

**A COMPARATIVE AND ANALYTICAL STUDY ON
CASH FLOW OF HIMALAYAN BANK
AND EVEREST BANK**

A Thesis Submitted to

Office of the Dean
Faculty of Management
Tribhuvan University

By

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**In partial fulfillment of the Requirements for Master's
Degree in Business Studies (MBS)
Butwal, Nepal
May, 2011**

RECOMMENDATION

This is to certify that the thesis

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Entitled

**A comparative and Analytical study on cash flow of Himalayan Bank and Everest
bank**

*has been prepaid as approved by this department in the prescribed format of faculty of
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VIVA-VOCE SHEET

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and found the thesis to be the original work of the student written according tot the prescribed format. We recommend the thesis to be accepted as partial fulfilment for Master's Degree in Business Studies (M.B.S.)

Viva- Voce Committee

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DECLARATION

I hereby declare that the work reported in this thesis entitled "A Comparative and Analytical Study on Cash Flow of Himalayan bank and Everest bank" submitted to the Central Department of Management, Tribhuvan University, is my original work. It is done in the form of partial fulfillment of the requirement for the master of Business Studies (M.B.S) under the supervision and guidance of respected lecture Mr. Na Krishna Bhattarai.

May, 2011

Ram Prasad Panth

ACKNOWLEDGEMENTS

This research study entitled "**A Comparative and Analytical study on cash flow of Himalayan Bank and Everest Bank**" has been carried out on behalf of the Fulfilment of the partial requirement of the Master's in Business study (MBS) on the course of completion of this thesis study, I was able to gain and share a lot of sweet memorable moments as well as better experiences. However, I got acquainted with the various terminologies, literatures and different personalities from different sectors as well.

Firstly, I am extremely indebted to my academic supervisor **Mr. NA KRISNA BHATTARAI** for his generous encouragement throughout my entire research work and I shall ever remain indebted to him. This form of my study is the result of his continuous help, suggestions, comments and the guidance.

Similarly, I am thankful to all the staffs of Lumbini Banijya Campus and all the staffs of this Campus. I am also thankful to my all friends for their valuable support in writing this thesis.

I think this study is the sole contribution, inspiration of my parents (Hari Lal Pantha, Bhim Lal Pantha) and whole family, their regular inspiration and continuous contribution are the secrets of my success.

Finally, I am thankful to Sagarmatha Bibidh Sewa Butwal for their fine work in typing and printing of this research study correctly and neatly in time.

Ram Prasad Pantha

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ABBREVIATIONS

\$	=	Dollar
A.D.	=	Anno Domini
A/C	=	Account
Amt	=	Amount
ASB	=	Accounting Standard Board
ATMS	=	Automated Teller Machines
Avg.	=	Average
B.S.	=	Bikram Sambat
BIMSTEC	=	Bay of Bengal Initiative for Multi Sectoral Technical and Economic Co-operation
Bps	=	Bills Payables
CAs	=	Chartered Accounts
CBS	=	Central Bureau of Statistics
CFFA	=	Cash Flows from Financial activities
CFIA	=	Cash Flows from Investing activities
CFOA	=	Cash Flows from Operating activities
Co.	=	Company
COGS	=	Cost of Goods Sold
Comm.	=	Commercial
Curr.	=	Current
D.F.	=	Degree of Freedom
e.g.	=	Example
EBL	=	Everest Bank Limited
Eps	=	Earning per share
F.Y	=	Fiscal Year
FASB	=	Financial Accounting Standard Board
GAAP	=	Generally Accepted Accounting Principle
GDP	=	Gross Domestic Product

HBL	=	Himalayan Bank Limited
i.e.	=	that is
IAS	=	International Accounting Standard
IASB	=	International Accounting Standards Board
IASCF	=	International Accounting Standards Committee Foundation
IASs	=	International Accounting Standards
ICAN	=	Institute of chartered Accountancy of Nepal
IFRSs	=	International Financial Reporting Standards
Ltd.	=	Limited
MBS	=	Master of Business studies
NAS	=	Nepal Accounting Standard
No.	=	Number
NPAT	=	Net profit after Tax
NRB	=	Nepal Rastra Bank
Pvt	=	Private
r	=	Correlation coefficient
RBB	=	Rastriya Banizya Bank
RS	=	Rupees
Tu	=	Tribhuwan University
Vs	=	versus
Wc	=	Working Capital
WTO	=	World Trade organization

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Cash flow is a statement to show all the cash receipt (inflow) and cash payment (outflow) of a firm during a period. Cash flow statement is prepared to understand the relationship between accrual accounting events and their cash impact. This statement classifies cash flows among operating, financial and investing activities as required by according standards. On the other hand, this statement is to convey information about the cash receipts and cash payments of a firm during the accounting period, though the same information comes through the cash book, already prepared in the course of posting in ledger. The statement of cash flows presents the same information in a different manner so that the decision makers come to know how much cash has increased or decreased in operating, investing and financing activities.

The statement of cash flows reflects the ability of the company:

-) To generate positive cash flows in future periods.
-) To meet its obligation and to pay dividends.

The statement of cash flows helps user to evaluate a Company's ability to have sufficient cash both in short term and in a long term basis. Due to this reason, the statement of cash flows is useful to virtually every one interested in the company's financial health : short and long term creditor, Investor, manager and both customer and prospective competitors.

The information in statement of cash flows assists management, investors, creditors, and others for assessing the following points :

-) The enterprise's ability to meet its obligation.
-) The enterprise's ability to pay dividend.
-) The enterprise's need for external financial

-) Reason for differences between net income and associated cash receipts and payments.
-) Effects on an enterprise's financial position of both its cash and non cash investing and financing transaction during the period.

The statement of cash flows is an important financial statement in terms of providing information for investors and creditors. It shows how the accrual accounting information is converted in to cash based information and arranges the information so that investors and creditors can better understand the cash effects of a company's operating, investing and financing activities. The primary purposes of statement of cash flows are to provide information on the statement of cash flow can be used to evaluate the efficiency of treasurer in the enterprise. All these information's have equal value for the strategic manager of an enterprise and outside investors, (Bajracharya et.al., 2004: 954-955)

1.2 Brief Profiles of Selected Organizations

Himalayan Bank Ltd. (HBL)

The official establishment of HBL took place in the year 2048 B.S. on 4th of Falgun with an initial paid up capital of Rs, 60 million. This commercial bank was established as per a Joint Venture with the Habib Bank of Pakistan. It was on the 6th of Falgun, 2048 that the bank has granted the license by the NRB: eventually it commenced its operation from 5th Magh 2049, notably with its first Chairman cum the first Governor of NRB Mr. Himalayan SJB Rana. Since, the time HBL has been active and oriented through its targets even in hard times accounted in innumerable domestic as well as foreign casual factor.

The HBL embodies a total network of 17 branches across the country and a counter in the premises of Royal Palace. There are 5 branches in Kathmandu Valley for customer convenience located at Thamel, New road, Maharajgunj, Pulchowk, Surya Binayak.

In addition, the bank has 10 branches outside Kathmandu Valley those are Banepa, Tandi, Bharatpur, Birgunj, Hetauda, Bahirahawa, Biratnagar, Pokhara, Dharan and Butwal.

The HBL stands tall in fulfilling its chief objective of providing quality services with personal touch to its customers as well blending the banking with modern technologies and runs the world class banking software Globus on IBM platform. The bank already offers unique service such as Himal Remit, SMS Banking. Pre-paid credit cards and interest banking to customers and will be introducing more services like these in near future. It seems to head tower the motto of 'Banking is done with a difference, uplifting the desires of thousands of such clients who are the followers of dynamics of today's world. The HBL is committed to be a bank which has 'The power to lead'.

Vision: HBL holds of a vision to become a leading bank of the country by providing premium product and services to the customers, thus ensuring attractive and substantial returns to the stake holders of the bank.

Mission: HBL mission is to become preferred provider of quality financial services in the country. There are two components in the mission of the bank; preferred provider and quality financial services.

Objectives: HBL objectives are to become the bank of first choice.

Everest Bank Ltd. (EBL)

Banking sector has always been competitive. To succeed they must perform well and to perform well their management should be as smooth as smooth as silk. EBL highly concerns on its smooth management. They know how to respond to a continuously changing consumer needs. They have been practicing the art of market oriented strategic planning. They are heavily commented to marketing management and strongly consumer focused. They are dedicated to identify and satisfy consumer's needs and expectations.

EBL is keeping on providing fabulous services and facilities to its consumer. They have settled all their branches offices in easily accessible locations. They have tried their best to provide sufficient parking and consumer area for the comfort of their clients. Their interior look is impressive. The frontline staffs are responsive and co-operative. Their human resources are competent and well managed. They exhibit very good operation between marketing operations and human resources areas.

The EBL management always seeks offering new services to fulfil the needs of the customers from different segments of the society. They are quite innovative and have recently introduce different types of loans like home equity loan, loan against mortgage of Immovable Property, Loan Against life Insurance Policy etc.

Even in past years they introduced different types of customer friendly schemes, which became very popular and effective. They have always been consumer oriented.

EBL has opened its representative in New Delhi, India to facilitate with easy banking transactions to all those Nepalese working or residing there and also for effective remittance and trade operations between Nepal and India. It has maintained the largest network among wrong the private sectors banks in Nepal.

Concerning the need and convenience of the customers, EBL is committed to stay up to date with the latest technologies. It has been providing ATM services and in additional has made an agreement with smart choice Technology (SCT) hence enabling its customers to withdraw money from more than 64 different ATM counters and also accessing its valued customer to many SCT points of sales. It is offering 365 days banking facilities. It believes that the success and failure of any organization depend upon the knowledge, skills competency and motivation of its human resources. Thus the bank has considered on providing necessary training to their staffs. Its gas tried its best to keep high level of human resource motivation and taken consideration on certain the feeling of own ness amongst its staffs. EBL organized management development program for its manager and officers to develop positive attitude. EBL have been announcing 'Best

Branch awarding program' which has shown positive signs on well performance amongst its branches.

Corporate Vision:

Evolve and position the bank as a progressive, cost effective and customer friendly institution providing comprehensive financial and related services, Integrating frontiers of technology and servicing various segment of society, committed to excellence in serving the public and also excelling in corporate values.

Corporate Mission:

Provide excellent professional services and improve its position as a leader in the field of financial related services. Build and maintain a team motivated and committed work force with high work ethos; use latest technology aided at customer satisfaction and act as an effective catalyst for socio-economic development.

Branches of EBL are : Baneshwor main Branch, New Road Branch, Taku Branch, Lazimpat Branch, Head office, Chabahil Branch, Satungal Branch, Biratnagar Branch, Duhabi Branch, Janakpur Branch, Birgunj Branch, ICB (Dry pert), Simara Branch, Pokhara Branch, Pulchowk Branch, Butwal Branch, Bhairawa Branch, Dhangadhi Branch, Naya Bazaar KTM, Birtamod Branch, Baglung Branch and Damauli Branch.

1.3 Statements of the Problems

Joint venture banks with the help of their quality and prompt service are becoming indispensable part of the economy of Nepal. Influencing from the success of Standard Chartered Bank, Himalayan Bank, and Everest Bank Ltd, many new joint ventures banks have been introduced in Nepal, which is one side shows the good sign of economy but on the other side due to such growth in number of banks and financial companies in a small developing country there might be an unhealthy competition between them.

No doubt, bank is a monetary institutional vehicle for domestic resource mobilization of the country. Government of Nepal allowed opening joint ventures banks to operate in the country for national development. The joint venture banks have been

operating well from their very establishment. Their experiences on international banking prompt and computerized services, professional attitude are factors for their rapid progress. They have been growing from weakness and inefficiency of domestic commercial banks. These banks have succeeded to capture a remarkable market share of Nepalese banking sector of financial services industry in a relatively short period of time.

Each and every organization needs cash in order to handle daily business activities, it has to maintain liquidity position to run smoothly, as discussed earlier, joint venture banks in Nepal are running smoothly from their establishment and they are achieving tremendous success, voluminous profit and reputation in national and international markets. To answer the question somehow, an analysis of their cash flow is necessary.

According practices should be uniform both within and among corporation or other organizations. Ideally, financial reports of an enterprise should be readily comparable with those of another. In this regards, do these banks prepare the financial statement as per the provision made in the NAS.

The main area of the study is to find out the financial health of these two banks comparatively as well as whether the financial statement prepared by these banks conforms to NAS. That means, the area of the study goes on to answer the following questions.

-) Whose financial health is better in terms of liquidity position?
-) Whose cash from operating activities are higher i.e. able to meet the current obligation within an accounting year?
-) Are they able to meet the short and long term obligation on stipulated period of time?

Therefore, an attempt to evaluate their financial health is studied with a view to find out whether the banks are economically and financially strong or not and the study tries to find out the comparative strength and weakness of their tow joint venture banks as well as to examine the cash flows statement of HBL and EBL at par of NAS.

1.4 Objectives of the Study

The general objective of this dissertation is to evaluate and compare the cash flow statement of Himalayan Bank and Everest bank of Nepal. The suitable and decisive advice have been recommended in the basis of findings from the study to the concerned authorities for their further enhancement. The specific goals of this study are mentioned below.

-) To analyze the cash flow analysis i.e. operating investing and financing activities of these two joint venture commercial banks.
-) To examine the liquidity position of HBL and Everest Bank Ltd.
-) To analyze the profitability situation of selected commercial banks.

1.5 Significance of the Study

Commercial bank collects the scattered savings of the community and after minds it distributes these savings in terms of credit for productive use. Hence bank must utilize their resources properly. Failure of the banks in collecting deposit can make loss of profitable opportunities. The first and very important responsibility of the commercial banks before taking any investment is to maintain sufficient liquidity position. To maintain sufficient liquidity position the bank should kept optimum amount of cash. Similarly they must have adequate equity capital in their optimal capital structure in order to break the banks from liquidation. The absolute figures reported in the financial statement do not provide the meaningful understanding of the performance and financial position of the banks. The statement of cash flows presents the same information ion a different manners so that the decision maker comes to know how much cash has know how much cash has increased or decreased in operating investing and financial activities.

As we know that short term creditors are more concerned with the firm's short term solvency position likewise management of the bank is invested for the long term survival and the share holders of the banks are more concerned with the profitability aspect or the profit earning capacity of the banks.

The significances of the study areas follow.

-) It has great significance since the study focus on financial health of selected joint venture banks.
-) It will be valuable for the share holder, management of the banks short term and long term creditors as they are the users of an enterprise financial statement.
-) It will provide information to the general public regarding to financial position.
-) It will be helpful to those scholars studying profit planning and control of these two commercial banks. Similarly, students conducting the research on cash or cash equivalent can take this study as guide.
-) It will be significantly helpful to the policy markers, government and control bank to formulate the commercial banking policy.

1.6 Limitations of the Study

This study attempts to evaluate the comparative cash flow analysis of these two joint venture foreign commercial bank. The present study is not free from limitation.

The limitations of study are as follows.

-) The study is confined only to cash flows analysis of HBL and EBL ltd.
-) The study only covers the last five years data from 2062/063 to 2066/067. So the conclusion drawn upon as per five year data. The study mostly is based on the primary and secondary data published by these banks.
-) The conclusion drawn depends upon the reliability of data provided.
-) The research was done as per the objectives. Therefore it may not be sufficient to draw conclusions beyond the objectives.
-) This research is done as per the requirement of master of business studies.
-) The results that we calculated may have little difference due to the time lag in establishment organizational structure of the study.

1.7 Organization of the Study

The present study is organized in such a way that the stated objectives can easily be fulfilled. The structure of the research will try to analyze the study in a systematic way. The study report has presented the systematic presentation and finding of the research. The study report is derived in five chapters which are as follows:

Chapter - I - Introduction

This chapter is the introductory framework that includes background of study, brief profiles of banks under study statement of the problem, objective of the study, significance of the study, limitation of the study.

Chapter - II - Review of Literature

This chapter reviews the existing literature in the relevant areas, mainly includes the fundamental concept, Nepal accounting standards on cash flows statement and brief review of previous research work.

Chapter - III - Research Methodology

This chapter deals with research methodology that includes research design, data collection and the method of analysis and research variable.

Chapter - IV - Presentation and Analysis of Data

This chapter deals with the presentation and analysis of relevant data and information. For this purpose various financial and statistical tools have been used to analyze and interpret the result. Major findings of this research are also presented in this chapter.

Chapter - V - Summary, Conclusion and Recommendations.

This chapter is the final chapter of the study that includes summary of the study that includes summary of the study, conclusion and recommendations, Bibliography, appendix and other supporting documents have been also incorporated at the end of the study.

CHAPTER –II

REVIEW OF LITERATURE

This chapter is mainly based on previous books, journals, bulletins, reports, news, statements, thesis etc. that are indirectly related for literature review, many writers have tried to focus on this subject since many years.

2.1 Financial Statements

Financial information is required for financial planning, analysis and decision making. Accounting system of a firm is the main source of financial information. The accounting system helps to accumulate measure and communicate financial information to various uses for making economic decisions. The users of financial information include where, creditors, managers, employees, customers, suppliers, government and society.

The financial statements- balance sheet and profit and loss account are the basic instruments of an accounting system to communicate financial information to users. Balance sheet shows the financial condition or the state of a firm at a particular point of time. More specifically balance sheet contains detailed information about the firm's assets and liabilities. An asset represents economic resources possessed by a firm. Fixed are used in business for more than an accounting period of one year while current assets are converted in to cash within an accounting period. Liabilities are amounts payable by the firm. Liabilities payable within an accounting period are called current liabilities and those payable after a year or so are called long-term liabilities. Funds contributed by the owner's equity. Thus the balance sheet gives a concise summary of the firm's resources and obligations, and measures the firm's liquidity and solvency.

The profit and loss account (or income statement) shows the profitability of the firm by giving details about the revenues and expenses. Revenues are the benefits which customers contribute to the firm in exchange for goods and services provided by the firm. The cost of the economic resources used in providing goods and services the customers is

called expense. Profit is the difference between revenues and expenses. Thus, the basic purpose of the profit and loss account is to provide the concise summary of the firm's revenues and expenses during a period of time and measures its profitability, (Pandey, 1995:51)

Therefore, the financial statements contain summarized information of the firm's financial affairs, organized systematically. They are the means to present the firm's financial situation to users. A preparation of the financial statements is the responsibility of the top management. As these statement are used by the investors and the financial analysts to examine the firm's performance in order to make investment decisions, it should be prepared very carefully and contain as much information as possible, (Pandey, 1995:29-30)

2.2 Uses of the Statement of Changes in Financial Position

The statement of changes in financial position has an analytical value as well as it is an important planning tool. It gives the clear picture of the causes of change in the company's working capital or cash flow position. It indicates the financing and investment policies followed by the company in the past. The statement reveals the non-current assets acquired by the company, and the manner in which they are financed from the internal and external sources. The statement is useful as a tool of historical analysis as it helps to answer questions which are given below:

-) What is the liquidity position of the fire?
-) What are the causes of changes in the firm's working capital or cash position?
-) What fixed assets are acquired by the firm?
-) Did the firm pay divided to its shareholders or not? If not, was it due to the shortage of funds?
-) How much of the firm's working capital needs were met by the funds generated from current operations?
-) Did the firm use external sources of finances to meet its need of funds?
-) If the external financing was used, what ratio of debt and equity was maintained?

-) Did the firm sell any of its non-current assets? If so, what were the proceeds from such sales?
-) Could the firm pay its long-term debt as per the schedules?
-) What were the significant investment and financing activities of the firm which did not involve working capital? (Pandey, 1995: 73-74)

2.3 Financial Results: Accrual versus cash basis

Whether we are an investor, a manager or a tax payer, we need to understand the difference between cash flow and the accrual basis of accounting. Accrual based information is used in determining the profitability and the financial position of the business-especially a business of considerable financial strength. But in evaluating such factors as solvency, the prospects for short-term survival and the ability of a business to seize investment opportunities, cash flow may be more relevant than accrual based measurements.

One important matter to be understood is that, in business a high turnover or a high profit shown by the income statement should not be viewed as a high significant of growth. Suppose a new manager comes and allows a related credit policy, sales and consequently the profit also would surprisingly jump upward during this fiscal year. But in future if the accounts receivable becomes uncollectible, all of the hopes will disappear. Therefore, just to generate enough sales revenue is not enough. Collection of the cash flows from the customers matters more. Otherwise, one should announce credit sales to everybody and have a queue of customers in the shop waiting for goods. What's there is salesmanship? We got a surprise market share just by adopting a liberal credit policy. Therefore, the information of income statement cannot depict the operating performance of the firm unless we tally it with the information in the cash flow statement. The statement of cash flow gives the amount of cash actually received during the period as a result of sales activities, regardless when the revenues were earned. The major deficiency of the accrual basis of accounting is that, it overstates the gross profit as well as net profit figures and it is the pessimistic form of accounting.

We must also adjust the balance sheet and income statement accounts when information is available to do so. For example, some companies include depreciation expenses in COGS by the amount of depreciation expenses and create a "depreciation expenses account and correctly shown the cash invested in property. The reported depreciation expense should also be verified by reference. These references provide detail of the components of the change in the accumulated depreciation of the period, including effects of acquisitions, divestments and foreign operations. Sometimes footnote data provide breakdown of aggregate balance sheet accounts permitting final breakdowns of assets and liabilities, (Bajracharya, et al., 2004:905-906)

2.4 Cash flows Statement

In financial accounting, a cash flow statement or statement of cash flows is a financial statement that shows a company's incoming and outgoing money (Sources and uses of Cash) during a time period (Often monthly or quarterly or yearly). The statement shows how changes in balance sheet and income accounts affected cash and cash equivalents, and breaks the analysis down according to operating, investing and financing activities. As an analytical tool the statement of cash flows is useful in determining the short-term viability of company, particularly its ability to pay bills. International Accounting Standard 7 (IAS 7), is the International Accounting Standard that deals with Cash flows statements.

Accounting personnel, who need to know whether the organization will be able to cover pay bill and other immediate expenses. Potential lenders or creditors, who want a clear picture of a company's ability to repay. Potential investors who need to judge whether the company is financially sound. Potential employees or contractors, who need to know whether the company will be able to afford compensation.

The cash flow statement was previously known as the statement of changes in financial position or flow of funds statement. The cash flow statement reflects a firm's liquidity or solvency.

The balance sheet is a snapshot of a firm's financial resources and obligations at a single point in time and the income statement summarizes a firm's financial transactions over an interval of time. These two financial statements reflect the accrual basis accounting used by firms to match revenues with the expenses associated with generating those revenues. The cash flow statement includes only inflows and outflows of cash and cash equivalents: it excludes transactions that do not directly affect cash receipts and payments. These non-cash transactions include depreciation and write-offs on bad debts. The cash flow statement is a cash basis report on three types of financial activities; operating activities, investing activities and financing activities. Non-cash activities are usually reported in foot notes (*www.cashflow.com*)

2.5 Importance of Cash Flow analysis

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 the users of the statement 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 difference between income and associated cash receipts and payments.
- d. Assess both the cash and non-cash aspects of a company's investment and financial transaction.
- e. Assess of 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 adopt during a period 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 many companies operate at a loss and still generate huge inflows of cash from operations?
- c. How was the company's growth and expansion financed?
- d. Did the company acquire any long term investment or other income producing assets?
- 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? (Munakarmi, 2057:3.160-3.161)

2.6 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. It's 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 in successes loss or short of cash balance even if the business in 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 price its cash position. It can plan its policy and make decisions regarding the redemption of debentures purchased of fixed assets and so on. (www.cashflow.com)

2.7 Funds Flow Analysis

The main purpose of funds flow analysis is to get clear information about the financial transactions that being changes in the companies resources. 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 tools which answers the following questions.

- a. From which source fund received?
- b. How many funds received?
- c. For what purpose the fund is used? (Gupta, 1995:282-296)

2.8 Difference between Cash Flow and Funds Flow Statement

As pointed out else where, the term 'Fund' is used to denote 'cash' or 'working capital' or 'total resources'. In a narrow sense, it indicates 'cash' and the statement of changes in financial position prepared on cash basis are called cash flow statement. Similarly a statement of changes in financial position prepared on the basis of working capital concept of fund is known as fund flow statement. From this point of view, both statements are similar in nature and purpose. However, there are some basic differences between the row and following points indicate such differences.

-) Cash flow statement is based on the narrow concept of fund i.e., cash only, which is only one component of working capital. Others are debtors, stock, temporary investments, bills receivables, etc. but fund flow statement is based on a wider concept of fund, i.e., working capital.
-) Cash flow statement depicts only the chafes is cash position, while fund flow statement is concerned with the changes in working capital between tow balance sheet dates.

) Cash flow statement is based on 'cash basis of accounting', while fund flow statement gives recognition to 'Accrual basis of accounting'. Adjustment for prepaid and outstanding incomes and expenditures are to be made in the case of cash flow statement in order to convert the data from accrual to cash basis. No such adjustments are needed in the case of fund flow statement.

2.9 Preparation of a Statement of Cash Flows

Collections from sales to customer are almost always the major operating activity that increases cash. Correspondingly, disbursement for purchase of goods to be sold and operating expenses are almost always the major operating cash outflows. The excess of collections over disbursements is the net cash provided by operating activities. There are two ways to compute this amount; the direct method and the indirect method.

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 the cash collected from customers and deducted cash used for various expense. That is, major class of gross cash receipts and gross cash payments are disclosed following steps involved under direct approach to cash flow statement.

Determination of Cash Flow from Operating Activities

The operating activities section show the cash effects of revenue and expenses transactions stated in another way, the operating activities section of the statement of cash flows includes the cash effects of those transactions, which are reported in the income statement. To illustrate this concept, consider the effects of credit sales. Credit sales are reported in the income statement in the periods when the sales occur. But the cash effects occur later when the receivables are collected in cash. If these events occur in different accounting periods, the income statement and the operating activities section of the statement of cash flows will differ. Similar differences may exist between the recognition of an expense and the related cash payments. It is the method recommended by the FASB. Most of one assignment material is based on the direct method

Cash flows from operating activities include

Cash Receipts	Cash Payments
Collections from customers for sale of goods and services.	Payment to suppliers of merchandise and services including payments to employee, rent.
Interest and dividend received	Payment of interest
Other receipts from operations for example rent from subletting	Payment of income taxes and other expenditures relating to operations; for example, payments of insurance, etc.
Cash receipts from extra ordinary activities	Cash payments for extra – ordinary activities.

Notice that receipts and payments of interest are classified as operating activities, not as investing or financing activities.

Determination of Cash Flow from Investing Activities

The primary component of investment cash flows is the capital expenditure for long-term assets such as plant and machinery. This amount trends in gross capital expenditures may contain useful insights in to management plans. Segment disclosures should be monitored for differential investment patterns.

Cash flow relating to investing activities presents the cash effects of transaction involving plant assets, intangible assets, and investments. They include:

Cash Receipts	Cash Payments
Cash proceed from selling investments and plant assets	Payments to acquire investments, plant assets, land and building, etc
Cash proceeds from collecting principal amounts on loans	Amounts advanced to borrower.

Determination of Cash Flow from Financing Activities

Inflows from additional borrowing, repayment of debt, dividend payments and equity financing are all components of financing cash flow. Equity financing is determined by analyzing the change in stockholder's equity, breaking out the effects of

-) Net Income
-) Dividends declared
-) Share issued or repurchased
-) Changes in valuation accounts included in equity

Cash flow classified as financing activities include the following items that result from debt and equity financing transaction.

Cash Receipts	Cash Repayments
proceed from both short-term and long-term borrowings	Repayments of amounts borrowed (excluding interest payments)
Cash received from owners (for example from issuing stocks)	Payments to owners, such as cash dividends

Repayment of amounts borrowed refers to repayment of loans, not to the payment made on accounts payable or accrued liabilities. Payments of accounts payable and of accrued liabilities are considered payments to suppliers of merchandise and services. There are classified as cash outflows from operating activities. Also, remember that all interest payments are classified as operating activities,(Bajracharya, 2004:920-921)

The last step is to summarize the cash flows from operating, investing and financing activities which is shown below;

Specimen of cash flow statement under direct approach

	Rs	Rs
<u>Cash sales and collection from customers:</u>		
Net sales	
Add : Opening debtors/ account receivable	
Add: Bad debt recovered	
Add : Current year's doubtful debts	(.....)	
Less : Closing debtors/receivable	(.....)	
Less: Last Year's doubtful debts	<u>(.....)</u>
Less : Current year bad debts		
<u>Cash Purchase and Payment to suppliers:</u>		
Net purchase (merchandise/ material suppliers/ supplies cost of goods sold)	(.....)	
Add: Closing inventories	(.....)	
Add: Opening creditors/ bills payable	(.....)	
Add: Purchase related expenses	(.....)	
Less: Opening inventories	(.....)	
Less: Ending creditors/bills payable	<u>.....</u>	(.....)
<u>Payment to employees and other operating expenses:</u>		
Direct labour	(.....)	
Add: Manufacturing overhead	(.....)	
Add : General expenses	(.....)	
Add : Selling expenses	(.....)	
Add : Opening outstanding expenses	(.....)	
Add : Closing prepayment	(.....)	
Less: Closing outstanding expenses	(.....)	
Less : Opening prepayments	<u>.....</u>	(.....)
<u>Payment of interest</u>		
Interest paid	(.....)	
Add: Opening outstanding	(.....)	

Less: Ending outstanding	(.....)	(.....)
<u>Payment of income tax</u>	(.....)	
Income tax paid	(.....)	
Add: Opening tax payable	(.....)	
Less : Closing tax payable	<u>.....</u>	(.....)
<u>Interest and dividend received :</u>	(.....)	
Interest received	(.....)	
Dividend received	(.....)	
Add: Opening interest receivable	(.....)	
Less : Closing interest receivable	<u>(.....)</u>	<u>.....</u>
Operating cash flow before extra ordinary items		.....
<u>Extra ordinary items – short-term borrowing :</u>	.....
Ending Bank Overdraft	.....
Add: Opening bank/ overdraft		
Net cash flow from operating activity		
<u>Extra ordinary items- short term borrowing :</u>		
Ending Bank overdraft	.....
Add: Ending bank loan	.....
Less : Opening bank / overdraft	<u>(.....)</u>	<u>.....</u>
Net cash flow from operating activity		.....
<u>Cash flows from investing activities:</u>		
Purchase of plant and other productive assets		
Purchase of investment	(.....)	
Short-term investment purchase	(.....)	
(other than cash equivalents)	(.....)	
Making loan	(.....)	
Sales of assets and investments	(.....)	
Sales of short-term investments	.....
Collection of principle amount of loan	.....

Net cash provided or used by investing activities	.....	.....
<u>Cash flows from financing activities:</u>	.....
Cash from issued of share and debenture (less discount)	.....
Share premium	.....
Cash from long-term loan	.....
Cash from short-term loan	(.....)	
Retirement of debentures	(.....)	
Payment dividend	(.....)	
Payment dividend	(.....)	
Repayment of short-term loan		.....
Repayment of loan term loan		.....
Net cash provided or used in financing activities		.....
Net increase/decrease in cash and cash equivalent		.....
Add: Cash balance at the beginning		
Cash and cash equivalent at the end		

Source: (Munakarmi, 2057:3. 175-3.177)

2.10 Critical Importance of cash flows from operating activities

In the long run, a company must have a strategy that generates positive net cash flows from its operating activities if it is to survive. A business with negative cash flows from operations will not be able to raise cash from other sources indefinitely. In fact, the ability of a business to raise cash through financing activities is highly dependent as if ability to generate cash from its normal business operations. Creditors and stockholder are reluctant to invest in a company that does not generate enough cash from operating activities to ensure a prompt payment of maturing liabilities, interest and dividends. Neither can company expect to survive indefinitely on cash provided by operating activities. At some point, plant asset, investments and other assets available for sale will be depleted.

The term listed in the income statement and a balance sheet represents the balances of specific general ledger accounts. Notice, however, that the captions used in

the statement of cash flows do not corresponds to specific ledger accounts. A statement of flows summarizes cash transaction during the accounting period. The general ledger, however, is maintained on the accrual basis of accrual basis of accounting, not on the cash basis. Thus, an amount such as “cash received from customers” doesn’t appear as the balance in a specific ledger account but it is derived from one or more such accounts.

In a small business, it may be practical to prepare a statement of cash flows directly from the specific journal for cash receipts and cash payments. For most business, however it is easier to prepare the statement of cash flows by examining the income statement and the changes during the period on all of the balance sheet accounts except for cash. This approach is based on the double entry system of accounting. Any transaction affecting cash must also affect some other assets, liability or owner’s equity account. The change in these other accounts determines the nature of the cash transaction. (Bajracharya, 2004:922-923)

2.11 Indirect Approaches to cash flows statement

Instead of using the direct method of preparing statement of cash flows, accountants often find it convenient to compute cash flows from operating activities by the indirect method. The indirect method reconciles net income to the net cash provided by operating activities. It also shows the link between the income statement and the statement of cash flows. Under indirect method of cash flow statement, there is only change in cash flows from operating activities. Other investing and financing activities are as same with the direct method of preparing cash flows statement. Net cash flows from operating activities under the indirect method are as follows:

Net income for the year/Difference in retained earnings -----

Add:

-) Expenses that do not required cash outlays in the period,
E.g. depreciation expenses -----
-) A decrease in operating current assets e.g. Account Receivable prepaid
Inventory etc., but not the notes receivable -----
-) Increase in operating current liabilities e.g.. Accounts payables
Accrued expenses, interest payable etc. but not the notes payables -----
-) operating cash inflows not recorded as revenue in the period, e.g., advances from
customers -----
-) Non-operating losses deducted in the determination of net income -----

Less:

-) Revenue that do not result in cash inflow in the period -----
-) Operating cash outflows not recorded as expense in the period -----
-) Increase in operating current assets, e.g. account receivable prepared, Inventory
etc but not the notes receivable -----
-) A decrease in the operating current liabilities e.g. account payables
Accrued expenses, interest payable, etc, but not the notes payable -----
-) Non-operating gains included in the determination of net income
E.g. gain on sales of properties, long term investment, etc -----
-) Net cash flows from operating activities -----

Comparison between the Direct and indirect methods

There are two methods of computing cash flows from operating activities: Direct and Indirect Methods. Though the direct method is highly appreciated the indirect method is most often used in annual reports. It differs from the statement of cash flows in terms of how cash flow from operations is computed under the indirect method, the starting point is the net income.

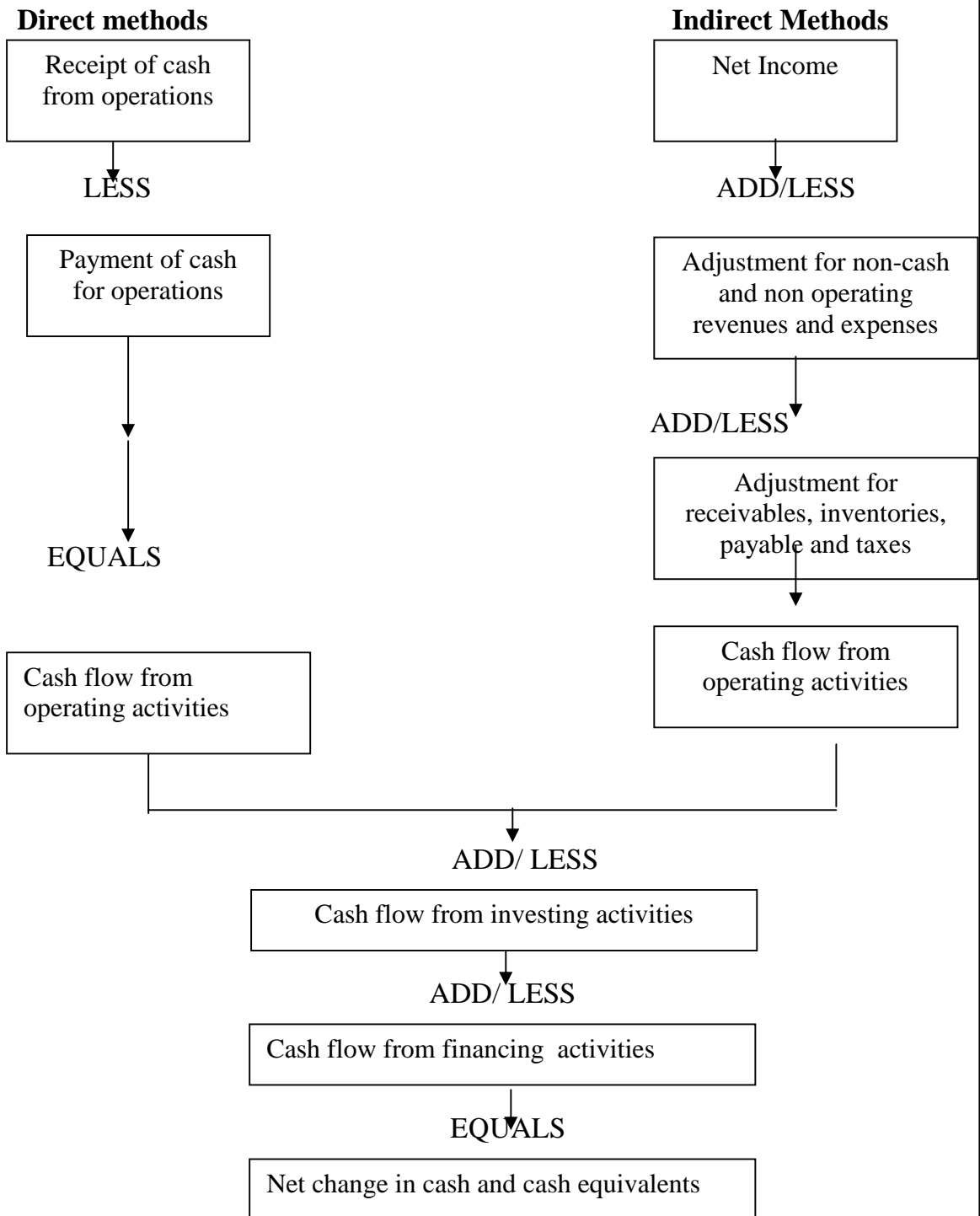
Direct Versus Indirect Methods

First and the most important thing to be understood, regarding the direct and the indirect methods of the statement of cash flows, is that it is only for computing the cash flows from the operating activities. The other two sections of the statement of cash flows; the cash flows from operating activities and the cash flows from financing activities, remain unchanged, computation of net cash flows from operating activities by the indirect method looks quite different from the direct method of computation. However, both the methods result in the same net cash flows from operating activities. Under the indirect method, the computation being with accrual based net income (as shown in the income statement) and then shows the various adjustments necessary to reconcile net income with net cash flows from operating activities. In the contrast, the direct method adopts the cash basis for the revenues and expenses recognition from the very beginning of computation. (Pandey, 1995:29-30)

The two methods of computing net cash flows from operating activities but cash flows from operating activities are merely the choices available with the accountant. However, the direct method of computing and reporting the net cash flows from operating activities is preferred and encouraged by various accounting standards. The direct method shows the specific cash inflows and outflows comprising the operating activities of the business. The FASB has also expressed its preference for the direct method but it also allows companies to use an alternative called the indirect method.

Both the methods are based on the same accounting data and both result in the same net cash flow. Also, the computations underlying both the methods are quite similar. Both methods convert accrual-based income statement amounts into cash flows by adjusting the changes in related balance sheet accounts. : (Bajracharya , 2004: 908-911)

2.12 Statement of Cash Flows: Direct Versus Indirect Methods



Source: (Bajracharya P., 2004: 909-910)

2.13 Cash Flow statement under NRB Directives for bank and financial institution

There is not any right way to prepare cash flow statement beside direct and indirect method but business organization attempt to show the actual outflow and inflow of cash or the position of cash in the specified time period according to the rules and regulations. Banks and financial institutions have to prepare their financial report including cash flow statement, according to the directives, rules and regulations by NRB (Nepal Rastra Bank) in the format prescribed by accounting standard board. The format of cash flow which is required to prepare by banks and financial institutions according to the directives of NRB is as follows:

Cash Flow Statement		
For the period Shrawan 1, 2064/ to Ashad 32, 2065		
Previous Year Rs.	Particulars	This Year
	a) Cash flow from operating Activities	
	1. Cash Received	
	1.1 Interest Income	
	1.2 Commission and Discount income	
	1.3 Income from Foreign Exchange transaction	
	1.4 Recovery of loan written off	
	1.5 Other incomes	
	2. Cash Payment	
	2.1 Interest Expenses	
	2.2 Staff Expenses	
	2.3 Staff Expenses	
	2.3 Office Overhead Expenses	
	2.4 Income Tax paid	
	2.5 Other Expenses	
	Increase/(Decrease)	
	1. (Increase) / Decrease in money at call and	
	Short Notice	
	2. (Increase) / Decrease in short term	
	investment	

	<p>3. (Increase)/ Decrease in Loans, Advances and Bills purchase</p> <p>4. (Increase / Decrease in other Assets</p>	
	<p>Increase / (Decrease in other Assets</p> <p>1. Increase/ (Decrease) in Deposits</p> <p>2. Increase/ (Decrease) in certificates of Deposits</p> <p>3. Increase / (Dec.) inshore Term Borrowings</p> <p>4. Increase / (Decrease) in other Liabilities</p> <p>b) Cash Flow from investment Activities</p>	
	<p>1) (Increase) / Decrease in Long – term investment</p> <p>2) (Increase)/ decrease in Fixed Assets</p> <p>3) Interest income from long term investment</p> <p>4) Dividend income</p>	
	<p>c) Cash Flow from Financing Activities</p> <p>1. Increase/(Decrease) in Long term Borrowings (Bonds, Debentures etc)</p> <p>2. Increase/(Decrease) in Share capital</p> <p>3. Increase/(Decrease) in other liabilities</p> <p>4. Increase/(Decrease) in Refinance/ facilities received from NRB.</p>	
	<p>d) Income / Loss from change in exchange rate in Cash & bank balances.</p>	
	<p>e) Current year's Cash Flow from All Activities</p>	
	<p>f) Opening Balance of Cash and Bank Balances</p>	
	<p>g) Closing Balance of cash and Bank Balances.</p>	

2.14 Review of Articles

Cash flows statement

Munakarmi (2004) in his article called cash flow analysis,” it is an integral part of financial planning”, stated that importance of cash in organization by calling it the life blood of business enterprise. According to him it is the fuel that keeps a business alive so a business must have an 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 position of cash. Analysis of events and transaction that affect the cash position of the company is termed cash flow analysis.

Due to the increasing importance of cash flow analysis FASB stated that financial statements should include information about how a business obtains and spends cash about its borrowing and repayment activities about the sales and repurchase of its ownership securities about dividend payments and other distribution to its owners and about other factors that affect a company’s liquidation and solvency.

According to the article profits are accounting measures that may not reflect the economic realities of the firm that means profit can be manipulated and increasing profits will not always result in higher stock prices. Cash flow analysis not only recognizes profit but it also goes a little further and measures the actual cash available for the time. It is after all the available cash not the profit that determines the firm’s future investments and growth.

As the article stated further that recognizing the importance of the cash flow analysis financial accounting standard board issued financial statement standards no 95 and statement of cash flows in November 1987. This standard requires the business to include a statement of cash flows in all financial reports that contains balance sheets and income statements. The IAS has also replaced FASB and asked its entire members to present cash flow statement along with the balance sheet and income statement since 1992. as the article suggest following are the importance of cash flow statement.

Investment activities as the article stated include the lending money (investment) and collecting on loans buying and selling of productive assets that are expected to generate revenue in the future and buying selling securities not classified as cash equivalent are defined as short-term, highly liquid investment that are readily convertible to know amount of cash and must be sufficient close to its maturity data. Determinations of cash flow from investing activities requires the analysis of non- current items of comparative balance sheets, additional information and cash expenses non- operating incomes and expenses, statement relating to assets, investment in shares and debentures, short-term investment other than cash equivalent. (Pandey, 1995:2000)

Net cash form financing activities are determined by the flow of short term loans and overdrafts. There may be some non cash investing and financing payments and such payments are not reported in the statement of cash flows. The FASB concluded that non cash portions of investing and financing activities should be reported in the statement of cash flow. However, the board recognized that non cash investing and financing activities are important events and so they should be disclosed by preparing a separate schedule for such activates. (Bajrachara: 2000)

As per the format of cash flow statement the article stated further that section seven of Nepal Company Act 2053 B.S. mentioned the company's books of accounts and accounting system to be adopted by the company.

Article 83 of the act is related to annual financial reporting statements which includes balance sheets income statements and cash flow statement, and article 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 it should 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 plan helps to avoid cash flow problems and also helps to keep borrowing costs as low as possible.

2.15 Review of previous Thesis

Few of the researches in the area of cash flow analysis in Nepalese. Context is made but many of the researchers have been made in the area of financial performance and profitability situation of joint venture banks. As financial performance and profitability situation covers some of the aspects of cash flow statement, researches made in these areas are taken into consideration for the sake of review to examine the financial performance of joint venture banks. Similarly, researches made in the area of Nepal government accounting and auditing standard, compliance of IASs in Nepal, Nepal Accounting Standards, Practices, Problems and Issues. An attempt is made here to review some of the researches, which have been submitted in cash flow analysis, financial performance and profitability situation of financial institution, Nepal government accounting and auditing standard, Compliance of IASs in Nepal and Nepal Accounting Standards: Practices, Problems and Issues in the context of Nepal.

Bista (2054) had conducted a research in the topic “Comparative Financial Analysis of Joint Venture Banks – A comparative study of Nabil Bank Ltd., Himalayan Bank Ltd. and Nepal Bangladesh Bank Ltd”. This research of Mr. Bista was centered with the study of financial position of these three banks, evaluation of trend of total deposit and loan and investment pattern.

Dangi (2004) had conducted a research in the topic “Comparative Study of Financial Performance of standard chartered Bank, Nabil Bank and Himalayan Bank”. The objective of this research was to analyze the financial strengths and weaknesses and to evaluate financial positions of the sample financial institutions.

Shrestha (2004) had conducted a research in the topic “Comparative study on investment practice of joint venture commercial Banks” with special reference to Nabil Bank Ltd. Standard Chartered Bank Nepal Ltd. and Nepal SBI Bank Ltd. This research was mainly centered to evaluate the liquidity management, assets management efficiency profitability, risk position and investment practice of these commercial banks.

Ghimire (2005) had conducted a research in the topic “Profitability Analysis of Nabil Bank Ltd. with comparison to standard Chartered Bank Nepal Ltd.” This research was mainly centered to evaluate the soundness of profitability and operating efficiency of NBL in comparison with that of SCBNLL

Chhetri (2006) had conducted a research in the topic “Profitability Analysis of Standard Chartered Bank Nepal Ltd. and Nabil Bank Ltd.” This research was done to evaluate the soundness of profitability , capital structure, capital adequacy position and to study the strengths and weaknesses as well as opportunities and threats of these banks in terms of financial tools.

Bista (2006) had conducted a research in the topic “A study on financial performance of Nabil Bank Limited”. This research of Mr. Bista was mainly centered to analyze liquidity, leverage, activity, profitability and ownership ratios to study income and expenditure statements and to analyze the bankruptcy score of the bank by using the Altiman’s model.

2.16 Research Gap (Difference between the current Research and previous research.

There is a gap between the present research and previous researchers. Most of the researches conducted previously were on financial performance and profitability situation which were purely based on secondary data. Though, some of the researches in the area of cash flow statement were found, depth analysis like cash flow per share, cash flow margin, cash flow liquidity ratio were not used and also the data and other necessary information were taken from secondary sources. As the accounting is the language of business, it is required to be uniform through the business world. The accounting language used by all enterprises to another must be similar in order to have an efficient communication. Accounting practice should be uniform both within and among corporations or other organizations. Financial reports of enterprises should be readily comparable with those of another.

No doubt, accounting standards are not the bad evil; they are granting of loan to an enterprise. Recently, Nepal has shown interest in accounting standards. So far, eleven accounting standards have been issued. Six of them have been implemented. But no research has been conducted from government side nor from private sectors regarding where do the financial institutions conform to Nepal accounting standards while preparing the different books of accounts. Similarly, there is no any research done on comparative study of cash flow analysis of joint venture banks in Nepal. So, on this topic by using primary and secondary data both in Nepalese context. Considering above aspect, this study will be fruitful to those interested person, scholar, businessman, students, civil society and Government for academically as well as policy perspectives.

CHAPTER – III

RESEARCH METHODOLOGY

This chapter describes the methodology employed in this study. Research methodology is a way to systematically solve the research problem. In other words research methodology describes the methods process applied in the entire aspect of the study. This chapter describes research design, population, sampling, procedure and sources of data and analysis of data.

3.1 Research Design

As per the nature of study, descriptive and analytical research design has been used.

3.2 Sources of Data

The study is conducted on the basis of the primary and secondary data. The data relating to the profit, cash flows etc. (i.e., secondary data's) was directly obtained from the concerned bank's annual reports and the other needed information. Apart from the secondary data, primary data were collected through questionnaire, interview and discussions.

3.3 Population and Samples

Altogether, 31 commercial banks functioning all over the kingdom of Nepal were considered as the total population. Out of them, Himalayan Bank and Everest Bank Ltd were considered as the samples using judgmental basis for the study.

3.4 Data Gathering Procedures

As the study was also based on primary data, the primary information were collected by developing a scheduled questionnaire and distributing it to two groups of respondents (i.e., NRB directors, respondents from HBL and EBL and members of NAS and ICAN, registered CAs and other CAs from RBB) to find their opinion. To check whether the questions could be understood or not by the respondents questionnaires were

distributed to each group of respondents for pretest. As positive responses were received, questionnaires were distributed to rest of the respondents after words. To get more reliable information, discussions were also conducted with each group of panels. Information collected in this way was noted down to use during analysis and interpretation of data.

3.5 Data Processing Procedures

Data collected from questionnaire and concerned balance sheet annual reports were in raw form. They were classified and tabulated in the required form. Therefore, for the sake of analysis of data, different financial and statistical tools with descriptive and analytical approaches have been used.

3.5.1 Financial Tools

Under financial tools, the following ratios were calculated

-) Operating cash flow per share
-) Operating cash flow to Total Net Income Ratio
-) Cash flow Liquidity Ratio

For the calculation of these financial tools, the following formulas were applied:

$$\text{Operating Cash Flow per Share} = \frac{\text{Net Cash provided by operating activities}}{\text{Average no. of common shares}}$$

$$\text{Cash flow margin} = \frac{\text{Net cash provided by operating activities}}{\text{Total Net Income}}$$

$$\text{Cash Flow liquidity ratio} = \frac{\text{Net Cash provided by operating activities plus cash and bank balances}}{\text{Current liability}}$$

3.5.2 Statistical Tools

Under this, the following tools were applied correlation coefficient

- a) Percentage and Ratio
- b) Correlation coefficient between Net Profit and Cash flows from operating activities.
- c) Rank Correlation coefficient between working capital and cash flows from operating activities.
- d) Regression

3.6 Research Variable

The part of the cash flow statement like cash from operating activities cash from investing activities, cash from financing activities, net profit, net profit income statement, balancing capital etc were the major research variable.

CHAPTER -IV

DATA PRESENTATION AND ANALYSIS

The basic objective of the research is to study the cash flows analysis of commercial banks in Nepal as well as to examine the cash flows. To meet the objectives, two banks i.e. HBL and EBL having head office in Kathmandu Valley which are in operation are taken as target population.

The secondary data obtained from these banks were in raw form. These data's were properly processed, tabulated and analyzed in order to calculate different statistical tools.

4.1 The Use of Cash Flow Information.

The statement of cash flow is a critical disclosure to a company's investors and creditors. Many investors focus on cash flow from operations rather than net income as their key statistic, similarly, many managers are concerned with cash flow from operations as they are with net income because they care about company's ability to pay its bills. There is the concern that accrual accounting can cover cash flow problems. The statement of cash flows provides investors, analysts, bankers, and other users with a valuable starting point as they attempt to evaluate a company's financial health from this point, these groups must decide how to use the information presented on the statement. They pay particular attention to the relationships among various items on the statement. As well as to other financial statement items. In fact, all the banks have to prepare cash flow statement according to the prescribed model by NRB rules, which typically involve a rearrangement of the items of the statement of cash flows to suit the needs of stakeholder. Now here are some examples of tools appropriate to use cash flow information which obviously facilitates to analyze the performance of cash flow of selected commercial banks.

Tools/ Ratios	Formula
Investment Deposit Ratio	Average Investment
Investment in Government Securities Ratio	Investment on Government Securities Total Deposit
Credit Deposit Ratio (activity Ratio)	$\frac{\text{Average on Govt Securities}}{\text{Total Deposit.}}$
Credit Deposit Ratio (activity Ratio)	$\frac{\text{Average Net Credit}}{\text{Average Total Deposit}}$
Debt Service Coverage Ratio	$\frac{\text{CFOA before interest and Tax}}{\text{Interest and principal payments}}$
CFOA to capital Expenditure Ratio	$\frac{\text{CFOA} \div \text{Total Dividends paid}}{\text{Cash Paid for Acquisitions}}$
Cash flow Adequacy Ratio	$\frac{\text{CFOA} \div \text{Capital Expenditure}}{\text{Average Amt of Debt maturing next five years}}$
Cash research Ratio	$\frac{\text{NRB Balance (local currency only)}}{\text{Local currency deposit} \div \text{margin deposit}}$
Cash and Bank Balance Ratio	$\frac{\text{Total Cash and Bank Balance}}{\text{Total Deposit}}$
Capital Adequacy Ratio	$\frac{\text{Total Capital Fund}}{\text{Total Risk, Weighted Assets}}$

(Sources: www.cashflow.com)

Investment Deposit Ratio :

These are the tool which provides numerical relation between the level of investment of a bank and its total deposit.

- 1. Investment in Government Securities Ratio:** Banks are also use to invest in Govt. Securities to be more liquid to fulfil the short term obligations.
- 2. Credit Deposit Ratio (Activity Ratio):** Credit deposit ratio is a tool which shows relation between deposit accepted and credit granted to the lenders by a bank.

3. **Debt. Service Coverage Ratio (DSCR) :** The debt. service coverage ratio of net operating income to debt payments on a piece of investment real estate.
4. **CFOA to Capital Expenditure Ratio:** The cash flow to capital expenditure ratio measure a bank's efforts to acquire long term purchases to better equip of self to do business.
5. **Cash flow Adequacy Ratio:** The cash flow adequacy measures here well the bank can cover the annual payments of all the long term annual debt with the cash flow from its operating activities.
6. **CFOA Per Share Ratio:** One measure of the relation worth of an investment in a company or in a bank is the ratio of the stock's market price per share to the bank's earnings per share (that is, the price/earning ratio).
7. **Cash Reserve Ratio:** Liquidity is bank's ability to generate cash quickly to meet its short obligations at areas on able cost. It reflects the short term financial strength of a bank. Liquidity of the ban shows the ability to solve one's payment.
8. **Cash and Bank Balance Ratio:** As we know from above that liquidity is the capacity is the capacity to meet the short term cash obligation by the banks.
9. **Capital Adequacy Ratio:** According to the directive issued by NRB, the bank capital has been categorized into two parts, core Capital and supplementary capital. The total of these two capitals is considered for calculating capital adequacy ratio

4.1.1 Cash Flow Analysis of Himalayan Bank Ltd.

Table 4.1

Ratios		2062/063	2063/064	2064/065	2065/066	2066/067
Investment Deposit Ratio	%	47.75	45.22	44.82	44.02	40.117
Investment in Government Securities	%	15.93	15.59	22.04	19.42	20.23
Credit Deposit Ratio	%	47.73	58.70	54.21	59.50	55.96
Debt Service Coverage Ratio	%	1.15	1.48	0.90	0.41	0.91
CFOA to Capital Expenditure Ratio	%	1.23	7.04	25.18	1.22	8.86
Cast flow Adequacy Ratio	%	0.19	0.45	1.51	2.09	2.70
CFOA per share Ratio	%	3.00	2.76	2.58	1.29	1.42
Cash Reserve Ratio	%	8.30	2.28	7.86	5.42	5.42
Cash and Bank Balance Ratio	%	7.53	9.09	8.12	6.48	5.85
Capital Adequacy Ratio	%	10.93	10.65	11.02	11.26	12.11

Trend line of Cash Flow Analysis of HBL

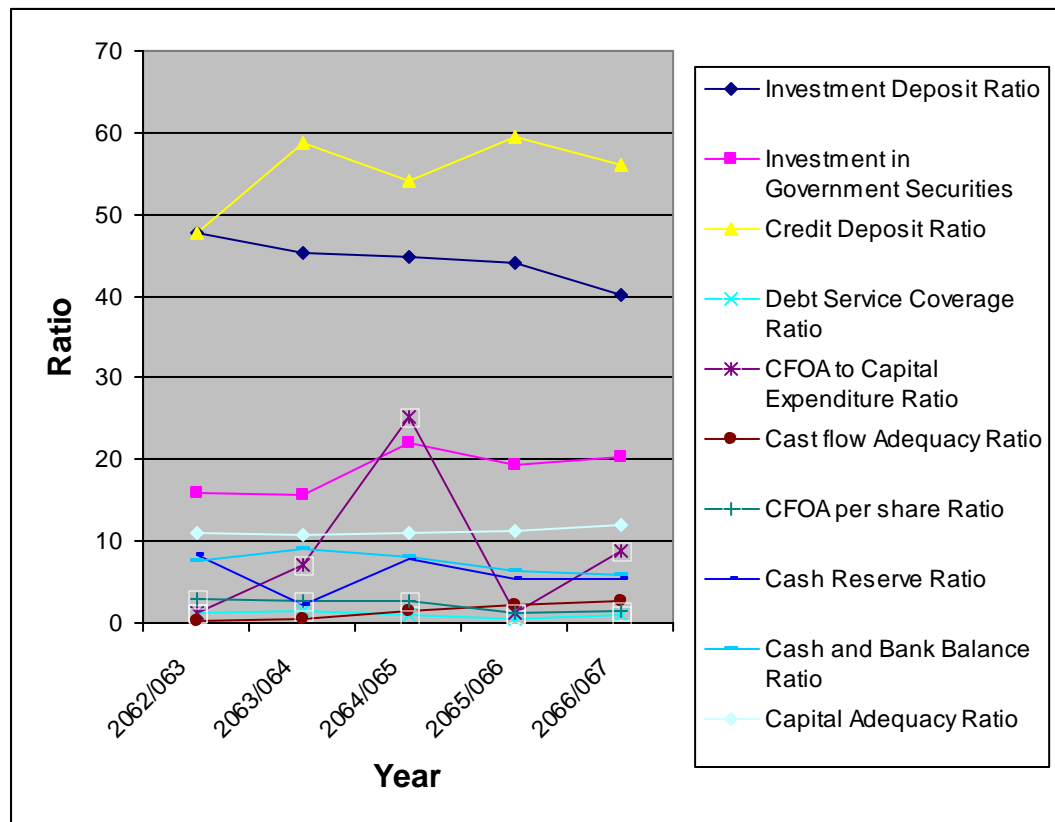


Fig no. 4.1

Above figures represent the cash flow analysis efficiency of Himalayan Bank Ltd. As we see in the above table, investment deposit ratio was 47.75% in the FY 2062/063 and it has been gradually decreased to the point of 40.17% in the FY 2066/067.

Investment in Government securities was 15.93% in the FY 2062/063 and has been increased to 20.23% in the FY 2066/067.

Like this credit deposit ratio was 47.73% in the FY 2062/063 and is fluctuated in the following years and was 55.96% in the FY 2066/067.

Debt. service coverage ratio was 1.15 in the FY 2062/063 and is also fluctuated in the following years and was 0.92 in the FY 2066/067.

CFOA to Capital expenditure ratio was 1.23 in the FY 2062/063 and is also fluctuated in the following years and was 8.86 in the FY 2066/067.

Cash flow adequacy ratio was 0.19 in the FY 2062/06360 and has been increased gradually in the following years and was 2.70 in the FY 2066/067.

CFOA per share ratio was 3.00 in the FY 2062/063 and is fluctuated in the following years and is remained to the point of 1.42 in the FY 2066/067.

Cash reserve ratio was 8.30% in the FY 2062/063 and decreased in the following years and was 5.92% in the FY 2066/067.

Cash and Bank Balance ratio was 7.53% in the FY 2062/063 and is also fluctuated in the following years and has remained to the point of 5.85% in the FY 2066/0674.

Capital adequacy ratio was 10.93% in the FY 2062/063 and is also fluctuated in the following years and was 12.11% in the FY 2066/067.

It can be concluded that cash flow of Himalayan Bank Ltd. We can say that the investment ratio is satisfactory and this shows that the bank is generating overkill cash flow from investment. Investment in Government securities are not bad but more than 25% would be better for managing liquidity. But credit deposit ratio is good as the banks is successes to grant credit more than 50% but it is also would be better to more than 60% any way the bank seems to be improving in its credit capacity. Debt. Service coverage ratio is not satisfactory as we see that this ratio is decreasing and is less than one it shows that cash from operating activities is not sufficient to repay the invest and principal of the bank. Capital expenditure ratio is appreciable and the ratio is positive as we see in the last fiscal year the ratio is getting better and it shows that the bank is highly reducing its cost. Cash Flow adequacy ratio is absolutely better as we look at the low the ratio is increasing and is getting better in the last year. It shows that the bank deserves the capital to return the debt maturing over the next five years just only by the cash from operations. CFOA

per share ratio is positive in each fiscal years, it indicates that cash from operation per share is more than earning per share. So we can say that per share CFOA is considerable. Cash reserve ratio is an obligation by NRB which should be complying by the commercial banks and its minimum requirement is five percent. The bank has maintained CRR every year. Cash and bank balance ratio is also appreciable the bank has maintained this ratio more than five percent. Capital adequacy ratio is also a rule of NRB and the bank has maintained the ratio, which now a days according to the rules and regulation of NRB, is eleven percent to the relation with total risk weighted assets.

By analyzing the above figures, we can say that the bank is improving its various aspects of cash every year. Liquidity position is good, credit and investment is also better, but there seems to be improved in excess cash generation from operating activities.

Table No. 4.2**4.1.2 Cash flow Analysis of Everest Bank Ltd.**

Ratios	%	2062/063	2063/064	2064/065	2065/066	2066/067
Investment Deposit Ratio	%	27.52	28.39	25.68	26.49	28.72
Investment in Government Securities	%	23.89	30.59	20.80	25.71	25.87
Credit Deposit Ratio	%	72.82	73.13	74.35	72.89	73.36
Debt Service Coverage Ratio	%	0.45	0.86	1.04	1.21	1.81
CFOA to Capital Expenditure Ratio	%	1.64	9.66	7.70	8.26	17.58
Cash flow Adequacy Ratio	%	-		0.91	-	-
CFOA per share Ratio	%	1.72	1.90	1.58	2.37	3.16
Cash Reserve Ratio	%		5.59	7.80	8.75	6.70
Cash and Bank Balance Ratio	%	2.04	3.92	8.32	3.48	6.67
Capital Adequacy Ratio	%	13.10	11.10	13.60	12.30	11.20

Cash flow of Analysis of EBL

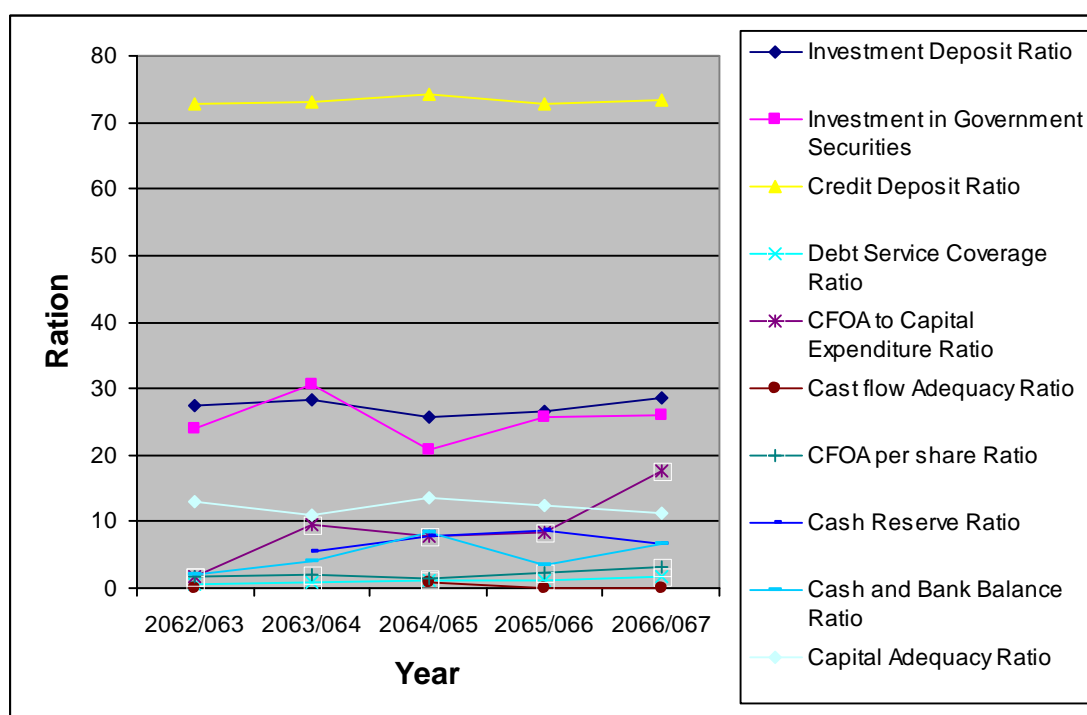


Fig. no. 4.2

The above table shows the cash flow study figures of Everest Bank Ltd. As we see investment deposit ratio of the bank was 27.52% in the FY 2062/063 has fluctuated in the following years and was 28.72% in the FY 2066/067.

Investment in Government securities ratio was 23.89% in the FY 2062/063 and was fluctuated in the following years in the increasing trend and was 25.87% in the FY 2066/067.

Like this credit deposit ratio was 72.82% in the FY 2062/063 and has increased in the following years and was 73.36% in the FY 2066/067.

Debt service coverage ratio was 0.45 in the FY 2062/063 and has increased in the following years and has reached to 1.81 in the FY 2066/067.

If we see in the ratio of CFOA to capital expenditure it was 1.64 in the FY 2062/063 and has increased in the following years and has reached to the ratio of 17.58 in the FY 2066/067.

The bank has not any debt in the FY of 2062/063, 2063/064, 2064/065 and 2065/066 so the cash flow adequacy ratio can be seen only in the FY 2064/065.

CFOA per share ratio was 1.72 in the FY 2062/063 and has fluctuated in the following years in increasing trend and was 3.16 in the FY 2066/067.

Cash and Bank Balance ratio was 2.04% in the FY 2062/063 and is also fluctuated in the following years and remained in the point of 6.67% in the FY 2066/067.

Capital adequacy ratio was 13.10% in the FY 2062/063 and is also fluctuated in the following years and has been maintained 11% to the requirement of NRB and was 11.20% in the FY 2066/067.

By studying the figures in the above table we are used to analyzing the cash flow. Analysis of Everest Bank Ltd., Hence the investing deposit ratio is appreciable and shows that the bank has invested some amount to generate surplus cash flow. But it would be better to make investment of thirty percent in relation with total deposit. Investment in Government securities is also satisfactory, and is better to be more than twenty five percent in the investment of securities of Government in the relation with total deposit. Credit deposit ratio is also pleasing the bank has maintained more than sixty percent. This shows that the bank has been managing cash adequately and being success to generate excess cash flow every year. The bank seems to be well in covering its interest and principal payment by cash from operating in the last three years. Debt service coverage ratio more than one indicates that the bank has been generating excess cash flow from operations to cover its interest payments. CFOA to capital expenditure ratio indicates the capacity of bank to pay the capital expenditures by the cash from operations. Everest Bank Ltd. has maintained appreciable CFOA to capital expenditure. It can be seen the

cash flow from operations is seventeen times more than capital expenditures in the last year. The bank has not any debt maturing in the coming five years at all in the fiscal year but we can see some debt in the middle year. This indicates that the bank has been operating by its own capital and deposits from depositors. The bank has not gone overload burden of interest expenses due to the debt. CFOA per share ratio is seems to be better in the previous three years but in the last two years it is getting better to be less than two and more than one. But in the last year it is far higher than the better range. The bank has maintained the requirement of CRB by NRB. The bank has maintained its liquidity adequately. Cash and bank balance ratio is getting better in the last years. And better more than five percent. But in the previous five years this ratio is less than five percent. Moreover the bank has managed its liquidity position. Capital adequacy ratio also has met to the requirement of NRB as it is to be necessary to maintain at least eleven percent which the bank seems to be maintained its capital adequacy every year.

By analyzing the cash flow analysis of Everest bank ltd. It can be concluded that the bank has been managing its cash flow.

4.2 Analyzing and Using the Financial Results

The information in the statement of cash flows provides as basis for analyzing financial results. However, further analysis is possible through the use of three ratios relating to cash flow. The operating cash flow per share of common stock, operating cash flow margin to total income and cash flow liquidity ratios. These ratios are presented in below table no 4.3 and 4.4 for HBL and EBL respectively.

Table No. 4.3

Cash flow per share, cash flow margin and cash flow liquidity ratio of HBL

Details	2062/063	2063/064	2064/065	2065/066	2066/067
Cash flows per share (in Rs.)	240.91	170.94	155.45	150.36	135.0
Cash flow Margin in (%)	36.94	38.81	43.77	52.22	50.5
Cash flows liquidity ratio (in times)	0.11	0.095	0.12	0.12	0.1

(Sources: www.himalayanbank.com)

Trend line of Cash flow per share, cash flow margin and cash flow liquidity ratio of HBL

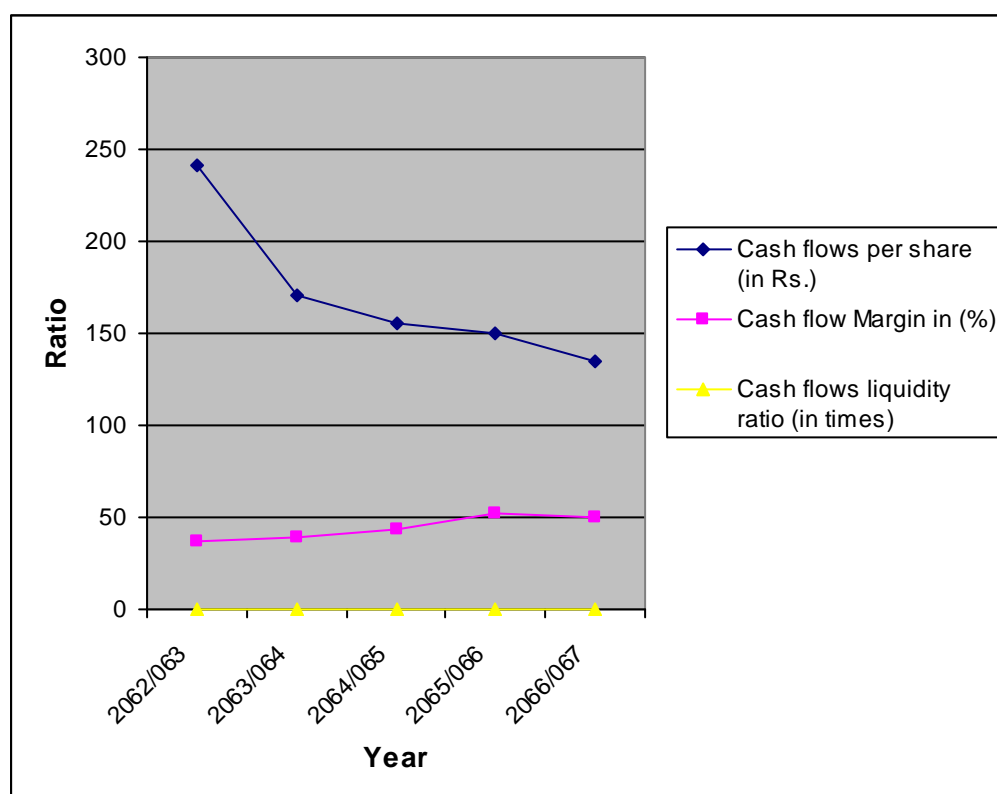


Fig. no. 4.3

Table No. 4.4

Cash flow pr share, cash flow margin and cash flows liquidity ratio of EBL

Details	2062/063	2063/064	2064/065	2065/066	2066/067
Cash flows per share (in Rs.)	94.04	83.58	167.76	167.49	175.9
Cash flow Margin in (%)	14.13	17	34.12	34.07	35.79
Cash flows liquidity ratio (in times)	0.053	0.069	00.087	0.075	0.048

(www.EBL.com)

Trend line of Cash flow pr share, cash flow margin and cash flows liquidity ratio of EBL

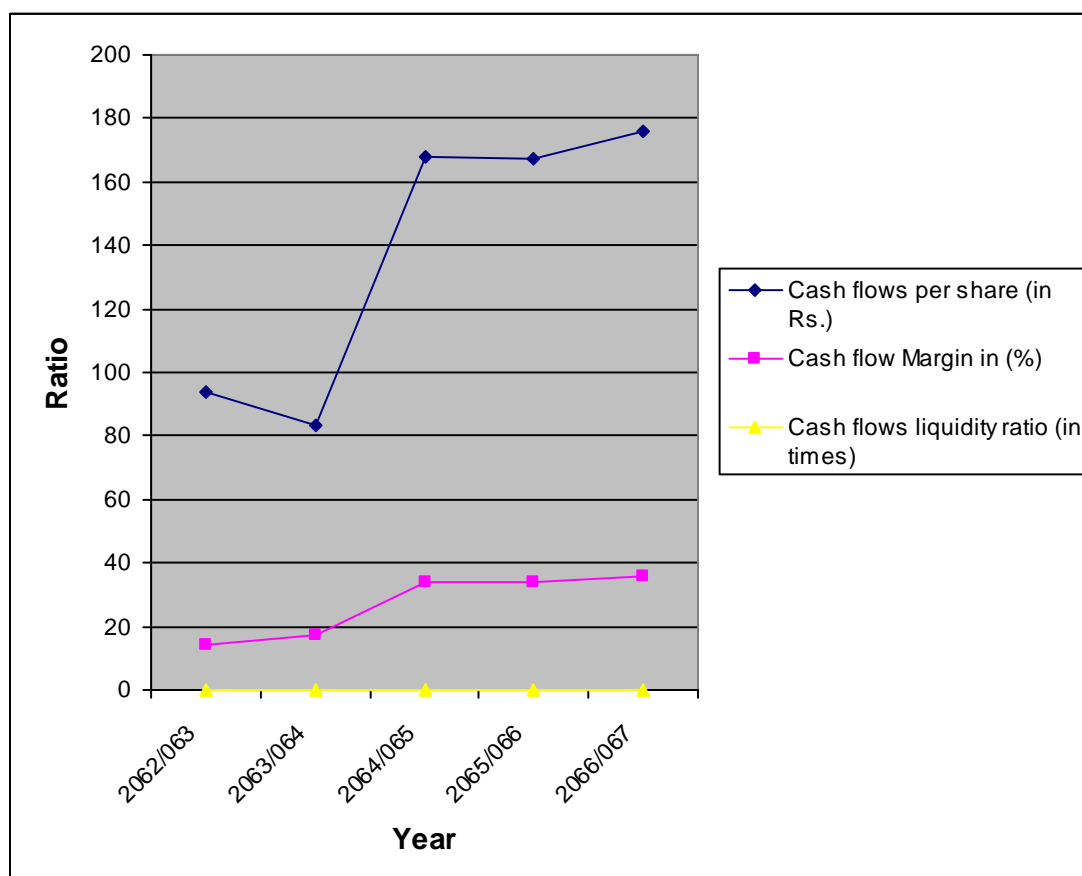


Fig. no. 4.4

4.2.1 Comparative study of operating cash flows per share, Cash flows margin and cash flow liquidity ratio of HBL and EBL.

The operating cash flow per share of common stock ratio is equal to the net cash provided by operations divided by the average number of shares of common stock outstanding. This ratio indicates the company's ability to pay dividends and liabilities. The higher the ratio, the greater the ability to pay, operating cash flows per share is useful tools for the short term investors and creditors to assess the short term liquidity position. From the results presented in table number 4.3 and 4.4 both these banks had positive operating cash flows per share in each year which indicates that, these banks were capable to pay dividends and liabilities. That means short-term liquidity positions of both these banks were sound. By viewing the results analytically, the operating cash flow per share of HBL was greater than that of EBL.

The operating cash flows to total income are equal to the net cash provided by the operating activities divided by total income. The ratio is a measure of a company's ability to turn total income into cash. The higher the ratio, the better will be the position. From the results presented in table number 4.3 and 4.4, the operating cash flow to total income of HBL was higher than that of EBL. Similarly, there was not any difference between the cash receipts and the total income which is shown in profit and loss accounts. This means, the income which was shown in profit and loss accounts were all cash based income for both these banks. The higher operating cash flows to total income of HBL indicate that the expenses incurrent to earn revenue were lesser than that of EBL. As the cash payment amount is less, it will have. Ultimate effect on CFOA and net income. With analyzing the results presented in above table, HBL was stronger for the generation of greater amount of CFOA than it was for EBL.

The cash flow liquidity ratio is equal to the total of cash and bank balances, marketable securities and net cash provided by operating activities divided by current liabilities. This ratio is a test of a company's short term debt paying ability. The higher

the ratio, the better will be the ability to pay. This ratio is useful for the short term investors or Creditors as they are more concerned with company's short term debt paying ability. From the results presented in above table number 4.3 and 4.4 the cash flow liquidity ratio (in times) of EBL was in between 0.048 to 0.087 times while for HBL, it was 0.095 to 0.12 times. Comparatively, through the cash flow. Liquidity ratio of HBL was in between 0.048 to 0.087 times, white for HBL, it was 0.095 to 0.12 times. Comparatively, through the cash flow. Liquidity ratio of HBL was greater than it was for EBL, but the cash flow liquidity ratio is not satisfactory for both there banks, that means, they are not able to meet the amount of current liabilities of WC and cash flows liquidity ratio lesser than one, through, it is helpful for the maximization of profit for these banks, but it is more dangerous for the smooth operation of business.

4.3 Statistical Analysis

4.3.1 Correlation Coefficient between NPAT and CFOA

Let X_1 and X_2 denotes and CFOA respectively for the calculation of correlation coefficient between independent variables (X_1) and dependent variable (X_2), the Karl person's correlation coefficient by

Himalayan Bank

Amount in Rs. '000000'

Years Details	2062/063	2063/064	2064/065	2065/066	2066/067
NPAT	840.709	811.658	900.18	1028.075	1198.717
CFOA	650.45	58974	636.56	725.69	796.89

Table No. 4.5

**Calculation of Correlation
Coefficient between NPAT and CFOA of HBL**

X₁	X₂	X₁X₂	X₁²	X₂²
840.709	650.45	546839.17	706791.62	423085.20
811.658	589.74	478667.18	658788.70	347793.26
900.18	636.56	573018.60	810324	405208.63
1028.075	725.69	746063.74	1056938	526626
1198.717	796.89	955,245.59	1436922	635033.67
X ₁ = 4779.339	X ₂ =3399.33	X ₁ X ₂ = 3299834.28	X ₁ ² =4669764.32	X ₂ ² = 2337746.76

$$r_{12} = \frac{n \sum x_1 x_2 - \sum x_1 \sum x_2}{\sqrt{n \sum x_1^2 - (\sum x_1)^2} \sqrt{n \sum x_2^2 - (\sum x_2)^2}}$$

$$= \frac{5 | 4779.339 | 3399.33 - 4779.339 | 3399.33}{\sqrt{5 | 4669764.32 - (4779.339)^2} \sqrt{5 | 2337746.76 - (3399.33)^2}}$$

$$= 0.9399$$

Everest Bank

Amount in Rs. '000000'

Year	2062/063	2063/064	2064/065	2065/066	2066/067
Details					
NPAT	291.38	271.64	416.24	455.31	518.64
CFOA	94.04	83.58	167.76	167.49	175.96

Table No. 4.6

Calculation of correlation Coefficient between NPAT and CFOA of EBL

X_1	X_2	X_1X_2	X_1^2	X_2^2
291.38	94.04	27401.38	84902.30	8843.52
271.64	83.58	22703.67	73788.29	6985.62
416.24	167.76	69828.42	173255.74	28143.42
455.31	167.49	76259.87	207307.20	28052.90
518.64	175.96	91259.89	268987.45	30961.92
$X_1=1953.21$	$X_2=688.83$	$X_1X_2=287453.23$	$X_1^2=808240.98$	$X_2^2=102987.38$

$$r_{12} = \frac{n \sum \phi_{x_1 x_2} - \sum \phi_{x_1} \sum \phi_{x_2}}{\sqrt{n \sum \phi_{x_1}^2 - (\sum \phi_{x_1})^2} \sqrt{n \sum \phi_{x_2}^2 - (\sum \phi_{x_2})^2}}$$

$$= \frac{5 \mid 287453.23 \mid 1953.21 \mid 688.83}{\sqrt{5 \mid 808240.98 \mid 1953.21^2} \sqrt{5 \mid 102987.38 \mid 688.83^2}}$$

$$= \frac{91836.51}{475.58 \mid 201.12}$$

$$= \frac{91836.51}{95648.65}$$

$$= 0.9601$$

Now, $(r_{12})^2 = (0.9601)^2$
 $= 0.9218$

4.3.2 Correlation Coefficient between GDP and CFOA

Let X_1 and X_2 denotes GDP in Rs. and CFOA respectively. To calculate correlation coefficient between independent Variable (X_1) and dependent variables (X_2), the Karl Pearson's correlation coefficient by using assumed mean method or short cut method is used, the formulae for the calculation of correlation coefficient between X_1 and X_2 is as follows.

$$r_{12} = \frac{n \sum \phi_{d_1 d_2} - \sum \phi_{d_1} \sum \phi_{d_2}}{\sqrt{n \sum \phi_{d_1}^2 - (\sum \phi_{d_1})^2} \sqrt{n \sum \phi_{d_2}^2 - (\sum \phi_{d_2})^2}}$$

Where, $d_1 = X_1 - A_1$ and $d_2 = X_2 - A_2$

A_1 and A_2 are assumed means for X_1 and X_2 respectively

Himalayan Bank

Amount in Rs 'oooooo'

Year Details	2062/063	2063/064	2064/065	2065/066	2066/067
GDP	280106	279169	287857	297231	3032
CFOA	650.45	589.74	636.56	725.69	796

Table No. 4.7

Calculation of correlation coefficient between GDP and CFOA of HBL

X_1	X_2	$D_1 = X_1 - A_1$	$D_2 = X_2 - A_2$	$d_1 d_2$	D_1^2
280106	650.45	- 7751	13.89	-107661.39	60078001
279169	589.74	- 8688	-46.82	406772.16	75481344
287857	636.56	0	0	0	0
297231	725.69	9374	89.13	835504.62	87871876
303298	796.89	15441	160.33	2475655.53	238424481
		$\phi d_1 = 8376$	$\phi d_2 = 216.53$	$\phi d_1 d_2 =$ 3610270.92	$\phi d_1^2 =$ 461855702

When, assumed mean (A_1) = 287857 and assumed mean (A_2) = 636.56

$$R_{12} = \frac{n \cdot \sum d_1 d_2}{\sqrt{n \cdot \sum d_1^2} \cdot \sqrt{n \cdot \sum d_2^2}}$$

$$= \frac{5 \cdot 3610270.92}{\sqrt{5 \cdot 461855702} \cdot \sqrt{5 \cdot 3603491}}$$

$$= \frac{16237699.32}{47319.35} \cdot \frac{16237699.32}{17275821.49}$$

$$= 0.9399$$

$$\text{Now, } r_{12}^2 = (0.9399)^2$$

Everest Bank

Years Details	2062/063	2063/064	2064/065	2065/066	2066/067
GDP	280106	279169	2878.57	297231	303298
CFOA	94.04	83.58	167.76	167.49	175.96

Table 4.8

Calculation of Correlation coefficient between GDP and CFOA of EBL

X_1	X_2	$D_1 = X_1 - A_1$	$D_2 = X_2 - A_2$	$d_1 d_2$	D_1^2
280106	94.04	- 7751	-73.45	569310.95	5394.90
279169	83.58	- 8688	-83.91	729010.08	7040.89
287857	167.76	0	0.27	0	0.07
297231	167.49	9374	0	0	0
303298	175.96	15441	8.47	130785.27	71.74
		$\phi d_1 = 8376$	$\phi d_2 = -148.62$	$\phi d_1 d_2 =$ 1429106.30	$\phi d_1^2 = 12507.60$

When, assumed mean (A_1) = 287857 assumed mean (A_2) = 167.49

Where, assumed mean (A_1) = 287857 and assumed mean (A_2) = 167.49

$$r_{12} = \frac{\sum \frac{(d_1 - \bar{d}_1)(d_2 - \bar{d}_2)}{\sqrt{(d_1 - \bar{d}_1)^2} \sqrt{(d_2 - \bar{d}_2)^2}}}{\sqrt{\sum \frac{(d_1 - \bar{d}_1)^2}{n} \sum \frac{(d_2 - \bar{d}_2)^2}{n}}}$$

$$= \frac{5 \mid 1429106.3 \mid 8376 \mid 148.62}{\sqrt{5 \mid 461855702 \mid 8376 \mid 12507.6 \mid 148.62}}$$

$$= \frac{8390372.62}{47319.35 \mid 201.12}$$

$$= \frac{8390372.62}{9516867.67} \quad \times 0.8816$$

$$\text{Now, } (r_{12})^2 = (0.8816)^2$$

$$= 0.7773$$

4.4 Rank Correlation Coefficient

4.4.1 Rank Correlation Coefficient between CFOA and Working Capital (WC)

Let x_1 and x_2 denotes CFOA and WC respectively for the calculation of rank correlation coefficient between these two qualitative data, the formula given by the spearman was followed.

If we analyze the CFOA and we, not ranks are given between these two data so, first of all researcher has to assign the ranks to the above figures higher being 1 and lowest being as 5. let R_1 be the ranks to CFOA and R_2 be the ranks to working capital as shown below.

Cash flows from operating activities and working capital of HBL

Himalayan Bank

Amount in Rs '000000

Years Details	2062/063	2063/064	2064/065	2065/066	2066/067
WC	(1388.04)	(5267.92)	(5018.48)	(4535.03)	(4753.54)
CFOA	650.45	589.74	636.56	725.69	796.89

Source: Annual Report of HBL and [www. Nepalstock.com](http://www.Nepalstock.com)

When, $d_1 = x_1 - A_1$ and $d_2 = x_2 - A_2$

A_1 and A_2 are assumed means for x_1 and x_2 respectively.

Table No. 4.9

Assignment of Ranks and Correlation Coefficient between CFOA and WC of HBL

X₁	R₁	X₂	R₂	d= R₁-R₂	d²
650.45	3	(1388.04)	1	2	4
589.74	5	(5267.92)	5	0	0
636.56	4	(5018.48)	4	0	0
725.69	2	(4535.03)	2	0	0
796.89	1	(4753.54)	3	-2	4
				d= 0	d ² =8

$$\begin{aligned}
 r_s &= 1 - \frac{6 \sum d^2}{n^3 - n} \\
 &= 1 - \frac{6 \times 8}{5^3 - 5} \\
 &= 1 - 0.4 \\
 &= 0.6
 \end{aligned}$$

Since , the correlation coefficient takes on positive value, i.e., $r_s = 0.6$, the two sets of ranks have been related directly, the numerical value is as high as 0.5 there is high degree of association between two ranking sets.

Cash flows from operating activities and working capital of EBL

Everest Bank		Amount in Rs '000000'			
Years	2062/063	2063/064	2064/065	2065/066	2066/067
Details					
WC	(4064.53)	(3071.33)	(1767.11)	(909.09)	(448.28)
CFOA	94.04	83.58	167.76	167.49	175.96

Table No. 4.10

Assignment of Ranks and Correlation Coefficient between CFOA and WC of EBL

X₁	R₁	X₂	R₂	d= R₁-R₂	d²
94.04	4	(4064.53)	5	-1	1
83.58	5	(3071.33)	4	1	1
167.76	2	(1367.12)	3	-1	1
167.49	3	(909.09)	2	1	1
175.96	1	(448.28)	1	-0	0
				d= 0	d ² =4

$$\begin{aligned}
 r_s &= 1 - \frac{6 \sum d^2}{n^3 - n} \\
 &= 1 - \frac{6 \times 4}{5^3 - 5} \\
 &= 1 - 0.2 \\
 &= 0.8
 \end{aligned}$$

Since the correlation coefficient takes on positive value i.e.. $r_s=0.8$, the two sets of ranks have been related directly. the numerical value is as high as 0.75 there is very high degree or significant association between the two ranking sets.

4.4.2 Comparative study of Rank correlation coefficient of HBL and EBL

From the above calculation, there exists $r_s=0.6$ and 0.8 rank correlation coefficient between CFOA and WC of HBL and EBL respectively, which shows that there is high degree of association between the two ranking sets.

If we study it analytically, the rank correlation coefficient of EBL is greater than HBL i.e. $0.8 > 0.6$. Both these banks have negative working capital figures. A negative working capital means a negative liquidity, and may prove to be harmful. For the belongs. Excessive liquidity is also bad. It may be due to the management of current assets. Therefore, promote and timely action should be taken by management to improve

and connect the negative amount of working capital. It is the responsibility of the financial manager to maintain optimum amount of working capital for the smooth running of firm's. The proper management of firm's working capital is very much crucial to the financial manager in this competitive sceneries with negative amount of working capital, there raised high degree of association between CFOA and we and this is a part of good sign of management of both these banks.

4.5 Testing of Hypothesis

4.5.1 T-test for significance of an observed sample correlation coefficient between NPAT and CFOA.

Himalayan Bank

We are given $n = 5$ and $r_{12} = 0.7908$

Null Hypothesis: $H_0 \dots = 0$, i.e. There is no significance relationship between NPAT and CFOA

Alternative Hypothesis: There is significance relationship between NPAT and CFOA

Test Statistics Under H_0 : Since, sample size ($n = 5$) i.e. $5 < 30$, the hypothesis problem is relating to t-test therefore, appropriate test statistics is given as:

$$\begin{aligned}
 t &= \frac{r}{\sqrt{1 - r^2}} \sqrt{n - 2} \\
 &= \frac{0.7908}{\sqrt{1 - (0.7908)^2}} \sqrt{5 - 2} \\
 &= 2.23787 = 2.24
 \end{aligned}$$

Degree of freedom = $n - 2 = 5 - 2 = 3$

Critical Value : The tabulated value of t at 10% level of significance for one tailed test and for 3 d.f is 1.638

Decision : Since the calculated value of t is greater than tabulated value of t, the null hypothesis H_0 is rejected that means the alternative hypothesis H_1 is accepted. This means, there is positive correlation in the population or the variables are positively correlated

Everest Bank:

We are given, $n = 5$ and $r_{12} = 0.9601$

Null hypothesis : $H_0, \rho = 0$, i.e. There is no significance relationship between NPAT and CFOA

Alternative Hypothesis : $H_1 : \rho > 0$, i.e. There is significances difference between NPAT and CPO.

Test statistics, under H_0 : Since, sample size ($n=5$) i.e. $5 < 30$, the hypothesis, problem is relating to t- test, therefore, appropriate test statistics is given as :

$$\begin{aligned}
 t &= \frac{r}{1 - r^2} \sqrt{n - 2} \\
 &= \frac{0.9601}{\sqrt{1 - (0.9601)^2}} \sqrt{5 - 2} \\
 &= 21.2637 = 21.26
 \end{aligned}$$

Degree of Freedom = $n - 2 = 5 - 2 = 3$

Critical value : The tabulated value at + at 10% level of significance for one tailed test and for 3 degree freedom is 1.638.

Decision :

Since the calculated value of t is greater than tabulated value of t, the null hypothesis H_0 is rejected that means the alternative hypothesis H_1 is accepted this means, there is positive correlation in the population on the variables are positively correlated.

4.5.2 T-Test for significance of an observed sample correlation coefficient between GDP and CFOA

Himalayan Bank

We are given : $n = 5$ and $r_{12} = 0.9399$

Null Hypothesis : $H_0 : \rho = 0$, i.e. there is no significance difference between GDP and CFOA.

Alternative Hypothesis : $H_1 : \rho > 0$, i.e. There is significance difference between GDP and CFOA.

Test statistics under H_0 : Since, sample size ($n=5$) i.e. $n < 30$, the hypothesis problem is relating to t-test. Therefore, appropriate test statistics is given as.

$$\begin{aligned} t &= \frac{r}{\sqrt{1-r^2}} \sqrt{n-2} \\ &= \frac{0.9399}{\sqrt{1-(0.9399)^2}} \sqrt{5-2} \\ &= 13.9637 \text{ | } 13.96 \end{aligned}$$

Degree of Freedom = $n - 2 = 5 - 2 = 3$

Critical value : The tabulated value at + at 0.5% level of significance for one tailed test and for 3 df is 5.841.

Decision : Since the calculated value of t-greater than tabulated value of t, the null hypothesis H_0 is rejected that means the alternative hypothesis H_1 is accepted. This means, there is positive correlation in the population or the variable are positively correlated.

Everest Bank

We are given, $n = 5$ and $r_{12} = 0.8816$

Null Hypothesis = $H_0: \rho = 0$. i.e. is the variables are not correlated in the population or the population correlation coefficient is 0.

Alternative Hypothesis : $H_1 : \rho > 0$, i.e. there is positive correlation in the population or the variables are positively correlated (right tailed test)

Test statistics under H_0 : Since, sample size ($n= 8$), i.e. $5 < 30$, the hypothesis problem is relating to t-test, therefore, appropriate test statistics is given as:

$$t = \frac{r}{\sqrt{1 - r^2}} \sqrt{n - 2}$$

$$= \frac{0.8816}{\sqrt{1 - (0.8816)^2}} \sqrt{5 - 2}$$

$$= 6.854338 \approx 6.85$$

$$\text{Degree of Freedom} = n - 2 = 5 - 2 = 3$$

Critical value : The tabulated value at + at 0.5% level of significance for one tailed test and for 3 df is 5.841.

Decision : Since the calculated value of t-greater than tabulated value of t, the null hypothesis H_0 is rejected that means the alternative hypothesis H_1 is accepted. This means, there is positive correlation in the population or the variable are positively correlated.

4.5.3 Comparative study of NPAT and CFOA of HBL and EBL

In earlier section, correlation coefficient between NPAT and CFOA, coefficient of determination and t-test for significance of an observed sample correlation coefficient has been done. The purpose of computing correlation coefficient between NPAT and CFOA is to testify the differences between accrual basis and cash basis of accounting. Now, for comparative study there results are presented as follows in below table No.

Table No. 4.11

	Evaluation Criteria		
Banks	r_{12}	r_{12}^2	Hypothesis (t-test)
HBL	0.7908	0.6254	Accept H_1
EBL	0.9601	0.9218	Accept H_2

From the above table No. 4.11, It was found that the correlation coefficient between NPAT (independent) and CFOA (dependent) value was 0.7908 in case of HBL. It shows the very high degree of positive relationship between these two variables. However, by application of coefficient of determination (r^2), the value was 0.6254 which indicated that 62.54% of the variations independent variables i.e. CFOA has been explained by the independent variables i.e. NPAT. It is the Fraction that represents the proportion of total variation of dependent variable that is explained by the regression plane. There is unexplained portion of 37.46% which is explained by the other factors like non-cash expenses, reserves, non operating losses etc. Similarly, while calculating t-test for significance of an observed sample correlation coefficient between NPAT and CFOA, Alternative Hypothesis H_1 was accepted, that means, there is positive correlation in the population between these two variables.

In case of EBL, it was found that the correlation coefficient between NPAT and CFOA value is 0.9601. It also shows very high degree of positive relationship between these two variables. With considering the value of r^2 is 0.9218. It means that there was the variation of 92.18% in CFOA due to the independent variable NPAT. The sampling 7.82% variation was due to the other factors. Likewise, when t- test was done between these two variables.

Alternative Hypothesis H_1 was accepted. That means, there was positive correlation in the population or the variables are positively correlated.

As we know that profit and loss accounts are prepared an accrual basis white the cash flow statement is prepared on cash basis. The above calculated correlation

coefficient of these two banks between NPAT and CFOA shows the relationship between accrual accounting events and their cash impact. The correlation coefficient (r_{12}) and CFOA of EBL was higher than that of HBL, i.e. $0.7908 < 0.9601$ and $0.6254 < 0.9218$. With veining this we came to know that EBL was able to convert the accrual accounting information in to cash- based information. Similarly, in the case of hypothesis testing, at 10% level of significance i.e. margin of error alternative hypothesis was accepted for both these banks. This means there was 90% confidence limit that these variables were positively correlated in the population. Instead of this, if the level of significance or the margin of error decreases, in such condition, null hypothesis will be accepted in case of HBL, however, at 0.05% level of significance, alternative hypothesis was accepted in case of EBL. As we know as the margin of error is less, our decision will be closer to the reality. Therefore, there is 99.95% confidence limit that the variables are positively correlated in the population in case EBL. Though at 10% level of significances, alternative hypothesis was accepted for both these banks but there is no any proof that the null hypothesis was accepted when the margin of error decreases to 0.05% in case of EBL. Therefore, we can strongly say that on the basis on sample size selected, EBL was ahead than HBL for the collection and payment of incomes and expenses which should be receive and paid in any year.

4.5.4 Comparative study of GDP and CFOA of HBL and EBL

In earlier pages, the correlation. Coefficient between GDP and CFOA (r_{12}), coefficient of determination (r^2) and t-test for significances of an observed sample correlation coefficient has been presented. The purpose of computing correlation coefficient between GDP and CFOA is to know, whether the GDP affects the operation of these two point venture foreign commercial bank or not, if it affects, by how much percentage in CFOA of these banks. Now, for comparative study these result are presented as follows in below table No. 4.12

Table No. 4.12
Evaluation Criteria.

Banks	r^{12}	r_{12}^2	Hypothesis (t-test)
HBL	0.9399	0.8834	Accept H_2
EBL	0.8816	0.7773	Accept H_1

From the above table No.4.12. it was found that the correlation co-efficient between GDP (independent) and CFOA (dependent) value was 0.9399 in case of EBL. It shows the significant or very high degree of positive relationship between. These two variables. By application of co-efficient of determination (r_{12}^2) the value is 0.8834 which represents CFOA has been explained by the independent variable, i.e.. GDP, There is unexplained portion of 11.66% which is explained by the other factors brides GDP. Similarly, while calculating t-test for significance of an observed sample correlation coefficient between GDP and CFOA, alternative hypothesis H_1 was accepted at 0.057 level of significance that means the variables were positively correlated in the population.

In case of EBL, it was found that the correlation co-efficient between GDP and CFOA value was 0.8816. It also shows very high degree of positive relationship between these two variables. With analyzing the value of r_{12}^2 , it was found 0.7773. It means that, there was the variation of 77.73% independent variable due to the effect of independent variable GDP. The remaining variation, that is 22.27%, was due to the other factors, likewise, when t-test was studied between these two variables, alternative hypothesis H_1 was accepted at 0.05% level of significance that means GDP is the money value of all the final goods and services produced within the boundary of the country. While calculating correlation coefficient between GDP and CFOA researcher had made an assumption that as the level of GDP increase or decreases, it will affected in CFOA of these two banks. From the above results presented in table no 4.12, though there arises high degree of positive relationship between. GDP and CFOA for both these two banks, the coefficient of monition (r_{12}^2) of HBL was higher than that of EBL on the basis of selected sample size. Likewise, while testing the hypothesis between these two in dependent and

dependent variables GDP and CFOA, alternative hypothesis H1 was accepted for both at 0.05% level of significance. Instead of this, if the margin of error changes to 0.05% in such case, alternative hypothesis H1 and null hypothesis H0 will be accepted in case of HBL and EBL respectively. It becomes clear that the confidence limit of accepting alternative hypothesis in case of HBL was greater than that of EBL. Therefore, there are sufficient proofs, on the basis of selected sample size, that the operation of HBL will be more affected by the independent variable GDP than it will for NBL

4.6 Presentation and Analysis of CFOA, CFIA and CFFA of HBL and EBL

The presentation of CFOA, CFIA and CFFA of HBL and EBL are show in below tables and in graphs.

Table No. 4.13

Everest Bank

Amount in Rs. ' 000000'

Year	CFOA	CFIA	CFFA
2062/063	94.04	(3329)	3428.9
2063/064	83.58	251.08	(225)
2064/065	167.67	936.26	(12.34)
2065/066	167.49	(83.75)	15.37
2066/067	175.96	(581.4)	264.89

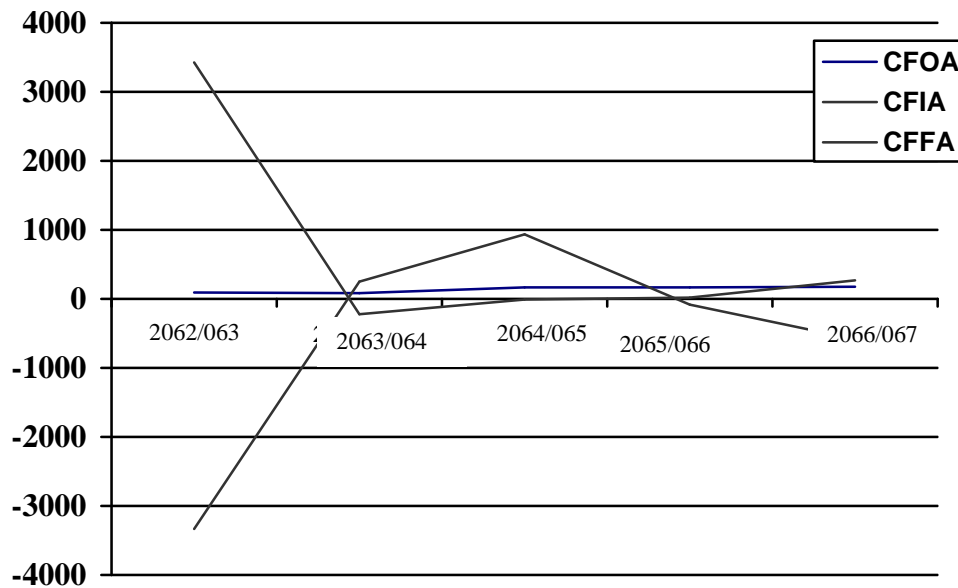


Fig. No. 4.5

A bank operating activities include the transitive associated with the bank's primary product or services. From the above greyhens 1, it was seen that the amount of CFOA was in positive in all of the years, which shows that the bank is self sufficient in funding its daily operative cash flows. The figure was increasing trend except in the year 2063/064 due to the increase in the amount of cash payments. Likewise, there was 100.72% in CFOA in the year 2064/065 due to the decrease in cash payment amount besides the 2.11% increase in cash receipts. Lastly the CFOA was increased by 5.06% in the final year which was practically due to the decrease in investment. Likewise, in the year 2064/065 this figure was also positive because the investment amount of money which was invested earlier was collected . Similarly, in the year 2065/066 the bank was able to peak up its activities, as result, there was negative amount of CFIA. Lastly, there was an increase in the amount of CFIA by nearly 6 times than it was for in the year 2066/067 which was primarily due to increase in loans, advances and bills purchased. By analyzing the amount of CFFA, there was 106.92% decrease in the year 2063/064 which was mainly due to the payment of deposits. Similarly, in the year 2065/066, this figure was positive which was partially due to the increments in the amount of deposits and bills payable. Lastly, there was increased in the figure nearly by 16.1 times in the final year.

Which was primarily due to the less payment of borrowing than it was for in the year 2065/066?

Table No. 4.14
Himalayan Bank

Amount in Rs. '000000'

Year	CFOA	CFIA	CFFA
2062/063	650.45	(3674)	3019.2
2063/064	589.74	(1524)	1247.3
2064/065	636.56	(3134)	2432.1
2065/066	725.69	(1922)	1073
2066/067	796.89	(3451)	2666.1

The above table can be presented as follows:

Trend line of CFOA, CFIA and CFFA of HBL

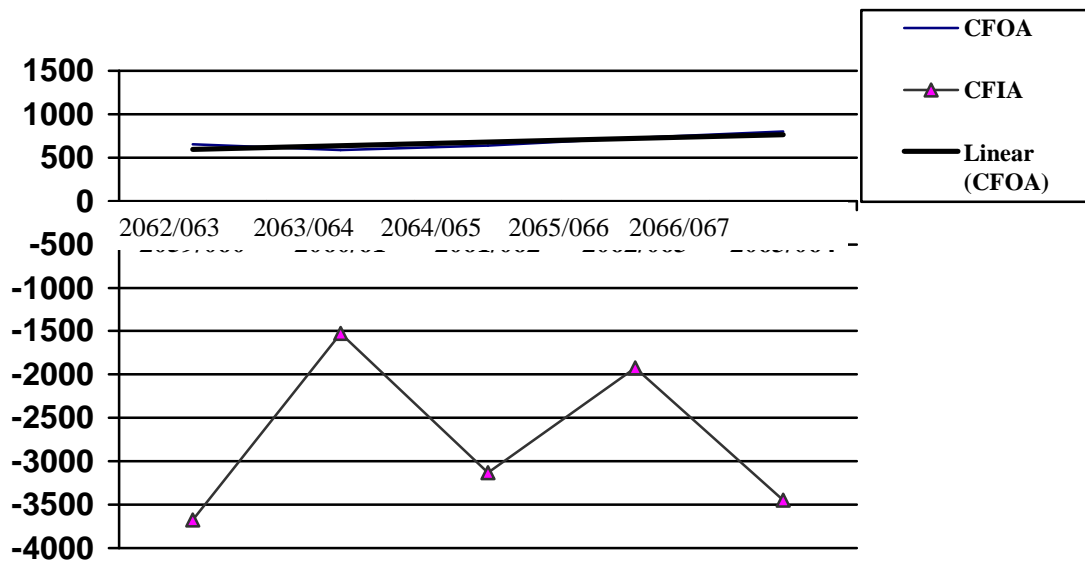


Fig.

No.4.6

From the above graph no. 2, it was seen that the amount of CFOA was positive as well as it was increasing trend except in the year 2063/064 which shows that the bank is self sufficient in finding its daily operational cash flows. The amount of CFOA was decreased by 9.33% in the year 2063/064 as compared with the previous year, due to decreased in the amount of cash receipts. This figure was in increasing trend on wards 2063/064 due to the increment in the amount of cash receipts in all the years. While analyzing the amount of CFIA, it was decreased by 88.51% in the year 2063/064 as compared with the previous year which was primarily due to the decrease in the amount of money at all and short notice and loan advance and bills purchased. Similarly, it was decreased in the year 2063/064 due to the reduction in the amount of bank balances, investment, fixed assets and other assets. In rest of the year, it was in increasing trend which was primarily by the increased in the amount of investments.

Similarly, while analyzing the CFFA, it was positive in all of the years, which shows that the banks had collected the amount of cash from deposits borrowing, bills payables and other liabilities and it hadn't reduced the huge amount of borrowings deposit etc. The amount of CFFA was decreased the year 2063/064 and 2065/066 which has caused decreased in the amount of CFIA also it was primarily or mainly due to the retention of deposited amounts.

4.6.1 Comparative study of CFOA, CFIA and CFFA of HBL and EBL

The general information of CFOA, CFIA and CFFA along with the graphical figure and their analysis has been studied in the above section. This information is the base point for the comparative study.

As we know, decision markers prefer operating activities to be a firm's primary sources of cash, both these bank's had positive amount of CFOA which indicates the good sign of management. Similarly, the amount of CFOA of HBL was greater than it was for EBL, which means, HBL was competent for the generation of more amount of CFOA, If we compare the CFOA of HBL and EBL with their respective paid - up capital amount. both these banks were not able to generate more amount of CFCA in the year 2063/064 than it was in the previous year. It was some how due to the negative growth rate in that year. The CFOA of EBL was affected more than it was for HBL.

In case of CFIA, EBL was not in a position to invest in the year 2063/064 and 2064/065 while the HBL was capable to invest some amount of money in both of the year through the overall economic and financial condition of the country was hunted badly.

In case of CFFA, as shown in the graph number 1 and 2 EBL had both the positive and negative amount of CFFA while for HBL it was positive in all the year.

Their appears significant relationship between financing and investing activities of HBL than it was EBL.

Lastly, as regards for investment purpose both these bank's invested the amount of cash which were collected from financing activities as well as positive amount generated from CPOB, likewise, for the redemption of loans, borrowings, bills payables etc, both these bank's paid through the collection of principal amount which was invested earlier as well as the positive amount generated from CFOA,

4.7 Major Findings of the Study

In order to carry out this research, data have been basically obtained by the secondary as well as primary sources. The analysis was performed with the help of financial and statistical tools. the analysis was associated with comparisons and interpretation of results. Under ratio analysis, operating cash flour per share, cash flows margin, cash flows liquidity ratio have been student. The major findings from this study are summarized. below.

- Both the banks had lesser amount of current assets than it was of current liabilities in all the years under study.
- Himalayan bank has little higher investment but has little comes in investment in Government Securities. Flow of credit 98 also lower and interest paying capacity is also poorer but bank has better earning and has not shown better performance in generation cash from operations. Bank's liquidity is better.
- Everest bank Ltd has comes investment but has better in investment in government securities. Flow of Credit and interest paying capacity both are better. The bank has not burden of surplus debt and capital expenditure. Anyway the bank has shown better performance in generating excess cash from operations.
- Both the banks had positive operating cash flows per share, but the mean operating cash flows per share of HBL has greater than that of EBL which signifies that the HBL had ore ability to pay dividends and liabilities.
- The mean operating cash flows to total incomes of HBL was greater than it was EBL which denotes that the HBL was stranger for the generation of greater amount of CFOA than it was EBL.
- The mean cash flows liquidity ratio of HBL was grater than it was for EBL i.e. it shows that the HBL had more ability to pay the amount of short-term debt or current liabilities. Both the HBL and EBL mean cash flows liquidity ratio were lesser, which signifies that both the banks term debt paying capacity of both the banks.
- The correlation coefficient between NPAT (independent variable) and CFOA (dependent variable). of HBL and EBL were 0.7908 and 0.9601, which shows the very high degree of positive relationship between there. two variables. By

application of coefficient of determination, it was 0.6254 and 0.9218 for HBL and EBL respectively, which means, in case of EBL there was the less profiting of unexplained factors which might influence or dependent variable. Similarly, in case of hypothesis (t- test for significant of an observation sample correlation coefficient) alternative hypothesis: H_1 were accepted for both HBL and EBL at 10% level of significance. When the level of significance or margin of error decreases, alternative hypothesis. H_1 and null hypothesis: H_0 were accepted for EBL and HBL respectively. Therefore, we can strongly say that, in case of EBL, the variables i.e. NPAT and CFOA are positively correlated in the population than it was for HBL.

- The correlation coefficient between GDP (independent variable) and CFOA (dependent variable) of HBL and EBL were 0.9399 and 0.8816 respectively which shows that there was very high degree of positive relationship between these. two variables. By application of coefficient of determination, it was 0.8834 and 0.7773 for HBL and EBL respectively. i.e. there was the less proportion of unexplained factors which might influence on dependent variable i.e. CFOA, in case of HBL. Similarly, In case of hypothesis (t-test for significance of an observed sample correlation coefficient) alternative hypothesis. H_1 were accepted at 0.05%. in such condition alternative hypothesis. H_1 and null hypothesis. H_0 were accepted in case of HBL and EBL therefore, there is, sufficient proof on the banks of hypothesis testing that the operation of HBL was more affected by the independent variable GDP than it was for EBL.
- The rank correlation coefficient between CFOA, of HBL and EBL shows a substantial positive relationship between the concerning two variables. When hypothesis testing was done, it was found that there was zero correlation in the concerning ranked data at 10% level of significance
- While studying comparatively the amount of CFOA, CFIA and CFFA of HBL and EBL respectively. It was found that the amount of CFOA was higher in case of HBL than it was found that there was zero correlation in the concerning ranked data at 10% level of significance.

- 37.5% of the respondents pointed out that increase/ (decrease) in short term borrowing must be included under the heading of CFFA because putting short term borrowing in operating activities
- 5% of the respondent suggested that the directives issued by NRB should not have over siding effect on NAS and IAS In real sense, putting increase/ (decrease) in short -term, borrowings whether short or long term falls under the heading of financing activities and hence it should be included under the heading of CFFA.
- 10% of the respondent's views were that by nature It is the part of financing activities. NRB may be of the view that borrowings are not the part of the capital structure, it is taken because insufficient deposits for lending. Short-term borrowings are taken for lending short - term borrowings are taken for meeting insufficient fund for short term and also used for short term placement
- Regarding to this point i.e. short -term borrowings, an opinions were taken from the Directors of NRB, chartered accounts from HBL and EBL and from the chairman and other seniors person of ASB, ICAN, registered chartered accounts.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This is the last chapter of the study. The analysis and explanation in the present chapters have been summarized and from the over all study a conclusion has been made.

5.1 Summary

The basis for financial planning, analysis and decision making is the financial information. Financial information is needed to predict, compare, and evaluate the firm's earnings ability. It is also required to aid in economic decision -making, Investment and financing decision making. The financial information of an enterprise is contained in the financial statements or accounting reports. A firm communicates financial information to the users, through financial statements and reports.

Both the balance sheet and profit and loss statement do not explain the change in assets, liabilities and owner's equity. The statement of changes in financial position is prepared to show these changes. Cash flows statement is one important tool of financial statements which throws light on cash inflows and cash outflows of a particular period.

Users of an enterprises financial statements are interested in how the enterprise generates uses cash and cash equivalents. This is the case regardless of the nature of the enterprise's activities and respective of whether cash can be viewed as the product of the enterprise as may be the case with a financial institution. Enterprises need cash for the essentially the same reasons however different their principal revenue producing activities might be. they need cash to conduct their operations to play the is obligations and to provide the returns to their investors.

In such scenario, this research was conducted to find out the Ratio analysis operating profit per share, operating cash flows to total income ratio, cash flows liquidity ratio (in times) . CFOA, CFIA and CFFA of these two sample commercial banks and to examine the cash flow statement of HBL and EBL as per of NAS.

As per the nature of the study, mainly the case study research design was followed. From the analysis it was found that the liquidity position of both HBL and EBL were not good, there appeared negative working capital in all the years under study period. Operating cash flows per share of both these banks were positive that means they were able to pay dividends and liabilities; however it was higher for HBL. The operating cash flow per share of HBL was in decreasing trend due to the increase in average number of common shares. The operating cash flow to total income ratio of HBL was higher than it was for EBL. As this ratio was higher for HBL; its CFOA was higher than it was for EBL. The cash flows liquidity ratios (in times) of both the banks were not good i.e. the amount of current liabilities was greater than the net CFOA plus cash and banks balances. While analyzing the amount of CFOA, CFIA and CFFA of HBL and EBL there appeared significant relationship between investing and finishing activities of HBL.

Ratio analysis of Himalayan Bank, It can be say that the bank is improving its various aspects of cash flow and design better every year liability position is good, credit and investment is also better, but there seems to be improved in excess cash generation from operating activities, and the ratio analysis of Everest Bank Ltd. It can be say that the investment deposit ratio is appreciable and shows that the bank has invested same amount to generate surplus cash flow. But if could be better to make investment of thirty percent in the relation with total deposit.

The correlation coefficient between NPAJ and CFOA, GDP and CFOA shows that there exists very high degree of positive relationship between their independent and dependent variables for both HL and EBL. Similarly in case of best for significance of an observed sample correlation coefficient between NPAT and CFOA, at 10% level of significance, alternative hypothesis; H_1 were accepted for both these banks when the margin of error decreases, alternative hypothesis H_1 and null hypothesis H_0 were accepted for HBL and EBL respectively. Likewise in case of GDP and CFOA, at 0.05% level of significance alternative hypothesis H_1 were accepted for both these banks. When the level of significance decreases, alternative hypothesis H_1 and null hypothesis H_0 were accepted for HBL and EBL respectively. Therefore it can be concluded that the

variables were positively correlated in the population between NPAT and CFOA in case of EBL and GDP and CFOA in case of HBL respectively.

From the hypothesis test; it is found that there is no significant evidence of different between the opinions of respondents from two groups or the opinions of two groups of respondents are independent.

5.2 Conclusion

Cash is the basic input needed to keep the operations of the business going on a continuing basis; it is also the final output expected to be realized by rendering the services for services sector business.

Sometimes, it so happens that a business unit earns sufficient profit, but in spite of this it is not able to pay its liabilities when they become due. The analysis of cash flows statement helps to conclude that the normal business operation of these banks were satisfaction cash flow from operating activities of both these banks were not in fluctuating trend because there exist high degree of correlation between NPAT and CFOA. Similarly, the volume of transaction of both these banks was greatly affected by economic activities of the economy. Effective cash management objectives implies a proper balancing between the two conflicting case of liquidity and profitability. so, these banks shouldn't threaten the liquidity and solvency position. In order to increase the amount of CFOA.

In order to find out the true figure of any financial institution from operations, accounting methods and practices should be uniform and systematic.

5.3 Recommendation

Globalization has emerged in Nepal. It is likely to grow in future. Technology viable option for these joint venture banks is to get the most out of and to limit the risks that it brings. Similarly, Nepal became member of WTO and BIMSTEC. There will be no automatic benefits from WTO and BIMSTEC. It creates cut-throat competition every

where in business. These joint venture banks should work hard to take advantage of opportunities provided by the WTO and BIMSTEC. These banks should minimize its negative impacts. The benefits of WTO and BIMSTEC can not be reaped in the short run. The loads indenting and long. Therefore, these commercial banks should fit with the global environment. Best fit managerial strategies should be developed. Manages of HBL and EBL should think in a global perspective information should be updated. For better utilization of limited resource and for achieving goal in cut throat competitive environment, application of advance tools and techniques can be a great help. The details analysis of cash flows statement and other related information of HBL and EBL, these recommendations would be best in the interest of the banks while conducting business activities and will also help to NAS and NRB.

The need for working capital to run day -to-day business activities can not be over emphatically. Working capital requirements are basically influenced by the nature of business. Obviously, the requirements of working capital manufacturing sectors business and higher as compare with service sector business. From the study both these banks had negative working capital figures. Working capital should be managed efficiently for safe guarding the banks against the danger of illiquidity and insolvency. Therefore, promote and timely action should be taken by the management of HBL and EBL to improve and connect the negative amount of working capital .

-) Business organizations are the product of their environment to adopt in changing environmental forces there banks are recommended to / study and predict the business environment continuously as well as should make SWOT analysis so that the activities can be adjusted accordingly in the changing environment.
-) No business can run without cash and making default on its obligations. Even are being a few days late in meeting payrolls, or paying suppliers or creditors can severely damage important business relationships. In additional to cash flows statements, cash budget should also be included in the directive issued by NRB for financial institution. Cash flows reports the cash activities of the past period. It

reflects the actual result of past cash transaction. To know the expected cash amount for future period, cash budget should be principal.

-) Looking at the current trend of banking business, these banks must be very much careful on formulating marketing strategies to serve as customer. The marketing strategies should be innovative that would attract and retain the customers. It is recommended for both the banks to develop an innovative approach to bank marketing for its well-being and for sustainability in the market.
-) To cope with the changing environment of the banking business, both these banks are suggested to enhance to existing facility of ATM network in branch offices outside the Kathmandu Valley.
-) An emphasis should be given on planning, research and development for the mobilization of low cost savings as well as to open new branch and to introduce qualitative product and services according with the demand of existing and potential customers.
-) These banks should be updated with the new tools and techniques that are practical around the globe in best performing banks. New methods and techniques should be thought and developed so that the cost minimization procedures can be exercised, better quality can be delivered to delight the customers.
-) Both the banks should follow the strict investment policy to avoid the non-performing assets.
-) In order to capture large market share both the banks that is HBL and EBL should be driven by the philosophy of giving paramount importance to its customers.
-) With considering the nature of activities in banking business, it is recommended for NAS to design separate specific format of cash flows statement for financial institution.

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APPENDIX -I

Questionnaires

Dear Respected participates

I am planning to conduct a research in comparative and Analytical study on cash flow of Himalayan Bank and Everest Bank. The Information supplied by you will be used strictly for my research work and assume you that this information will been maintained confident.

Please Tick () only one option out of different alternative

- i) What is the need of Analyzing cash flow statement in Nepalese organization
 - a) High need
 - b) moderately need
 - c) Not need
- 2) By using which method are you preparing cash flow statement .
 - a) Direct
 - b) Indirect
 - c) Computer model
- 3) "Do you believe that to maintain productive capacity at levels calculating free cash-flow is essential"
 - a) Yes
 - b) No
 - c) Not decided
- 4) In your view, which type of cash forecasting is useful in Nepalese organization.
 - a) Short-term cash forecasting
 - b) Long-term cash forecasting
 - c) Moderate cash forecasting
- 5) Are managerial policies highly sensitive to cash flows
 - a) Yes
 - b) No.
 - c) equally
- 6) What mainly reasons are available to respond to change unexpected cash flow
 - a) Interval
 - b) External
 - c)both
- 7) What are the company's options are available to respond to un-expected change in cash flow
 - a) Change in cash flow forecasting
 - b) Change in managerial policies
 - c) Use of external export
8. What type of unexpected events usually manifest themselves thorough a significant change in cash flows in Nepalese organization.
 - a) Recessions
 - b) Strikes
 - c) Loss of major customer
 - d) Market shifts
- 9) What type of Ratios are used in analyzing the firms cash How in your organization.
 - a) Cash flow adequacy ratio
 - b) Cash re-investment Ratio

- c) Both
10. What planning pitfall mostly occur when forecasting cashflow?
- Overstating sales forecast
 - Unclearstating cost
 - ignoring historical trends
 - making unduely optimistic
- 11) What is the best way of imparting cash-flow.
- Improve in billing systems
 - Add late payment charges or fees as possible
 - use more pro-active collection techniques
 - Raise additional equity.
12. Which objective is mostly fulfilled by preparing cash-flow in your organization .a)
- Information about liquidity and solvency
 - Information on charging assets, liabilities aquatics
 - Improve operating performance
 - Probability of Future cash-flow
13. What is the major problem they are facing in preparing cash-flow .
- Lack of export
 - Lack of forecasting and model
 - Use of computer's
14. Among them which statement is reliable for analyzing financial position.
- Fund flow statement
 - Cash flow statement
 - Both
15. Which level of management prepares cash flow statement in your organization
- Top level
 - Middle level
 - Low level
16. Have you establish any relationship between cash-flow and strategic decision making process.
- Yes
 - No.
 - Unknown
17. In your point of view, where treating these items interest and dividend received, removal pre-tax gained are beneficial for your organization .
- Operating
 - Investing
 - Financing

Curriculum Viate

Name : Ram Prasad Panth
Fathers' Name : Hari Lal Panth
Date of Birth : 2038/05/17
Sex : Male
Nationality : Nepalese
Marital Status : Married
Religion : Hindu
Permanent Address : Shankarnagar-4, Rupandehi.
Contact no. : 9857028737

Educational Qualification

S.N.	Level	Examination Board	Major subject	Passed Year	Division
1	S.L.C.	HMG Board	-	2054	2 nd
2	+2	HSEB	Management	2057	2 nd
3	BBS	T.U.	Taxation	2060	2 nd
4	MBS	T.U.	Account	2063	1 st

Training:

) Three Month Basic Computer Training.