to research questions and to control variance" (Howard K.Wolfff and Prem; 1999:50). The main objective of the study is to analyze to cash flow statements of the public enterprise and provide suggestions on the basis of findings. In order to fulfill objectives of the study as much as possible, an adequate attention has been paid in the process of Research Design. The

research is carried out on the basis of secondary sources data. In the study, the researcher has followed the descriptive cum analytical research design to analyze the financial performance of the selected public enterprise. Various financial parameters and an effective research technique are employed to especially identify the weaknesses of these institutions. On the ground of observed infirmities and inefficiencies, an attempt will be made to suggest the reasonable and useful recommendations to the concerned.

3.3 Population and Samples

There are 138 listed companies in Nepal. They are related with different sectors like banking, manufacturing and processing, hotels, trading, insurance, finance and others. It is not possible to study all of them regarding the research topic. Therefore among these, one reputed public company NTC is taken as a sample company from population for this research study.

3.4 Sources of Data

Data are the sources of interpretation. There can be collected from two sources they are:-

Primary Sources: Data collected by questionnaires, interview and discussions from the related.

Secondary Sources: Data collected from books, literature, old thesis news paper journals etc.

This study is mainly based on the secondary data collected from the different published sources. The audited Balance Sheet, profit & loss account and related schedules of the concerned public enterprise was collected. Besides these, other essential data and information were collected from some published and unpublished documents. So far as the data collection procedure is concerned, annual reports of selected organizations were collected. In addition, answers on certain queries made to the staffs of concerned organization also assists in data

collection procedure. The researcher has also consulted the library to gather necessary data and information during the course of study.

3.5 Data Processing and Tabulation

The necessary data from 2061/62 to 2065/66 for the study collected from various sources are recorded systematically for analysis. All the information is then identified, grouped and tabulated as per the need of study in order to meet the research objectives. Tabulated data are presented through the easy understanding graphs.

3.6 Tools and Techniques Used to Analyze the Data

The data analysis is made on the basis of various financial and statistical tools to achieve the research objectives. The researcher has used the following tool and techniques.

3.6.1. Statistical Tools

Statistical tool is very useful tool to analyze the available data to find the relation between these data and to predict about the trend and hidden fact in the relation. So, different related tools from the statistical tool are utilized in terms research objectives. They are:

a) Mean

The sum of all the observations divided by the number of observation is called mean. In such cases all the items are equally important. It is usually denoted by \bar{X} . it is defined by the following formula:

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n}$$

Where,

$\sum X$ = the sum of observations

n = no. of observations

b) Standard Deviation (SD)

The standard deviation is defined as the positive root of the mean of the squared deviation from their mean of a set of values. It is also known as 'Root Mean Square Deviation'. It is usually denoted by the Greek letter σ (small sigma) the Standard deviation is calculated by the following formula.

$$= \sqrt{\frac{\sum(x - \bar{x})^2}{n - 1}}$$

c) Coefficient of Variation (CV)

The relative measure of dispersion based on standard deviation is called coefficient of standard deviation. Thus,

$$\text{Coefficient of standard deviation} = \frac{\sigma}{\bar{x}}$$

100 times coefficient of standard deviation is called coefficient of variation. It is denoted by CV thus,

$$CV = \frac{\sigma}{\bar{x}} \times 100$$

d) Growth Rate

Simple percentage will be used as an arithmetical tool to interpret data. It is calculated by

$$\text{Annual rate percentage change (ARPC)} = \frac{\text{Current years fig} - \text{Previous years fig}}{\text{Previous years fig}}$$

d) Correlation Analysis

The degree of relationship between two variables at a time is called correlation. In other words, two variables are correlated in such way that if one variable changes then other variables also changes subsequently.

Actual mean method: when deviation are taken from actual mean, r is defined by

$$\text{Correlation coefficient (r)} = \frac{\sum xy}{\sqrt{\sum x^2 \times \sum y^2}}$$

Where, $x = X - \bar{X}$, $y = Y - \bar{Y}$

This formula is also called product moment formula.

Direct method: when actual data are used, r is defined by

$$r = \frac{n\sum XY - (\sum X)(\sum Y)}{\sqrt{n\sum x^2 - (\sum x)^2} \sqrt{n\sum y^2 - (\sum y)^2}}$$

3.7 Research Variables

Balance sheet, Profit and loss account, Cash flow statement including cash from operating activities, cash from investing activities and cash from financing activities are the research variables.

Chapter – Four

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The data presentation and analysis is the important part of the study because all the information and ideas will be analyzed and presented in this chapter. The forwarded study is the study of cash flow analysis as the component of accountancy. The basis objective of this study has been already mentioned in the first chapter. The cash flow management aspects have disused in the review of literature. In the research methodology necessary analytical tools and technique have been employed for the accomplishment of prescribed analyzed and interpret them. The available data are presented in table and graph and they are analyzed with the help of statistical, mathematical and financial tools and finally interpreted on the basis of which facts are explored.

4.2 Net Cash Flow Analysis

Cash flow is a result of different business activities. These activities are categorized in different group in terms of their nature and support provided by them. The group of activities are operating, investing and financing. Operating activities are those activities which are the cause for the organizational existence. Operational effectiveness is measured through the analysis of trend of cash from operation. There should be positive cash flows on total from these activities. That means the operating cash inflows are the source for the payment of business expenses and trading liabilities. On the other hand, investing and financing activities are mainly concern with bulk amount of cash that are related with business expansion and long term source of cash. Generally, if the cash outflows on investing activities are increasing, organization is in continuous expansion. Again, if the cash inflow on financing activities through issue of share and long term loan, organization can get long term source of cash that can be used on

long term investment or business expansion. Investing and financing activities are the activities through which long term sustainability can be measured. To be the efficient and effective on operation of business and expansion of business there should be balance between these activities to produce adequate cash for the requirement.

Net cash flow is the aggregate cash flow from these three heading of activities. The amount of net cash flows of an organization depends upon the type, size, condition and contingencies of the organization. So, there may be fluctuation on the net cash flow and the organization should apply required strategies to keep adequate balance of cash. The net cash flow of NTC for the period 2061/62, 2062/63, 63/64, 2064/65 and 2065/66 are shown below including different sources of cash flow.

Table: 4.1
Net cash flow of NTC

(In Rs'0000)

Fiscal Year	NCFFO (A)	Inc/Dec %	NCFIA (B)	Inc/Dec %	NCFFA (C)	Inc/Dec %	Net cash flow (A+B+C)	Inc/Dec %
061/62	482750	-	-259554	-	-318701	-	-95505	-
062/63	672237	39.25	-248353	4.32	-207172	-33.99	216712	-326.91
063/64	805232	19.78	-332642	33.94	-147516	-28.8	325074	50
064/65	979916	21.69	-570950	71.64	-270148	83.13	138818	-57.50
065/66	1071685	9.36	-495536	13.21	-370495	37.15	205654	48.15
Mean	802364		-381407		-262806.4		158150.6	
SD	236195.303		144811.536		88263.813		156735.723	
CV	29.44 %		-37.97 %		-33.59 %		40.65 %	
GR	18.02 %		22.89 %		11.30 %		-57.21 %	

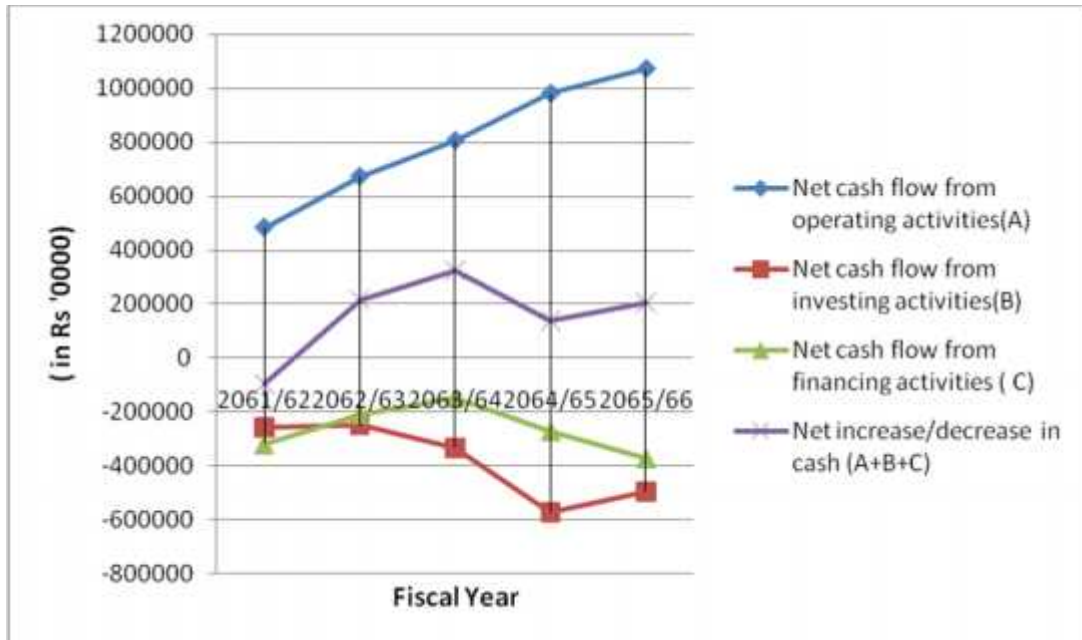
Sources: Annual report from 2061/62 to 2065/66

On the table: 4.1, first column represents Fiscal year, mid three column (NCFOA, NCFIA and NCFFA) shows the amount of cash flow in Rs '0000. Some of these amounts are in negative sign which represents cash outflow

and the positive amounts represent cash inflow. Last column (A+B+C) is the net amount of cash flow which is the result of sum of mid three columns' amount.

The cash flow from operation during the period are all positive with increasing situation. This concludes the NTC is in good situation on its operation. On the other hand the cash flow on investing activities elucidate the company is in expansion through increasing its investment. The investment cash flow shows the NTC is in expansion continuously. The cash flow of financing activities is in also negative. It arises mainly due to its repayment of long term debt, dividend payment, interest on loan, and payment of retained earning to government. The above total figure of NCFOA, NCFIA, NCFA & NCF can be shown more effectively by graphical representation.

Figure: 4.1
Net Cash Flow of NTC



The above graph shows that Net cash flow from operating activities is more in all year and increasing trend. During the period, its rate of growth is high in the beginning then decrease, increase and decreasing trend.

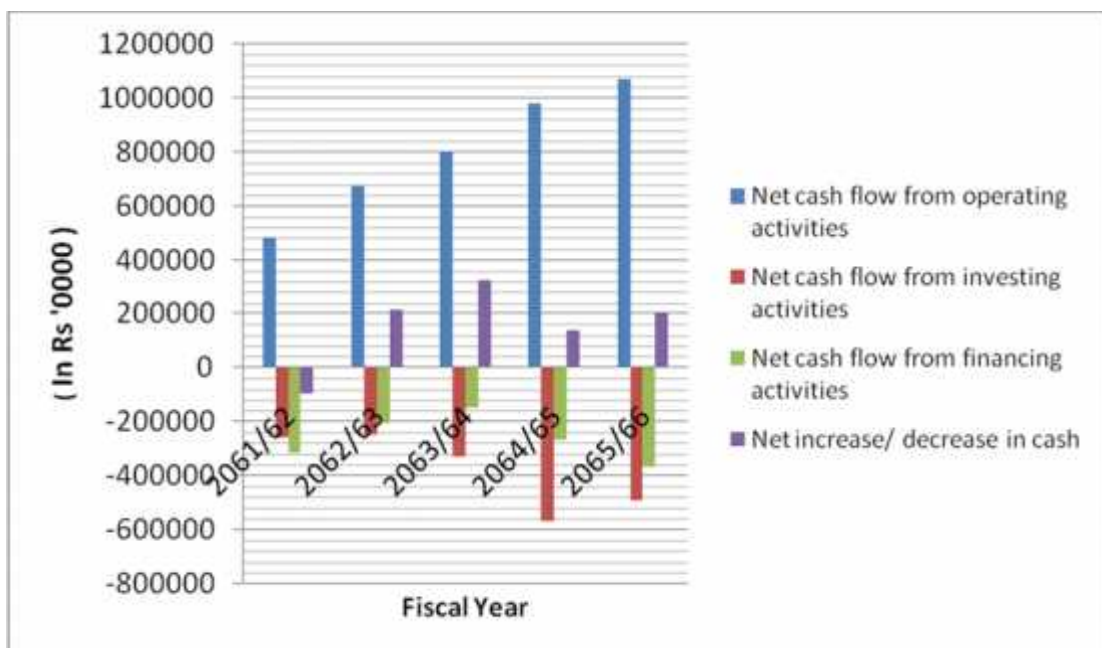
The trend of Net cash flow from investing activities is fluctuating during the

study period and its rate of outflow is increasing that shows the NTC is expanding its business. NCFIA has gradually decreased from FY 2061/62 to 2062/63 and after that the increases is sharp during the next two periods FY 2063/64 and 2064/65 but the trend slides down in FY 2065/66 from the previous increasing trend .

On this graph the trend of Net cash flow from financing activities negative with fluctuation. This trend line shows the cash out flow is highly negative in FY 2061/62 with decreasing at the beginning three year then it increases last two years and became again highly negative in FY 2065/66.

Net increasing /decreasing in cash is also fluctuating trend it is negative in FY 2061/62 then it increases till FY 2063/64. In the FY 2064/65 it is decrease by 57.50 % and slowly increases at last.

Figure: 4.2
Cash flow bar diagram



The above bar diagram presents the total cash flow during different fiscal year from different cash flow heading. From the diagram, cash flow from operating activities is increasing every year. Cash flow from investing and financing activities are in negative which has been being main sector for

the use of cash.

4.3 Statistical description of NCFOA, NCFIA, NCFFA & NCF

The cash flow is determined with the aggregated impact of cash from operating activities (CFOA), cash from investing activities (CFIA) and cash from financing activities (CFFA). To reach in conclusion of the actual trend and situation there need to be analyzed the available data through use of statistical tools.

Above table: 4.1 present the amount of cash flow at the end of fiscal year from different headings during the study period from fiscal year 2061/62 to 2065/66. Positive amount represents cash inflow and the negative amount represents cash outflow.

The Mean/average of CFOA, CFIA, CFFA and NCF are: 802364, -381407, -262806.4 and 158150.6 respectively. The standard deviation for the period of CFOA, CFIA, FFA and NCF are: 236195.303, 144811.536, 88263.813 and 156735.723 respectively. The coefficient of variation for the period of CFOA, CFIA, CFFA and NCF are 29.44 %, -37.97 %, -33.59 % and 40.65 % respectively. CV is less in cash flow from operating activities so it is more consistent than others. The annual growth rate of CFOA, CFIA, CFFA and NCF are 18.02%, 22.89%, 11.30% and -57.21% respectively.

4.4 Cash Position Analysis

Cash is the blood for every organization that should be use in productive manner. Actually the every activities of an organization are measured in term of cash. It means cash is the main input source of every business. Fair and regular inflow and out flow of cash represents strength and opportunities for business success through minimizing weakness and threats. There need adequate cash balance for every organization to run its activities smoothly. The amount of required cash balance will be change according as the size, condition, Organizational age and other environmental variables. Organization

should be effective in cash management. Cash should be kept in organization as the requirement of cash for daily and coming plan of the organization and the excess amount of cash should be use in business expansion or other business growths related activities which create maximum value of cash. There need not to be excess cash in hand without its plan for use. So, Cash management is a one of strategic management tools. Cash flow is ongoing or day to day activities of every organization. Here is going to be analyzed yearly cash flow with the help of annual report. The beginning cash balance, net cash flow during the fiscal year and the ending balance of cash are show below in Table: 4.2

Table: 4.2
Net cash position of NTC

(In Rs '0000)

Fiscal year	Cash at beginning	Inc/Dec %	Net cash flow (A+B+C)	Inc/Dec%	Foreign exchange gain/loss	Inc/Dec %	Cash at the end	Inc/Dec %
2061/62	1078067	-	-95505	-	-25112	-	957450	-
2062/63	957450	-11.19	21671	-326.91	28001	-211.5	120216	25.56
2063/64	1202163	25.56	325074	50	-52603	-287.6	147463	22.67
2064/65	1474634	22.67	138818	-57.30	-	-	1613452	9.41
2065/66	1613452	9.41	205654	48.15		-	1819106	12.75
Mean	1265153.20		158150.6		-9942.8		1413361	
SD	273333.373		156735.721		30362.180		339440.433	
CV	21.60 %		99.11 %		-305.37 %		24.02 %	
GR	9.29 %		-57.21 %		-99.87 %		14.08 %	

Sources: Annual report from 2061/62 to 2065/66

Table: 4.2 is prepared to show the yearly beginning cash balance of cash, Net cash flow from different (operating ,investing and financing) activities and foreign exchange gain/loss and their result in cash balance at end. On the above table, beginning cash balance for every fiscal year is positive, net cash flow for

the respective year all positive except on FY 2061/62. Foreign exchange is being loss, gain and no any amount among for different period. Cash at end for the period is positive for all fiscal year. But the amount is increasing. Cash balance at the end and beginning are shown below on figure: 4.3 and 4.4.

Figure: 4.3
Trend of Cash balance at the end

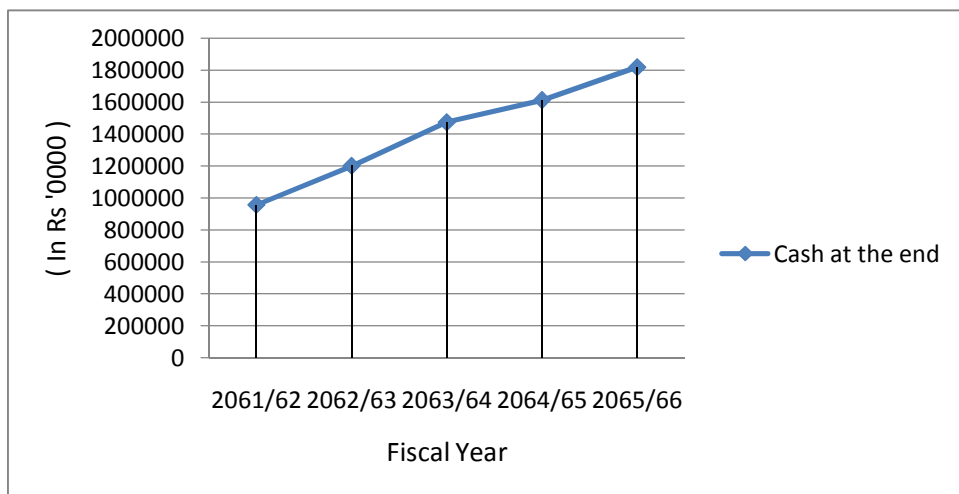


Figure: 4.4
Trend of cash balance at beginning

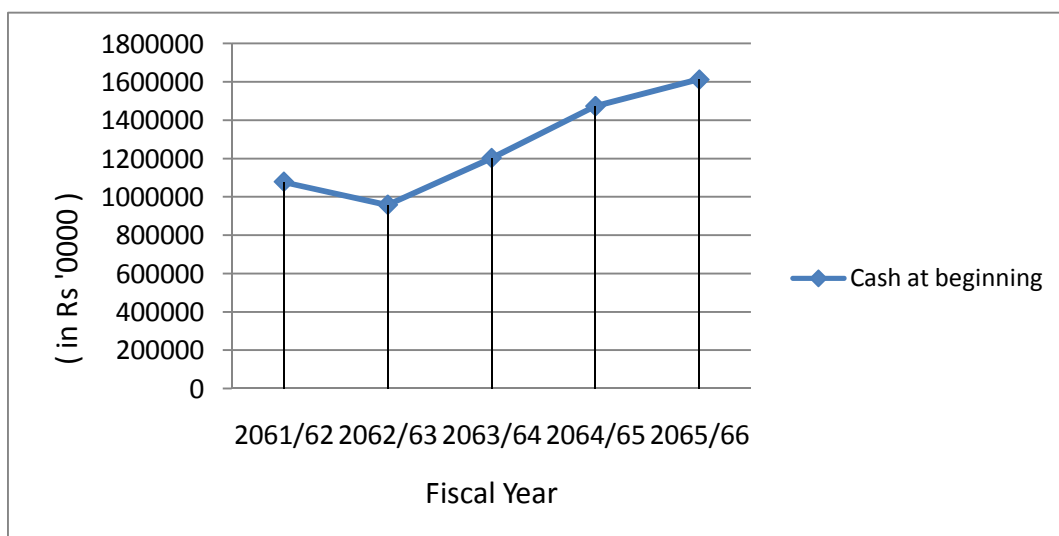
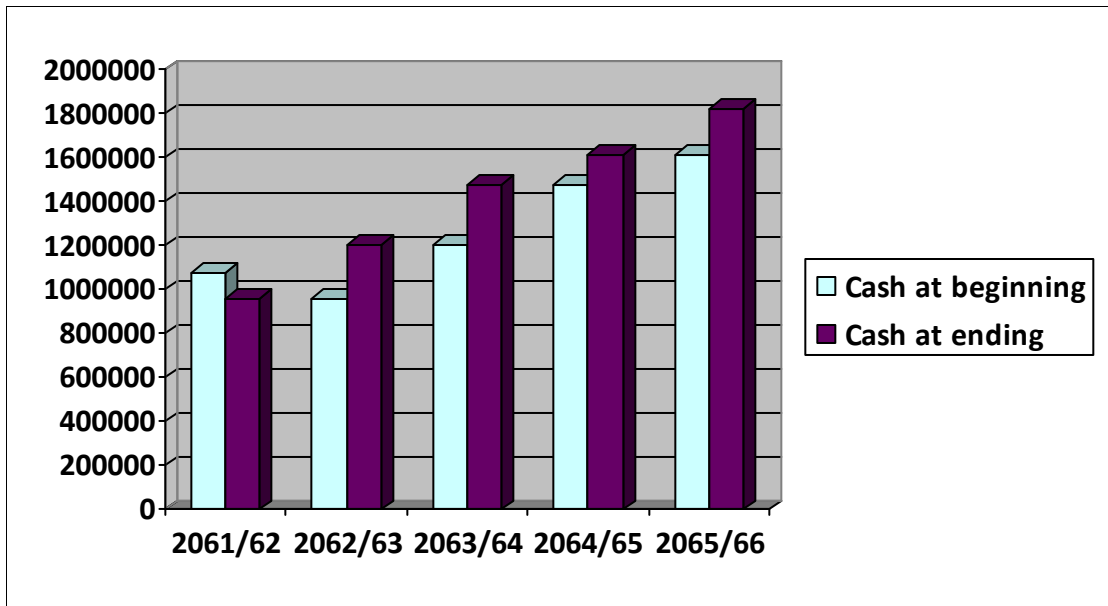


Figure: 4.5
Cash at beginning and Cash at ending



The above diagram shows that cash at ending is greater than cash at beginning in all years except FY 2061/62. We know that the current year's cash at beginning is the previous year's cash at ending. Cash at beginning depends upon cash at ending but cash at ending depends on Foreign exchange gain or loss as well as net cash flow of the year. Cash at beginning and ending both are increasing trends (except 2061/62) it indicates that the transaction is going to be high and good cash position of the organization.

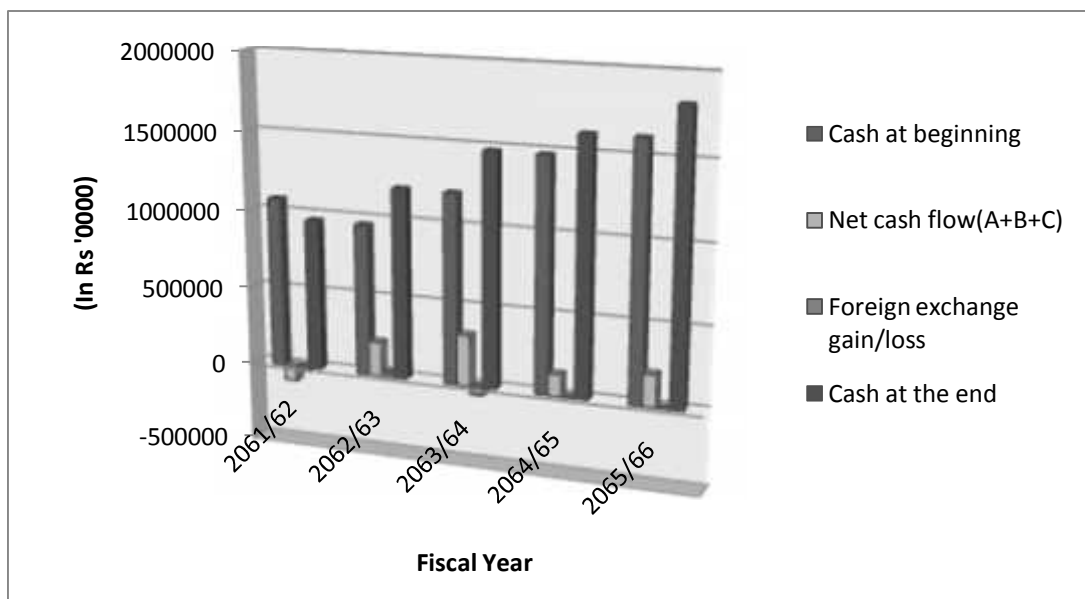
4.5 Statistical descriptions of cash position of NTC

From table 4.2, the maximum beginning cash balance for the study period is 1,613,452 on FY 2065/66, maximum net cash flow is 325,074 on FY 2063/64, the maximum foreign exchange gain is 28,001 on FY 2062/63 and the maximum cash balance at the end is 1,819,106 on FY 2065/66. The minimum value of beginning cash balance is 957,450 on FY 2062/63, minimum net cash flow is -95,505 on FY 2061/62, maximum foreign exchange loss is -52,603 on FY 2063/64 and the minimum cash balance at the end is 957,450 on FY 2061/62. Average value of cash at beginning, net cash flow, foreign exchange

gain or loss and cash balance at the end is 1265153.2, 158150.6, -16571.33, and 1413361 respectively. These Mean shows the foreign exchange is in negative. Standard deviation for the study period of cash at beginning, net cash flow, foreign exchange gain/loss and cash at the end are 273333.373, 156735.721, 40975.095 and 339440.433 respectively. Maximum standard deviation is arising on ending cash balance. CV of cash at beginning, Net cash flow, foreign exchange gain/loss and cash at end are: 21.60%, 99.11%, -3.5.37% and 24.02% respectively. The coefficient of variation is useful total risk measure when comparing two or more investments with different expected return. But here only we can say CV is more in Foreign exchange gain/loss and Net cash flow so inflow/outflow of these item are more variable or less consistent than comparison of cash at beginning and cash at ending. Growth rate of cash at beginning, Net cash flow, foreign exchange gain/loss and cash at the end are 9.21%, -57.21%, -99.87% and 14.08% respectively. Growth rate shows the vary fluctuation trend in Net cash flow as well foreign exchange gain/loss. Growth of cash at ending is 14.08% it means organizations cash position is good. The bar diagram on figure: 4.6 shows the picture of cash at beginning, net cash flow, foreign exchange gain/loss and cash balance at the end.

Figure: 4.6

Cash position of the NTC



4.6 Analysis of NPBT and NPAT

Profit is the ultimate goal of every business house. Organizations involve in business for making profit. Profit cannot be achieved easily. It should be managed well with better managerial skills. So profit is the planned and controlled output of firm. Profit, refers to the planning of revenue (i.e. increases the inflow), and planning of cost (i.e. increases the efficiency of outflow)

P/L account contains all items of revenue, gain/loss and operating expenses for the particular accounting period. Following table shows the net profit before tax and net profit after tax of NTC for 5 years i.e. 2061/62 to 2065/66.

Table: 4.3
NPBT and NPAT pattern of NTC

(Rs in '0000)

Fiscal Year	Net profit before tax	Increase (Decrease) %	Net profit after tax	Increase (Decrease) %
2061/62	492153	-	354246	-
2062/63	684373	39.06	493665	39.36
2063/64	798332	16.65	565269	14.50
2064/65	1087146	36.18	794290	40.52
2065/66	1363399	25.41	1017802	28.14
Mean	885080.6		645054.4	
SD	343445.730		262233.686	
CV	38.80 %		40.65 %	
Growth Rate	23.46 %		24.50 %	

The above table shows that the net profit before tax of NTC is fluctuating. During the first fiscal year 2061/62 the NPBT is Rs 492153. In the FY 2062/63 it is increases by 39.06% which is favorable indicator for company. In the FY 63/64, NPBT increased by 16.65 %. Again in the FY 2064/65 and 65/66,

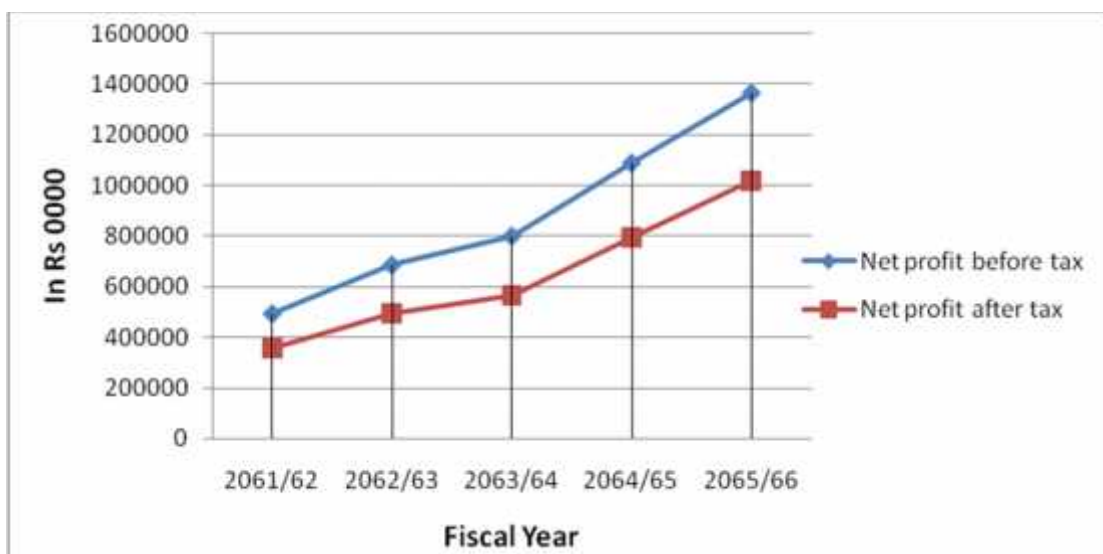
NPBT also increased by 36.18 % and 25.41 % respectively but in the FY 2063/64 and 2065/66 NPBT increases in decreasing trend.

In the above table shows, that the NTC has fluctuating trend in NPAT. Various reasons took this change. In the FY 62/63 NPAT increased by 39.36%, In FY 2063/64 it increased by only 14.50 % it has decline by 24.86% from the last previous year. That may be tough competition of communicate firms. In FY 2064/65 seems the positive indicator of NPAT. The same trend exists in FY 2065/66 and the NPAT has drastically to 28.14 % from 40.52 % i.e. 12.38% decrease in NPAT.

The maximum NPBT during the study period is obtained Rs 1363399 on FY 2065/66 and maximum NPAT is Rs 1017802 on same year. Minimum NPBT and NPAT are Rs 492153 and Rs 354246 on same FY 2061/62. Average of NPBT and NPAT are Rs 885080.6 and 645054.4. i.e. contribution of tax to Nepal government Rs 240026.2 (in ten thousand). Standard deviation of NPBT and NPAT are 343445.730 and 262233.686, CV of NPAT and NPBT re 38.80% and 40.65%.CV is less in(38.80%<40.65) NPBT so nature of variability more in NPAT. The above NPBT and NPAT can be shown more effectively by graphical representation.

Figure: 4.7

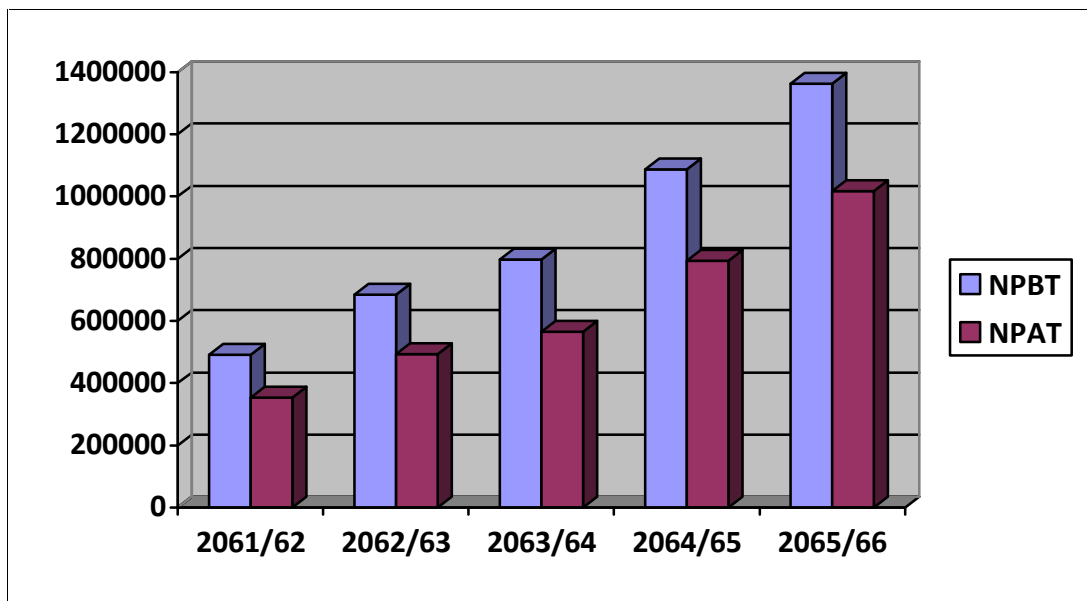
Net profit before tax & Net profit after tax



The above graph shows that NPBT and NPAT both are in increasing trend but rate of increasing rate is fluctuating .its rate of increasing are gradually slow in FY 2063/64 and 2065/66. Area between NPBT and NPAT is to contribution of tax to government from NTC. The presentation of NPBT and NPAT figure will be clearer by following graph.

Figure: 4.8

Net profit before tax and Net profit after tax



The diagram covers the NPBT and NPAT of five years period ranging from 2061/62 to 2065/66. NPBT and NPAT are both increasing but ARPC is high in NPAT even seems NPBT is higher then NPAT. It is satisfactory way of the organization.

4.6 Correlation analysis

Correlation analysis is the statistical tool that we use to describe the degree to which on e variable is linearly related to other variables. Two or more variables are said to be correlated if change in the value of one variable appears to be related or linked with the change in the other variables. It refers the closeness of the relationship between two or more variables. Correlation says just degree of relationship between two or more variables. Here is going use simple

correlation to determine the relationship between NPBT, CFOA, CFIA and CFFA. During the study period by using the available data related with these variables, determined simple correlations are presented below on Table:4.4.

Table: 4.4
Pearson correlation coefficient between any two of NPBT, CFOA, CFIA and CFFA

	NPBT	CFOA	CFIA	CFFA
NPBT	1	0.974	-0.863	-0.430
CFOA	0.974	1	-0.881	-0.232
CFIA	-0.863	-0.881	1	0.389
CFFA	-0.430	-0.232	0.389	1

Sources: Annual report from 2061/62 to 2065/66

Table 4.4 presents the Pearson's correlation coefficient between NPBT, CFOA, CFIA and CFFA. This table is prepared through use of Pearson's statistical tools for calculation correlation coefficient and available data. The results obtained after calculation are presented in above. Form above table correlation coefficient between NPBT and CFOA is 0.974. This show NPBT and CFOA are highly correlated. The correlation coefficient between NPBT and CFIA is -0.863 (highly negative). This result makes conclusion that if NPBT is increasing or inflowing then CFFA is decreasing or outflow. The correlation coefficient between NPBT and CFFA is -0.430, also in negative represents there are also negative correlation coefficient between CFOA and CFIA is -0.881 (highly negative) represents negative correlation between those variables. The correlation coefficient between CFOA and CFFA is -0.232 also negative. Correlation coefficient between CFFA and CFIA is positive correlated.

4.7 Major Findings

-) All the cash from operating activities are in positive.
-) Rate of operating cash flow of NTC is in increasing continuously and its annual increment is 18.02 %
-) NTC is expanding its investment at the rate of Rs 22.89 % per year is a major cause of cash out flow for each year during the study period.
-) There are not any sales of investment in study period.
-) All the cash from investing activities are in negative but in range of -248353 to -570950 (in ten thousand)
-) NTC has made huge repayment of retained earning to Nepal government on the FY 2061/62 and payment of long term debt on FY 2064/65 are the major cause of cash out flow for this fiscal year.
-) There is not any receipt from long term debt except on FY 2061/62.
-) Major financing activities of NTC are long term debt receipt/payment, dividend payment, interest payment on loan and repayment of retained earning to Nepal government.
-) Annual cash out flow rate from financing activities is 11.30 %.
-) All the cash from financing activities are in negative but in range of Rs -147516 to -370495 (in ten thousand)
-) There is cash increase in every year.
-) Minimum cash balance was kept on FY 2062/63.
-) There is loss on foreign exchange in the average of Rs 16571.33 (in ten thousand).
-) Net cash flow is also in fluctuation.
-) Average Net cash inflow during the study period is Rs158150.6 (in ten thousand)
-) Standard deviation of CFOA is 236195.303 (in ten thousand).

-) The average NPBT, CFOA, CFIA and CFFA are Rs885080.6 (in ten thousand), Rs 802364 (in ten thousand), Rs -381407 (in ten thousand) and Rs -262806.4 (in ten thousand) respectively.
-) The CV of CFOA, CFIA and CFFA are 29.44%, -37.97% and -33.59% respectively. CV of CFOA is less than CFIA and CFFA ($29.44 < 37.97 < 38.80$), CFOA is more consistent than CFIA and CFFA.
-) Growth rate of net profit before tax and Net profit after tax are 23.46 % and 24.50 %
-) Average payment of tax to Nepal government is Rs 240026 (in ten thousand)
-) There is highly positive correlation between CFOA and NPBT.
-) There is negative correlation between NPBT and CFFA, NPBT and CFIA.
-) There is not scarcity of cash during the period to operate its general activities.
-) Over all activities are satisfactory.

CHAPTER - FIVE

SUMMARY, COCLUSION AND RECOMMENDATION

5.1 Summary

This study tried to outline the clear cash flow situation and the usefulness of these cash flow of NTC through the utilization of different accounting, financial and statistical tools. For this, based on research strategy made on research methodology chapter, available and collected data are presented on presentation chapter. The NTC is a non manufacturing organization. So, it is using indirect method of cash flow statement. According to the analysis made on chapter four based on the objective of cash flow analysis, the

NTC is in good situation on its cash management because cash flow analysis shows the cash availability is adequate and in growing situation. Cash inflow is good from operating activities. The available cash is utilized on financing and investing activities. The trend of cash flow from CFOA, CFIA and CFFA are increasing with fluctuating trend. The reason for fluctuation is emergence of different activities during the period. Then financial data of NTC shows there are greatest possibilities of business growth. It is providing a large amount of revenue to Nepal government. The net cash generation for the period of different fiscal year is also satisfactory except for the F.Y. 2061/62. Cash balance is adequate to perform its needed activities. Since its cash inflow from operating activities is increasing, the investment is also increasing due to highly positive correlation between CFOA and CFIA. That may not be the best capital structure for NTC because there should be done leverage analysis to decide capital structure. It is paying dividend to its shareholder in satisfactory manner. It is earning its profit satisfactorily through providing its services to general public are the cause for increasing goodwill. That means the NTC is in well management including cash management. It has not facing any difficulties during the study period. But in the F.Y. 2065/66 much working capital adjustment is arisen. All the source and use of cash is satisfactory but the

fluctuation is risky for the NTC because there may be excess and scarcity of cash to meet the fluctuation. Both are disadvantageous. All the trend of Cash from operating activities, cash from investing activities and cash from financing activities are in growing trend and good correlation between them seems well management of cash. But the growth may be in danger due to high standard deviations. Working capital adjustment is not proper because of fluctuation. Increase in investment, loan repayment and repayment of retained earning to Nepal government are regular for every year. That shows the NTC has adequate resources to meet its financial and investing requirements. There is not any plan to hold the cash balance at the end. Dividend payment is made every year since F.Y. 2061/62 which creates good perception on shareholder. As a whole, the performance of NTC is well in terms of analysis of cash flow during the study period.

5.2 Conclusion

The analysis of cash flows statement of NTC concludes that the operation of NTC is in satisfactory because result obtained through analysis is satisfactory. The operating profit is growing every year is the result of increment of cash from operating activities. The operating cash flow is the major source for business activities and it is also a costless source of cash for other financial and investing activities. Therefore, NTC is in growing situation and it is performing adequately. Its financial and investing transaction is also increasing with good correlation. In aggregate the overall performance of NTC is being better on the study period.

5.3 Recommendation

Cash flow is the tool for cash management. Although the result obtained from the analysis is good in aggregate, there will be better to take some corrective actions to attain more efficient and effective result. The some suggestions to improve cash flow for the future are as below:

1. Capital structure analysis should be developed in such a way by which cost of capital will be minimized.
2. It will be better to determine required cash balance to operate regular activities.
3. It will be better to assess working capital requirement according to the business expansion strategies.
4. Future contingencies and selective cash need should be estimated properly.
5. Excess cash should be invested in short term liquid assets that can be converted into cash as per the requirements.
6. Least cost source of cash should be fined when there exist the needs of cash.
7. Past trend in different headings of cash flow should be analyzed to make future plans to handle cash in effective way.
8. Time value of cash should also consider for effective cash management.
9. Priority should be given to soft credit or cheap sources of cash if there is cash need.
10. There should make strategic plan to manage working capital because the cause for fluctuation of CFOA is fluctuation on working capital.
11. Accounting record should be kept updated.
12. Investing activities should be planed because the need of cash can be managed at least cost, if so happens.
13. Regular payment of dividend should be made to keep balanced cash at end.
14. Adequate cash should be kept in hand or as liquid assets to handle yearly cash flows requirement which will help to maintain the goodwill of NTC.

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www.cashflow.com

www.ntc.net.np

Appendix- i

Cash flow from operating Activities of NTC

(in Rs'0000)

Particular	Fiscal year				
	2061/62	2062/63	2063/64	2064/65	2065/66
Net profit before tax	492153	684373	798332	1087146	1363399
Adjustment:-					
Depreciation		119614	136650	148613	168129
Differed & permission letter exp	105049	4003	5838	7116	4108
Foreign exchange gain/loss	4082	-28001	52603		
Provision for staff bonus and incentives	25112	32204	48441		
provision for pension and gratuity	28171	24139	28608		
Interest on loan	31261	111		1030	
Fixed assets written off	70		20037		
Income from investment and bank deposit	123	-59684	-70183	-90377	-137574
Expenses on loss of goods	-46383	853	12292		
Royalty		59181	81146		
Provision for earned leaved	49130	6598	7173		
Special charge	2424		3727		
Operating profit before working capital change	691192	843391	1124664	1153528	1398062
Adjustment for working capital change:					
Increase/Decrease in account receivable	-15700	-27355	-55638	-249182	-457146
Increase/Decrease in stock	-5461	-3426	66		
Increase/Decrease in interest accrued	546	246	430		
Increase in advance tax	-160205	-168460	-270468		
Increase/Decrease in advance	22148	38251	-27259		
Branch account (Adjust)	-404	280	-1339		
Increase/Decrease in payable	22645	61850	120375	118353	225059
Payment of interest/adjustment	47	-234			
Payment of royalty	-45000	-37064	-56369		
Payment of earned leave	-2102	-2201	-2169	-2816	-3864
Payment of pension and gratuity	-2361	-3005	-3600	-4731	-6436
Gratuity received (return)		1			
Payment of Bonus, tax and incentives	-38404	-30164	-24879	-35236	-83990
Last year adjustment	15809	127	7297		
Last year income tax adjustment/payment			-5879		
Net cash flow from operating activities (A)	482750	672237	805232	979916	1071685

Sources: Annual report from 2061/62 to 2065/66

Appendix-ii

Cash flow from investing activities

(Amt in Rs '0000)

Cash flow from investing activities	Fiscal Year				
	2061/62	2062/63	2063/64	2064/65	2065/66
Purchase of fixed assets, plants and equipments	-199775	-224365	-166771	-304718	-415084
Capita development increased	-107534	1579	-144345	-7664	61380
Debenture premium adjustment	-4210	-3429	-19018	-312	
Increased in investment	5582	-81822	-72691	-348633	-279406
Income from investment and bank deposit	46383	59684	70183	90377	137574
Net cash flow from investing activities (B)	-259554	-248353	-332642	-570950	-495536

Sources: Annual report from 2061/62 to 2065/66

Cash flow from financing Activities

(Amt in '0000')

Cash flow from financing activities	Fiscal Year				
	2061/62	2062/63	2063/64	2064/65	2065/66
Received long term debt	2424				
Payment of long term debt	-1125		-2424	-119168	
Payment of interest on loan				-1030	
Payment of dividend	-30000	-43351	-66416	-149950	-370495
Payment of dividend (last year)			-81100		
Payment of retained earning to Nepal gov.	-290000	-161165			
Capital reverse adjustment to retained earning		-232			
Net cash flow from financing activities (C)	-318701	-207172	-147516	-270148	-370495

Sources: Annual report of NTC from 2061/62 to 2065/66