CHAPTER-I

INTRODUCTION

1.1 General Background

Nepal is the tiny Himalayan kingdom, sandwiched in between the two giant of Asia i.e. India and China. Nepal has always remained as a sovereign nation. Nepal is known in the world as the land of Buddha and the Everest. Geographically, Nepal lies in 260 to 300 North latitude and 840 5' to 880 12' East latitude with the total area of 1,47,181 sq. km. with length of 885 km and the width ranging from 144 km to 240 km.

The economy of the Nepal is pre dominantly an agricultural one. More than 81% of the economically active people get their livelihood from agricultural. Low productivity of this sector is one of the reasons for Nepal to remain one of the least developing countries in the world. Prospects for overall economic development of the country will depend upon the transformation present economy to industrial economy.

Nepal after the political change of 2006 is moving towards this direction. Nepal has a mixed type of economy. It had a late start in industrial development. Its economy is dominated by economy of two giant industrial nations, India and China. Nepalese markets are almost covered by the products of India, China and other foreign countries. Nepalese industries are trying to compete with the imported products for abroad.

A cash budget shows the planned cash inflows outflows and ending position by interim periods for a specific time span. Planning cash inflows and outflows gives the planned beginning and ending cash position for the budget period. Management of cash inflows and outflows will indicate the need of cash or surplus cash, which to be managed properly, which calls for search of source or means of investment.

Two kinds of resources flow through many businesses- cash and non-cash assets. Cash budgeting is an effective way to plan and control the cash flows, assess cash needs, and effectively use excess cash. The primary objective of cash flow is to plan the liquidity position of the company as a basis for determining future borrowings and future investments. A cash budget shows the planned cash inflows, outflows, and ending position by interim periods for a specific time span. It is directly related to other plans such as the sales plan, account receivable and the expenses budget and capital expenses budget. The cash budget focuses exclusively on the amount and timing of cash inflows and outflows. In contrast, the other budgets focus on the timing of all transactions both cash and non-cash.

1.2 Handicraft Industry

Handicraft, in a simple meaning, is the art of craftsmanship. The product made by hand is handicraft and the industry producing the products made by hand is called handicraft industry. This is one of the incomes generating industry in Nepal. Nepal is one of the richest countries in the world with its heritage of artistic monuments made by hand. There exist no accurate date that since when the handicraft industry has been started in Nepal. But when turning the pages of history of Nepal, it is found that since the early periods of Licchivis and Kiratas and as far as Maha Bharat Period, handicraft arts were available. So many world heritage enlisted temples, monuments, palaces etc are the glorious examples of such evolution. However, it would not be other wise to say that the golden days blaze for the development of handicraft in Nepal. Were the days of Malla regime, in that period, most of the craftsmanship was found splendid.

And for the reason, Nepal is acquainted in the world for its rich art. The creative skills of Nepalese artisans and craftsmen were reflected in ancient temples, stupas, palaces and works of arts and architecture. While talking about handicraft today, the people here are still rich for its art. It has been evolved and developed in a hierarchical way. The reason, its handicraft is very popular in the foreign market. Thus, handicraft industry contributes a big share in a foreign market thereby earning a big volume of foreign income.

1.3 Industrial Development in Nepal

The development of cottage and small scale industries in Nepal has a long history. History of organized industry however, is of recent origin. Even in Lichhavi period (around 639 A.D.) cottage industries were in existence and running smoothly. Historical monuments reveal that Kautilya, the Indian philosopher, and Hunsang the Chinese traveler, have also described about the exports of Nepalese goods to the Indian and Tibetian markets. At that time, Nepal was a trade centre of India and Tibet for they had no separate and direct access to each other. Thus, Nepal had also played a role of mediator.

Industries relating to weaving paper industries, wooden carved works, statue making etc. were well furnished even in Malla period. Industrial policy adopted by the Malla rulers was more conducive to the development of cottage industry. This situation further improved at the time of king Prithivi Narayan Shah (1769 A.D.), the founder of modern Nepal, who helped strengthen the economy leading, towards autarky. It is clearly explained in his Divya Upadesh that we should encourage our cottage industry and protect it from foreign competition. Still, cottage industries were not developed in an organized way. As a result they began disappearing one by one. The influx of foreign goods in Nepal especially in the regime of Chandra Shamsher proved to be strychnine for cottage industry. The policy of Ranas was only to please the British and remain in power. Judging the then situation from this viewpoint, cottage industry could not, therefore, flourish much in one hundred and four years long autocracy of Rana regime. However, in 1935 Juddha Shumsher established and Industrial Council intending to create infrastructure, conducive to the industrial environment. The physical setting of the country forced it to remain insulted from the outside world and also led the then political system unaffected from the changed political situation of neighboring countries. That's why the development activities had to be started from scratch.

The history of industrial development of Nepal is not so long. The process of development was started with the establishment of Biratnagar Jute Mill and Industrial Council in 1936 A.D. By then Morang Cottan Mills, Raghupati Jute Mills,and Judha Match Factory were established till 1946 in Biratnagar. After the restoration of democracy in 2007 B.S., government established 'Udhyog Parisad' to encourage industrialization. 'Udhyog Parisad" changed into 'Cottage and Village Industry Development' later. Nepal has a very brief history of planned development process. It was only after the Royal Proclamation on October 10, 1955 the first five year plan

(1956-1961) was initiated in 1956. The prime objective of the plan in the field of industrialization was to encourage and revive cottage and small scale industries. An 'Industrial Development Centre' was set up in 1957 to create adequate climate for industrial development. NIDC was also established in this period. An industrial policy was also formulated in 1957.

The second three year plan was initiated in 1961. In this plan, various industrial estates in different parts of the country were established with the help of NIDC, Germany and government itself. Five industries, all relating to cottage and small scale industries were established in the country.

The third five year plan was commenced in 1965. In the field cottage and rural industries 14 zonal offices and 10 district offices were established in this plan. The fourth plan (1970-1975) stressed on the establishment of industry in the private sector. New industrial policy 1974 was amended. Twenty seven public enterprises were established during the period. In the fifth plan (1975-1980), cottage and village industries provisions were made to provide technical support, loan survey design and mobile training facilities through regional and district offices. The major achievements of this plan were the formation of agriculture lime factory, Hetauda Textile Factory and Bhaktapur Brick and Tile Factory. The main objectives of the sixth year plan (1980-1985) were to increase output, generate more employment opportunities and meet minimum basic needs of people. New Industrial Policy 1981 was amended in this plan. In the seventh year plan (1985-1990), Bhrikati Paper industries, Sugar Factory in Sunwal of Nawalparasi district were established, construction of Udayapur Cement Factory was also completed. Until the end of seventh plan, Nepal become self reliant in various industrial products like noodles, cigarette, matches, battery, soft drink, beer, biscuits etc. However, mass economic indicators do not justify this estimation.

After the restoration of multiparty system there was the absence of economic planning for two years. There were remarkable changes in government policy and programmes in this eighth plan (1992-1997). The government put emphasis on private sector, open trade and liberalization. One window policy, new industrial policy 1992, labour act 1992 was the major policies adopted by the government in this plan period. The ninth plan (1997-2002) was given name before birth. Because the full document of this plan was released only on 2054 B.S. after several amendments. This period was not normal. The development works were hampered by peace and security. There was the compulsion to cut down the development budget to ensure security in the country. The September 11, attack in the US and the subsequent threat of terrorism had slowed down the global economy. This had a several impact on Nepal as well, mostly in tourism sector. No major physical infrastructure could be added due to insecurity.

The tenth plan has both positive and negative aspects in depend of security. Since the serious security problem made difficult to implementation the plan. Though the plan is still on run and the final appraisal can be seen in the future. So, Nepal had launched its first economic planning in 1956. It has so far completed about ninth plan and the tenth plan is about to end. But the achievement of past plans is below satisfactory. The plan in Nepal has not been industrial development.

1.4 Background of the Organization

In Nepal, handicraft industries were in operation in historical period. No new technologies were in existence. Handmade instruments were used to produce products. Despite the new technologies are developed in modern times the basic concept the product made by hand is handicraft has not been changed yet. However, the new technologies are also taken as reference for production. Handicraft industry is emerging as a very challenging field in Nepal. The products produce in Nepal are mostly exported to foreign countries. The number of producer can not be said exactly because the work can be done in a room and the firms are running without government registration. Nowadays, those firms can be registered in the Gharelu Tatha Sana Udhog, Department of the Ministry of Commerce and Industry or Metropolitan Office. If the firms are registered, they can be facilitated by the government.

As mentioned above, the Nepalese Crafts P. Ltd. is also registered in Gharelu Tatha Sana Udhog. The registration was made in 2058 B.S. The enterprise was established for the export and manufacture of Nepali handicrafts and readymade garments. It was started its career in the international market from 21st century by introducing high quality of leather, suede, hemp, pashmina and wool products. It claims that the company doing so well in the short period due to the creative entrepreneurial guidance of its managing director. The objectives of the enterprise are, the company deals on the quality of the product not the quantity, and not only to extent the business but to satisfy the customers. So now, the enterprise says proudly that it is able to challenge the demand of present sophisticated fashion market. The enterprise exports its product mainly to Japan. Apart from Japan, it exports to Australia, Germany, France and South Korea. The enterprise produces leather's and suede items such as hat, bag, purse, jacket, pant, moflar and scarf. It produces good quality of hemp and woolen products such as bag, belt, hat, sweater, moflar, gloves. Likewise, it has good quality production of Pashmina items.

1.5 Statement of Problems

As financial management is considered as a vital and integral part of overall management the financial managers have great responsibility for the smooth functioning organization. They have to ensure financial strength through adequate cash flow, liability and better, utilization of assets. Any short coming in financial management adversely affects the liquidity, turnover and profitability, of a business enterprise from the point of new of achieving its goal and success.

Industrial services center and corporation co-ordination council identified in a study that majority of the corporations are facing the probliems as now to follow a suitable financial management policy. In the absence of sound financial plan and policy most of the Nepalese corporations seen to fail to maintain sufficient degree of liquidity and maximum profit.

Private enterprises are established with scare capital to fulfill many revilements of the nation as well as publican. They have their own aim and target during their establishment. Some private venture is during well but more than half are being burden for country. So, analysis must try to find out the reason to improve private venture by trying to find out, why private enterprises are most able to reach towards the target? Performance of private venture in Nepal is generally poor as indicated by low productivity, low capital utilization and low or negative return.

This study confines to the problems of financial operation and management in Nepalese crafts. Financial analysis of Nepalese crafts does not seen to be satisfactory and encouraging due various reason and current situation of country, now ever is expected to answer these question:

- Is the financial performance of Nepalese craft successful ?
- What operation and financial problems do the financial ratios indicate ?
- Whether or not Nepalese crafts is able to meet its maturing short and long-term obligation ?

1.6 Objectives of Study

The basic objectives of this study is to apprise Nepalese Crafts Pvt. Ltd. Appropriately for the application of comprehensive financial statement analysis. Thus the major objectives of the studies are as follows:

- To analyze the financial statement and their behavior through ratios.
- To analyze cash from operating, financing and investing activities of Nepalese Crafts Pvt. Ltd.
- To analyze overall cash flow of Nepalese Crafts Pvt. Ltd.
- To provide suggestion and Recommendation.

1.7 Limitation of Study

There are various limitations in this study which have existed below:

- Last six years data have been taken.
- The study has taken into consideration many aspects as production, sales etc.
- There is a time and resources constraints in the study.
- The study focuses on secondary data.
- The study cover only budgeting, financial aspect and accounting, not other area of Nepalese Crafts.

1.8 Significance of study

Analysis of financial performance is a crucial part of financial decision making process of business enterprises. Any mistake made in management of financial as pacts adversely affects the liquidity, turnover and profitability of business enterprises. Thus, it is required to measure the performance of the enterprise from time to time.

The kind of study is useful to provide feedback information for drawing the attention of management regarding what should be done for strengthening the financial performance of Nepalese crafts.

Nepalese crafts is leisurely growing industry with concept of providing services to the public. So its viability can play a signification role in the national economy. A little has been done in the past in the context as its performance. So to assess its meekness and corrective action could be implemented, to ensure its effective performance.

More important factor is the initiation of research scholar himself for undertaking this study to and the deficient literature in the area of Nepalese Crafts.

1.9 Organization of the Study

This study will be prepared in five chapter. This details of every chapter are as below:

Chapter-I

Introduction

This chapter is the introduction frame work that includes general background, introduction of Nepalese Crafts Pvt. Ltd., background of study. Statement of problem, Objectives of the study, Significance of the study and limitation of study.

Chapter-II

Review of Literature

This chapter reviews the existing literature in the relevant areas, mainly includes the fundamental conceptual frame work of financial statement, income statement, balance sheet, financial ratio analysis as a tool of evaluation, cash flow statement, review of journals review of books and review of previous research work.

Chapter-III

Research Methodology

This chapter deals with research methodology that includes introduction of research methodology, research design, source of processing and tabulation, data collection and the method of analysis and research variables.

Chapter-IV

Presentation and Analysis of Data

This chapter deals with the presentation and analysis of relevant data and information for this purpose various analytical tools have been used to analysis and interpret the results and major findings.

Chapter-V

Summary Conclusion and Recommendation

This chapter is the final chapter of the study that includes summary of the study, conclusion and recommendation.

The bibliography, appendix and glossary have been incorporated at the end of the study.

CHAPTER-II

REVIEW OF LITERATURE

2 Introduction

Review of literature is to study the concept that is developed in the area of same kind of research. It helps to learn that what research has been done in the study and what remains to b dome. It also helps to avoid the chances of unnecessary duplication in the study. Many studies/thesis and researches have been done on financial performance of the Handicraft industry in Nepal.

2.1 Conceptual Framework

Financial analysis is concerned with analyzing the financial statement of an enterprise and real picture of financial performances mainly depends upon firms past, present and anticipated future condition. Financial analysis enables to evaluate and depict the condition of firm's financial position. The analysis of financial statement, as a process of evaluating relationship between component parts of financial statement, is to obtain a better understanding of firm's position and performance. Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing the relationship between the items of the balance sheet and the profit and loss account.

Financial, is the art and science of managing money, affects the lives of every person and every organization. Finance is concerned with the process, institution, markets and instruction involved in the transfer of money among and between individuals, business, and governments.

Financial performance is important in all types of business including banks and financial institution, as well as industrial and retail firms. It is also important in governmental operations, school hospitals and highway departments. Financial analysis is done to make decision concerning the acquisition and the use of funds of the greatest benefits of the firm. It helps to forecast and plan to shape the firm future position as well as shape the firm's major investment and financing decisions.

Financial management coordinates and control firm's efficiency and financial markets as well.

Checking the financial performances in a business deserves much attention in carrying out the financial position. It also requires to respective analysis for the wisdom and efficiency of financial planning. Analysis of what has happened should be great in value for improving the standers, techniques and procedures of financial controls involved in carrying out financial function.

Financial performance is the main indicator of the success or failure of enterprises. There are different groups or persons who want to know for the financial performance of the enterprises such as owners, shareholders, managers, investors, and customers. Employees, tax authorities trade associate, trade union, competitors etc all the enterprises are directly influence by the financial policies in their growth and development.

The type of analysis varies according to the specific inters of the party involved. Trade creditors interested primarily in the liability of a firm. Their claims are short term and the ability of a firm to pay these claims is but smudged by means do a throng analysis do its liability. The claims of bondholders, interested in the cash flow ability of the company to service debt over the long run. The bondholder may eventuate this sources and use of funds its profitability over time and projections of further profitability.

Investors in a company's common stock are concerned principally with present and expected future earning and the stability of these earning. As a result, investors might concentrate their analysis on a company's profitability. They would be concerned with its financial to pay dividends and to avoid bankruptcy. In order to began more effectively for outside funds, the management of a firm should be interested in all aspects of financial analysis that outside suppliers of capital use in emanating the firm. Management also employs financial analysis for purposes of internal control. In particular, it is concerned with profitability on investment in the venous assets of the company and in the efficiency of assets management (Van Horne, 2002: 349)

Financial statement analysis is a study of relationship among the various financial factors in a business as disclosed by a single set of statement, by establishing a strategic relationship between the items of balance sheet and income statement and other operative data, the financial analysis as simply called unveils the meaning and significance of such items (Ahuja, 1994:121).

Financial appraisal is a scientific evaluation of profitability and financial strength of any business concern. Financial appraisal is the process of scientifically making a proper, critical and comparative evaluation of the profitability and financial health of a given concern through the application of the techniques of financial statement analysis. A complete financial analysis and interpretation of financial statements involves the assessment of past business performance, an evaluation of the present condition of the business and the predictions about the future potential for achieving expected or desired results (Jain, 1996:37).

Financial statement analysis involves a comparison of a firm's performance with that of other firms in the same line of business, which often is identified by the firm's industry Classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify its current strengths and weaknesses and to suggest action that might enable the firm to take advantage of the strengths and correct is weaknesses (Weston and Brigham, 1996:78).

Financial analysis is the process of identifying the financial strength and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account (Pandey, 1997:103).

The operating expense ratio is yardstick of operating efficiency, but it should be used cautiously , it is affected by a number of factors, such as external uncontrollable factors, internal factors, employees and managerial efficiency (or inefficacy, all of which are difficult to analyze. further, the ratio cannot be used as a test of financial conditions in the case of those firms where non-operating revenue and expenses form a substantial part of the total income (Pandey, 1997:128)

Management has to protect the interests of all concerned parties, creditors, owners and others. They have to ensure some minimum operating efficiency and keep the risk of the firm at a minimum level. Their survival depends upon their operating performance form time to time, management uses ratio analysis to determine the firm's financial strengths and weaknesses, and accordingly takes actions to improve the firm's position Management is in a better position to analyze the firm's financial position as it as access to internal information, which is not available to the credit analyst or the security analyst (Pandey, 1997:144).

The ratio analysis will reveal the financial condition of the firm more reliably when trends in ration over time are analyzed ratios at point of time can mislead the analyst, because they maybe high of low for some exceptional circumstances at that point of time. An impressive present financial position may really be eroding over time. While a weak position may be improving at a rapid rate over time. Thus, the trend analysis of the ratios adds considerable significance to the financial analysis because is studies rations of several years and isolates the exceptional instances occurring in one of two periods (Pandey, 1997:144).

The analysis of financial statement is a process of evaluating the relationship between component part of financial statements to obtain a better understanding of the firm's position and performance (Khan and Jain, 1999: 4).

2.2 Financial Statement

The financial statement contains summaries information of the firms financial affairs organized systematically. Preparation of the financial statements is the responsibility of the top management. These statements are used by investors and financial analysts to examine the firm's performance in order to make investment decisions. Financial statement disclosed financial information relating to any business concerns during a financial year, which is present in the firm of income statement and balance sheet usually prepared at the end of each financial year. Financial statements are prepared from accounting records maintain by the enterprises. The basic objective of financial statements is to assist in decision-making. Obviously financial statements consist of income statements and balance sheet.

2.3 Income Statements

The income statement is the Scoreboard of the firm's performance during a particular period of time such as a year, quarter or month. The generally accepted convention is to show one year events in the income statements. Since the income statements reflect the result of operation for a period of time. The income statement or profit and loss account presents the summary of revenues expenses and net income or loss of a firm for a period of time. Income statements are inter-related to balance sheet because profit and loss account is the base of preparing balance sheet. The enterprises use economic resources in providing foods and services to the customers. The cost of these resources used to earn revenues is called expenses. Sales is the major sources of revenue, generally called as operating expenses and interest and taxes which the company has to pay during the period are deducted to find out net income and loss.

The income statement reports the company's current operating performance for its most recent accounting period. While monthly or even weekly income statements may be prepared, quarterly and annual statements tend to be more common for external reporting purposes. For internal purposes, such as managerial decision-making, weekly income statements may be essential.

In their simplest form, the income statements contain two broad categories of items: revenues and expenses. The "revenues" may be thought of as the level of accomplishment attained by the company, while the expenses represent the effort expended to attain that level of accomplishment. More specifically, revenues represent the actual or expenses inflow of assets, the settlement of liabilities, or both, from a company's primary business activity, while expenses represent the utilization r consumption of assets, or incurring of liabilities, or both, to produce the revenue inflow.

Users of published financial statements are generally interested in the results of company operations as reported in the periodic income statement. Obviously, in order for a company to engage in its state mission of manufacturing, merchandising, or providing services, various economic resources (e.g., cash, facilities, materials, communications, systems) must be available and ready for use. An income statement reports the consumption or "using up" of a company's resources and the related revenues generated. An income statement, however, does not provide insights regarding the resources still available and the equity holders of those resources. The purpose of the balance sheet is to address these financial reporting needs (Bajracharya, etal., 2004:675).

2.4 Balance Sheet

A balance sheet is an accounting statements prepared from accounting balance at a given date. It shows the financial position of a business by detailing the source of funds and the utilization of these funds. A balance sheet shows the assets and liabilities group, properly classified and arranged in a specific manner. Balance sheet is prepared at the end of each financial year of a firm to reflect the position of assets, liabilities and capital in two sides separately. The asset side represents current assets, fixed assets and intangible assets.

Similarly, on the other side current liabilities, long-term liabilities and owner's equity are presented. The statement is prepared to see the liquidity position of a firm whether it is sound or not to draw an attention towards weak area for corrective action so as to ensure financial position. In the language of accounting the balance sheet communities information about the assets, liabilities and owners equity for a business firm as on specified date.

The objective of a balance sheet (or statement of financial position, as it is often called) is to provide, as of a specific point in time, information concerning the assets owned by the company and the equity interests (of both the creditors and owners) in those assets. The proper recognition, valuation, and classification of company assets and equities are intended to aid the users of financial statement in assessing the solvency, liquidity, and financial flexibility of the company. The fundamental relationship reported in a balance sheets is expressed by the classic accounting equation:

Assets = Liabilities + Owners' equity

Assets are the economic resources that a company has acquired the right to use and that are likely to contribute to future net cash inflows. The common characteristics possessed by all assets and economic resources are "Service potential" or "future economic benefit", the capacity to provide services or benefits to the entity that use them. In a business enterprise, that services potential or future economic benefits eventually results in net cash inflows to the enterprise (Bajracharya, etal., 2004:675).

Balance Sheet is not an account but it is a statement of assets and liabilities of a business enterprise at a given date. It is a statement summarising the financial position of a firm. The balance sheet is prepared at the end of accounting period and after completing the preparation of trading and profit and loss account. It is, moreover, the statement of balances of ledger account which are not included in income statement. Therefore it is called the balance sheet.

The balance sheet contains assets and liabilities. Liabilities refer to the financial obligation of an enterprise and assets refer to tangible objects or intangible rights owned by an enterprise and carrying probable future benefits. Assets are also termed as economic resources owned by an enterprise.

The Various items which are shown on liabilities are as follows.

a. Owner's Equity or Shareholder's Equity
b. Long Term Liabilities
c. Current Liabilities

A. Owner's Equity or Shareholder's Equity

The sum total of contributed and earned capital is known as the Owner's Equity. It can be Expressed as total assets over total liabilities and it is called net worth. It includes capital, reserve and credit balance of profit and loss account.

B. Long Term Liabilities

All the liabilities that are dues beyond year is known as long term debt or long term liabilities these are the obligations which will mature after a period longer that one year. They include company deposits, debentures or bond, long term loan from financial institution, loan on mortgage etc.

C. Current Liabilities

Liabilities which are to be repaid within one year of the date of balance sheet are taken as current liabilities. It represents the obligations of the business and arise in the ordinary course of operating business. Sunday creditors, bills payable, bank overdraft, accrued expenses, received in advance, cash credit, etc, are examples of current liabilities.

The asset side is split up into four major heads, which are as follows:

i. Fixed assets
ii. Current Assets
iii. Investment
iv. Other Assets

i. Fixed Assets

They are infrastructure assets and are not intended for resale in the normal course of business. These assets provide benefit over a long period of time to the organization. Fixed assets are those physical assets that are to be used in the conduct of business. The expectation is that they will be used rather that sold. Examples of fixed assets are land and building, plant and equipment, furniture & fixtures loose tools, vehicles etc.

ii. Current Assets

Those assets which are in the form of cash or can be converted into cash within a year are known as current assets. The current assets are assets which are reasonably expected to be realised in cash or sold or consumed during the normal operating business cycle. It is also known as floating or circulating or short term assets. Cash in hand, cash at bank, sundry debars, bills receivable, inventories, marketable securities, accrued income, prepaid etc, are included in current assets.

iii. Investment

It represents an expenditure on assets invested outside the business in order to earn interest, dividend or other gains. The intention of investment is to hold the securities for the long run, at last longer than a year. Shares, debentures, bonds are some of the examples of investment.

iv. Other Assets

Other assets refer to the payment made in one year, whose usefulness will expire in the future years. They represent assets usually of an intangible nature. These types of assets do not have real value. Preliminary expenses, research and development cost, discount or loss on issue of shares, deferred revenue expenditures and debit balance of profit and loss account etc, are the examples of fictitious or other assets. These deferred charges are to be amortised or apportioned over the estimated useful life,

2.5 Financial Ratio Analysis as a Tool of Evaluation

Ratio analysis is a widely used tool of financial analysis. Financial analysis involves determining the level of risk and expected return of individual financial assets as well as groups of financial assets. Financial ratio analysis reflects the financial records and reports. It is the process of determining the significant operating and financial characteristics of a firm from accounting data and financial statements. The aim of such analysis is to determine the efficiency, progress and performance of the firm's management. By the help of financial ratio analysis the analyst can identify the strengths and weakness of the firm and should use financial statements like balance sheet, profit and loss account and income statements to calculate ratio analysis. It measures the firm's liquidity, leverage, activity and profitability in a rational way. The management can also assured the risk of firm with the help of ratio analysis. So, it can be used to rank industries according to the degree of risk (K.C., 1988:86).

To evaluate the financial condition and performance of a company the financial analyst needs certain yardsticks. The yardstick frequently used is a ratio, or index, relating two pieces of financial data to each other. Analysis ad interpretation of various ratios should give experienced, skilled analysis a better understanding of the firm than they would obtain firm analysis of the financial data alone.

Trend analysis: The analysis of financial ratio involves two types of comparison. First, The analyst can compare a present ratio with past and expected future ratios for the same company . The current ratio (The ratio of current assets to current liabilities) for the present year end could be compared with current ratio for preceding year end. When financial ratios are arrayed on a spreadsheet over, period of years the analyst can study the composition of change and determine whether there has been an implement or a deterioration in the financial condition and performance over time. Financial ratios also can be computed for projected or proforma, statements and compared with present and past ratios. In the comparisons over time, it is nest to compare not only financial ratios but also the raw figures.

Comparison with others: The second method of companion involves comparing the ratios of one firm with those of similar Girms or with industry averages at the same point in time. Such a comparison gives insight into the relative financial condition and performance of the firm. Sometimes a company will not fit neatly into an industry category. In such situations, one should try to developed a set albeit usually small of peer Girms for comparisons purposes (Van Horne, 2002: 350)

There are various types of financial ratios. It is mainly classified into four groups namely liquidity, leverage activity and profitability (Khan and Jain: 1993:811).

Liquidity ratios are used to understand a firm's ability to meet short-term obligations and reflect the short-term financial strength-solvency of a firm. It means, it shows the relationship between current assets and current liabilities. Leverage ratio show the relationship of dept and equity in financing the firm's assets. These ratios examine the long-term solvency of a firm. Activity ratios examine the efficiency of assets management. It reflects the firm's efficiency in utilizing its assets. Profitability ratios measure the firm's efficiency of operation and its effectiveness.

Ratio analysis is the mirror of the firm. So, The person who wants to serve their purposes may use these ratios. The person could be the management of the firms or outside parties of the firm i.e. creditors, investors, owners and others. Trade creditors are interested primarily in the liquidity of the firms. Their claims are short term and ability to pay these claims is considered by the help of analysis of this liquidity. Whereas, the suppliers of long-term debt are interested in the case flow ability of the firm to service debt over long-term. Investors in a company's common stock are concerned principally with present and expected future earning and the stability of these earnings. So, they concentrate their mind in the firm's present and future profitability of the firm. The firm's management team uses financial analysis to evaluate its outside suppliers of capital and also for internal control. Thus, this type of financial analysis undertaken varies according to the specific interest of the investors, creditors, owners, government and others, which help them to have effective decision-making (Shrestha, 1980:104).

2.5.1 Liquidity Ratio

Liquidity ratio examines the firm's ability to meet current or short-term obligations. It shows the relationship between current assets and current liabilities. Generally, excess of current assets over current liabilities is considered as favorable. But both high liquidity and lack of liquidity are dangerous for a firm. Therefore, there should be proper balance between liquidities. The most important liquidity ratios are as follows.

A. Current Ratio

The current ratio is the ratio of total current assets to current liabilities. It is calculated by dividing current assets by current liabilities.

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The current assets is such type of assets of a firm which is converted into cash within a short period of time i.e. not exceeding one year and current liabilities is that which is payable with a year. The current assets are semi-finished (work in progress) and finished goods, debtors net provision for bad and doubtful debt, bills receivable and pre-paid expenses. Current liabilities are trade creditors, bills payable, bank credit, and provision for taxation, dividend payable and outstanding expenses. The current ratio of a firm measures is shot-term solvency.

B. Quick Ratio

The quick ratio is the ratio between quick assets and current liabilities. It is calculated by dividing the quick assets by current liabilities. It is also known as Acid test ratio.

$$\text{Current ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

The term quick assets refer to current asset, which can be converted into, cash immediately or at a shot notice without reduction of value. All the current assets except pre-paid expenses and inventory are quick assets.

C. Cash to Current Assets Ratio

Cash to current ratio measures the firm's day-to-day operation efficiency. It is calculated by dividing cash by current assets.

$$\text{Cash to Current Assets Ratio} = \frac{\text{Cash}}{\text{Current Assetss}}$$

It indicates the firm's cash holding policy.

D. Cash to Current Liabilities Ratio

Cash to current liabilities ratio measure the firm's current solvency. It is calculated by dividing cash by current liabilities.

$$\text{Cash to Liabilities Assets Ratio} = \frac{\text{Cash}}{\text{Current Assetss}}$$

Cash to Current Liabilities is basically useful for lenders.

2.5.2 Leverage Ratio

The second category of financial ratio is leverage ratio, which is also known as Capital Structure ratio. It is used to examined the long solvency of a firm. The long term creditors would judge the soundness of a firm on the basis of the long term financial strength measured in terms to its ability t pay the interest regularly as well as repay the installment of the principal on due dates or in one lump sum at the time of maturity. Leverage ratios are classified differently but the most valuable leverage ratios are as follows.

A. Debt Equity Ratio

Debt equity ratio is calculated by dividing total debt by shareholders equity.

$$\text{Debt Equity Ratio} = \frac{\text{Total Debt}}{\text{Shareholders equity}}$$

This ratio relative claims of creditors and shareholders against the assets of the firm.

B. Debt Assets Ratio

Debt assets ratio is calculated by dividing the total debt by total assets

$$\text{Debt Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Debt assets ratio measures the percentage of total funds available from creditors. Debt includes long-term debt, short-term debt current liabilities.

C. Debt to Total Capital Ratio

Debt to total capital is calculated by dividing long-term debt by permanent capital

$$\text{Debt Total Capital Ratio} = \frac{\text{Long Term Debt}}{\text{Permanent Capital}}$$

It shows the relationship between creditors fund and owners capital. (Khan and Jain 1983: 95)

D. Interest Converge Ratio

Interest coverage ratio is also known as time interest earned ratio. It is calculated by dividing the operating profit or earning before interest and taxes (EBIT) by the fixed interest charges on loans.

$$\text{Interest Coverage Ratio} = \frac{\text{EBIT}}{\text{Interest}}$$

This ratio measures the debt servicing capacity of a firm in so far as fixed interest on long-term loan.

2.5.3 Activity Ratio

An activity ratio can be defined as a test of relationship between sales (more appropriately with cost of sales) and the various assets of a firm. The efficiency with which the assets are used would be reflected in the speed and rapidly with which assets are converted into sales. The greater the rate or turnover or conversion, the more efficient the utilization/management, other things be equal, depending upon various type of assets, there are various type of activity ratios. The following are some of the more important and widely used ratios.

A. Inventory Turnover Ratio

Inventory turnover ratio is calculated by dividing sales by inventory or by dividing coast of goods sold by the average inventory.

$$\text{Invenory Turnover Ratio} = \frac{\text{Sales}}{\text{Inventory}}$$

The ratio indicates the efficiency of firm's inventory management.

B. Debtors Turnover Ratio

Debtor's turnover is calculated by dividing sales by debtor's credit sales by average creditors.

$$\text{Debtors Turnover Ratio} = \frac{\text{Sales}}{\text{Debtors}}$$

Debtor's turnover ratio measures the liquidity of the debtors of a firm.

$$\text{Average Collection Period} = \frac{\text{Days in a year}}{\text{Debtors Turnover}}$$

Average collection period measures the number of days required for collection cash from the debtors.

C. Fixed Assets Turnover Ratio

Fixed assets turnover ratio is calculated by dividing sales by net fixed assets.

$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Net Fixed Assets}}$$

Fixed assets turnover ratio measures the turnover of fixed assets i.e. plant, machines and equipment.

D. Current Assets Turnover Ratio

Current assets turnover ratio is calculated by dividing sales by current assets.

$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Current Assets}}$$

This ratio measures their efficiently of a firm in utilizing its current assets.

E. Total Assets Turnover Ratio

Total assets turnover ratio is calculated by dividing sales by total assets.

$$\text{Total Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Total Assets}}$$

This ratio indicated the sales generated per rupee of investment in total assets.

2.5.4 Profitability Ratio

The final category of ratios is the profitability ratio. The management of the firm is naturally eager to measure its operating efficiency by the help of profits. If the firm doesn't generate sufficient profits than it is understood that the management is poor It does not provide money for repaying the debt incurred to finance the project and the resources for the internal financing of expansion. Profitability is a measure of efficiently and the search for it provides an incentive to achieve efficiency. Profitability also indicates public acceptance of the product and shows that the firm can produce competitively. Profitability ratios can be determined on the basis of sales or investment. The following are some of most important ratios to measures the probability of the firm.

A. Gross Profit Margin

Gross profit Margin is calculated by dividing gross profits by sales and multiplying by 100.

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

It is calculated by subtracting cost of goods sold from sales. Gross profit margin indicates the efficiency of operations as well as the price of the products.

B. Operating Ratio

Operating ratio is calculated by dividing cost of goods sold plus operating expenses by net sales

$$\text{Operating Ratio} = \frac{\text{Cost of goods sold} + \text{Operating Expenses}}{\text{Sales}}$$

This ratio is essential to know the actual profitability situation of the firm.

C. Dividing Administrative Expenses Plus Selling Expenses by Sales Calculate Operating Ratio

$$\text{Operating Expenses Ratio} = \frac{\text{Administrative Expenses} + \text{Selling Expenses}}{\text{Sales}}$$

It shown the profitability situation of the firm.

D. Administrative Expenses Ratio

Administrative expenses ratio is calculated by dividing administrative expenses by net sales.

$$\text{Administrative Expenses Ratio} = \frac{\text{Administrative Expenses}}{\text{Net Sales}}$$

E. Earning Per Share (EPS)

Earnings per share is calculated by dividing net profit after taxes by number of ordinary shares outstanding.

$$\text{EPS} = \frac{\text{Net Profit available to equityholders}}{\text{No. ordinary shares outstanding}}$$

It measures the profit available to the equity holders on a per share basis, or the amount they can get on every share held.

2.6 Cash Flow Statement

Balance sheet, income statement and funds flow statement are the three financial statements which are very closely linked and they play an important role in providing financial insights into a firm. A balance sheet reports the cash balance at the end of the period. By examining to consecutive balance sheets, we can tell whether cash is increased or decreased during a particular period. However, the balance sheet can not indicate why the cash balance changed. The income statement reports revenues, expenses and net income. These items provide information about the resource generating capacity and profitability, but income statement itself cannot tell why cash increased or decreased. Similarly, funds flow statement helps to explain how a firm acquired its money and how it was spent. But this statement fails to provide information about the causes of variation in cash balance. In other words, business organizations engage in different activities such as operation activities, financing activities and investing activities. But funds flow statement does not explain the cash inflows and cash outflows associated with operating, financing and investing activities of the firm. The cash flow statement reports the firm's cash flows during the period, outlining where cash generated from and where it was spent. In other words, cash flow statement is an indicator of the amount of cash receipts and the amount of cash payments or disbursements during a specified period. Operating, financing and investing activities are the major business activities that result in either a net cash inflow or a net cash outflow. The cash flow statement shows the net increase or decrease in cash during a particular time period and explain the caused for the changes in the cash balance.

Cash flows are inflows and outflows of cash and cash equivalent. The statement of cash flows is a financial statement which explains the changes in cash position from one balance sheet date to next balance sheet data those, it provides information about the inflow and out flow of cash and cash equivalent of a firm in a accounting period.

Preparing a statement of cash flow is simple. It is intended to show all the cash inflows and outflow of a firm during a period, tow ever, as the cash flow statement must combine cash flows that are recognized in the balance sheet to prepare, preparation of this statement is futher complicated by differences between the time cash flow occur and when they are recognized as revenues or expenses. The accrual process (income statements recognition) is subject to management judgment, assumptions and various estimates that affect both time series and cross-sectional analysis.

One objective of preparing a cash flow statement is to understand the relationship between accrual accounting event and their cash impact. A second goal is to classify cash flow among operating, financing and investing activates as required by accounting standards.

The main objectives of a statement of cash flow 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 flow presents the same information in a different manner so that the decision maker come to know now much cash has in crashed or deceased in operating, investing and financing activities (Bajracharya, etal., 2004: 738)

Importance of cash flow statement:

The importance and usefulness of cash flow statement is in creasing day by day. Recognizing its importance, the financial accounting statement board (FASB), statement no. 95 stated to prepare a statement of cash flow to all companies in 1987.

International Accounting standards along with balance sheet and profit and loss account. According to see. 83 of Nepal Co. Act, 2053, the co. should prepare cash flow statement along with profit and balance sheet at the end of financial year.

The importance of cash flow statement is presented below:

i. The cash flow statement is prepared on the basis of cash, hence, cash position of a firm can be easily evaluated.
ii. Cash flow statement is helpful to a firm for planning and co-coordinating financial operation properly.
iii. The statement can provide the conceited organization the necessary assistance for the effective steps to strengthen the in internal financial position.
iv. It is also helpful in planning the repayment of loan replacement of fixed assets and other long term cash planning.
v. It is useful for both internal and external users. The external user refer to the bank and other financial institutions.

Objectives of cash flow statement:

The primary purpose of the statement of cash flow is to provide information about the inflows and out flow of enterprises cash during the particular period. The cash flow users with insight about the change in cash and cash equivalents during an accounting period.

The main objective of cash flow statement are as follows.

i. To provide information about a cash receipt and cash payment of a company during an accounting period.
ii. To provide information about a company's operating investing and financing activities during the accounting period.
iii. To provide information about the changes is the cash position of the company.
iv. To evaluate the financial.
v. to help in understanding liquidity of the firm.
vi. To locate the reasons for variations in cash position.
vii. To assist the firm in shoot term cash planning.

2.6.1 Cash Flows from Business Activities

Business activities are divided into three sections i.e. cash flows from operating activities, cash flows investing activities and cash flows from financing activities for the purpose of preparing cash flow statement.

Operating Activities

Operating activity is concerned with the day to day business operations. Cash flow from operating activities is any cash transaction related to the firm's ongoing business which is responsible for most of the profits earned or loss suffered. Operating activities usually involve producing and delivering goods and rendering services. Cost of purchases and cost of goods sold, payment of wages, salaries, rent, interest, tax and other expenses are the major sector of cash outflow. Cash flow from operations is the major means of generating cash. Cash from operations shows the extent to which day-to-day operating activities have generated more cash than the cash which has been used. The cash flow from operating activities is basically related with revenue, cash expenses and changes in current assets and current liabilities.

Investing Activities

Cash flows from investing activities are the second part of cash flow statement. Investing activities are related with the purchases and sales of non-current assets such as plant and machinery, land and building, furniture and fixture etc. Investing activities also include lending money and the purchase or sale of investments in securities. Investing activities explain the changes in cash position between two balance sheet dates due to the buying or selling of non-current assets.

Financing Activities

The financing activities section of the cash flow statement shows the sources of fund generated through owner's capital and debt. Financing activities also include the repayment of debt and payment of cash dividend to shareholders.

2.6.2 Preparation of Cash Flow Statement

Cash flow statement is primarily prepared under two methods viz. Direct Method and Indirect Method.

1. **Direct Method**

   Combining the cash flows generated from operating, investing and financing activities, cash flow statement is prepared to show the net change in cash balance during a particular period. It can be prepared according to the direct or indirect method. The specimen of cash flow statement under direct method is as below

Table: 2.1
Cash Flow Statement under Direct Method

Particulars	Amount (Rs.)	Amount (Rs.)
a. Cash Collected from Sales and Debtors:		
Sales revenue	+ ****	
Increase or decrease in debtors and receivables	- or + ****	
Increase or decrease in doubtful debt	+ or - ****	
Bad debt written off or bad debt recovered	- or + ****	
		+ ****
b. Cash Paid to Suppliers:		
Cost of good sold	+ ****	
Increase or decrease in inventory	- or + ****	
Increase or decrease in creditors	+ or - ****	
Increase or decrease in accounts/bills payables	- or + ****	
		+ ****
c. Cash Paid to Employees and Others:		
Wages expenses	- ****	
Manufacturing expenses	- ****	
Office and administration expenses	- ****	
Selling and distribution expenses	- ****	
Other cash expenses	- ****	
Increase or decrease in prepaid expenses	- or + ****	
Increase or decrease in outstanding expenses	+ or - ****	
		± ****
d. Interest Paid:		
Interest expenses	- ****	
Increase or decrease in outstanding interest	+ or - ****	
Increase or decrease in prepaid interest	- or + ****	
		± ****

e. Tax Paid:		
Tax expenses	- ****	
Increase or decrease in provision for tax	+ or - ****	
Increase or decrease in tax payable	+ or - ****	
Increase or decrease in advance tax (prepaid)	- or + ****	
Refund of tax	+ ****	
		± ****
f. Cash Flow from Other Items:		
Increase or decrease in bank overdraft	+ or - ****	
Increase or decrease in short-term bank loan	+ or - ****	
Sales or purchase of short-term investment	+ or - ****	
Interest and dividend received	+ ****	
Compensation received or paid	+ or - ****	
		± ****
Net Cash Flows from Operating Activities (A)		± ****
Cash Flow from Investing Activities:		
Purchase of fixed assets	- ****	
Sales of fixed assets	+ ****	
Additional investment	- ****	
Sales of long term investment	+ ****	
Net Cash Flows from Investing Activities (B)		± ****
Cash Flows from Financing Activities		
Issue of equity share/preference share/debenture	+ ****	
Increase in share premium	+ ****	
Payment of long term loan	- ****	
Increase in long term loan	+ ****	
Redemption of preference shares and debenture	- ****	
Dividend paid	- ****	
Net Cash Flows from Financing Activities (C)		± ****
Net Changes in Cash and Cash Equivalents (A+B+C)		*****
Add: Beginning cash and cash equivalent		****
Ending Cash and Cash Equivalent		******

2. Indirect Method

Cash flow statement can be prepared by using indirect method also. The difference between direct method and indirect method is only cash flows from operating activities. Cash flows from investing and financing activities are similar under direct methods. The format of cash flow statement under indirect method is as below:

Table: 2.2
Cash Flow Statement under Indirect Method

Particulars		**Amount (Rs.)**
Cash flow from Operating Activities		
Net income		****
Add: Non-operating and non-cash expenses and loses:		****
Amortization of intangible/fictitious assets		****
Losses on sales of fixed assets		****
Other non-operating and non-cash expenses and loses		****
		****
Less: Non-operating gain and income:		
Dividend/interest received		****
Gain on sales of fixed assets		****
Other non-operating gain and incomes		****
		****
Funds from Operation		
Add: Decrease in current assets (Except cash and bank)	****	
Increase in current liabilities	****	
Less: Increase in current assets (Except cash and bank)	****	
Decrease in current liabilities	****	
Net cash flow from operating activities (A)		****

Cash Flow from Investing Activities		
Purchase of fixed assets and long term investment		(****)
Sales of fixed assets and long term investment		****
Net Cash Flows from Investing Activities (B)		****
Cash flows from financing activities		
Issue of equity share/preference share/debenture		****
Increase in share premium		****
Payment of long term loan		(****)
Increase in long term loan		****
Redemption of preference shares and debenture		(****)
Dividend paid		(****)
Net Cash Flows from Financing Activities (C)		****
Net Changes in Cash and Cash Equivalents (A+B+C)		****
Add: Beginning cash and cash equivalent		****
Ending Cash and Cash Equivalent		****

2.7 Review of Journals

In this section, effort has been made to examine and review of some related Journals in different economic journals, papers, magazines, and newspapers.

A corporation needs to be economically viable, financially sound and socially efficient. This can be possible only through favorable turnover of assets and capital employed in the corporation. Most of the enterprises in Nepal suffer from low turnover. As a result of this their return does not justify the volume of investment. Economic survey reports remarks. In view of low, return from of the investment made by HMG in public Enterprises in general, HMG has adopted privatization policy (Ministry of Finance, 1998).

Industrial sector is playing the key role for stable economic development. Since past year's non-agriculture income of the nation is leading the agriculture Income slowly. Industrialization is a comparatively new phenomenon in Nepal. It is an important factor for achieving the basic objective of a country's economic and social progress.

Unfortunately these days performance of public enterprises is nose- diving at an alarming rate. Most of public enterprises have very weak financial position and lack professional competence. Especially sector enterprises are bearing losses for many years. Major factors for such dismal performance are low capacity utilization, poor competitive capacity, lack of professionalism, weak management capability, delay and ultimate decision making, lack of risk taking capability.

Journals published on "Performance Analysis of Public Enterprises" defines Industrial sector has twelve public enterprises. Public Enterprises in this sector have revived Rs. 2,109.9 million as share capital and Rs. 10,000.9 million as loan capital from HMG until fiscal years 1999/2000. Not single enterprises provided any dividend to the government in this fiscal year.

The financial situation of public enterprises has been worsening day by day due to unbearable burden of liabilities created without reviewing its own position. Most public enterprises have not even booked their liabilities related to its employee such as leave, gratuity and other facilities and no provision has been made for disbursing such liabilities. Therefore, no clear financial picture and health of the public enterprises can be ascertained.

It is evident that public enterprises are not functioning in a business like manner, they are neither productive nor goal oriented. Hence, they are not able to deliver goods and services to the consumer as expected. However, they are wasting scare nation recourses and becoming a burden to the government and the industry.

The most important task for the government, however, would be to improve deteriorating law and order in the country, contain Maoist insurgency and provide security to the industry and businesses The further course will depend very much on whether the government succeeds in these fronts .Of course, political instability and minimum consequences among the political parties will be equally crucial for the government to implement its own policy document (Business age, 2002).

According to Journals published by Ministry of commerce highlights, today the world is based on open and market oriented economy. It has been well proven that no country could survive under the control system as practiced during the 1950s and 1960s. Therefore, along with the change in the world economy, Nepal has also started to pursue progressively the policy of economic liberalization since 1980s. In the very context, privatization of the state owned industries and trading was initiated. Public corporations, which could be run more efficiently by the private sector, are being privatized. Seventeen such industrial, commercial businesses have been already privatized till this day. Out of these, all[1] the industries or trading units are in operation except the Tobacco Development Board and Jute Development Board. Privatization cannot bring positive results to the national economy overnight. But we can be very much hopeful of the positive contribution to the national economy in the long-term through privatization if the sense of ownership is applied among employees. He does not think that there is any example of closure of any unit because of privatization (Ministry of Commerce, 2002).

According to journal published on U.S Library Congress the history of incorporated private firms in Nepal is short. The Nepal companies Act of 1936 provided for the incorporation of industrial enterprises on joint stock principle with limited liability. The first such firm, Biratnagar Jute Mills, was a collaborative venture of Indian and Nepalese entrepreneurs. It was formed in 1936 with initial capital of 160,000 Indian rupees. In response to shortages of some consumer goods during World War II (1939-45), fourteen private companies emerged in such diverse fields as mining, electrical generation, and paper and soap production. The initial capital invested in each of these industries was small .In 1942 two paper mills emerged as joint ventures of Nepalese and Indian entrepreneurs. Industrial growth gained momentum after 1945, although the end of World war had reduced the scarcity of goods and caused many of these companies to incur losses.

Public companies also had varied success. Between 1936 and 1939, twenty public companies were formed, of which three failed .Between 1945 and 1951, thirty -five public firms were incorporated, six of which went out of business .Between 1936 and 1963, fifty-four firms were incorporated, but at the end of 1936 only thirty-four remained in operation. The success of public companies continued to be erratic.

Management consultant and company had undertaken a research study on the performance of the public enterprises. The following are the conclusions drawn by the company.

1. Financial performance of Nepal is poor and indicates mismanagement of resources. The report has stated that the government received very nominal dividend.
2. Irregular and non availability of timely financial reporting of the HMG held undertaking shows a complete lack of financial discipline and managerial efficiency. It makes it difficult to complete the exact WG investment and its growth rate over since.
3. Because of lack of operational objectives application of the long range planning, use of modern management tools capital budgeting and efforts towards cost control has not been made so far.

2.8 Review of Books

Financial performance of cooperation depends upon how effective plan and policy the firm has followed. Financial planning involves analyzing the financial flow of the firm as whole forecasting the consequences of various investments, financing and dividend decisions, and think about the effects of various alternatives. The idea is to determine where the firm has been.

Where it is now and where it is going not only the most likely course of events, but deviations from the most likely outcome. If things become unfavorable, the company should have a backup plan, so that it is not caught flat-fooled, without financial alternatives (Van Horn, 1998:799).

In relation to the planning in PEs in Nepal, Shrestha pointed out that some of the corporation running at loss have not as yet set out clear cut formulation of financial plans showing how much funds are required to meet cost of operations and as sue h, the organizational set up is not so sound footing. This lead to vague and confused issue of directions and instructions. Because of these characteristic features the corporation has neither effective turnover for quick collection of fund nor the allocation of available funds are based on managerial approaches of finance (Shrestha, 1983:16).

For better performance, the existing assets and capital assets should be properly utilized rather than turnover. In this connection, Shrestha has stated some policy issues and constrains relating turnover in his article "Performance of Public Enterprises in Nepal" Analysis of Assets and Capital Turnover (Shrestha, 1983:65).

Low turnover is the outcome of various administrative bottlenecks, many public enterprises have capacity to raise turnover. But number of administrative rigidities, procedure, and delays has eroded their turnover. As Agrawal observes "Management in public enterprises is characterized by instability of top management, lack of emphasis on effective planning, undue emphasis on prestige and status, failure of formal structure to provide for needs of employees, authoritarian relationship, lack of formal communication system, highly centralized decision making and tendency toward aphorism" (Agrawal, l987:25).

2.9 Review of Previous Research Works

Pokhrel (2007), has conducted a research topic *Cash Flow Management Analysis of Handicraft Industry* (A case study of Sunrays Enterprises).

His Main Objectives:

- To analysis sales and expenses budget associated with cash budget of sunrays enterprises (SE).
- To draw the true picture of profit planning and control of SE.
- To evaluate various budget with actual result.

His Major Findings:

- Proper planning aspect is virthaily ignored in the company
- The sales revenue forecasting is base less.
- The actual sales revenue rises much more than for castled one.
- Expenses relating to production of the product are comparatively high other overhead expenses.
- Hard cash balance of the company is not as sufficient to met the current liabilities of the company.
- The average cash turnover time for 5 years is found to be 30.60 time.
- The company does not seem applying the effective managerial tools. profit planning and control for controlling its activities major recommendations.

- Proper planning regarding the sales plan for particular period should be made and efforts should be raised to accompany it.
- Scientific accounting tools and reports should be well prepared also the transaction should be well recorded to get proper result.
- Budget regarding production, overhead, material, purchase etc. Should be prepared that shows the proper utilization of resources.

There is unfair competition in market. The firm should make SWOT analysis to survive in present market competition.

Bhandari (2006), has conducted a research topic *cash flows analysis in Nepalese public enterprises* (A case study of salt trading corporation limited).

His Main Objectives:

- To study the existing cash management in STCL.
- To critically review the cash management technique procedure by STCL.
- To suggest appropriate cash management policy for future.

His Major Findings:

- Cash management in the STCL is primarily based on the traditional practice lacking in scientific approach.
- The STCL could not make the best use of available cash balance prudently.
- The average cash turnover time in a year is found 40 times which is in fluctuating trend over the study period.
- Management has taken liberal credit policy to sales of goods. Hence the cash and bank balance of the study period is minimum.
- No optimum cash balance is maintained.
- The cash and bank balance with respect to current assets has been fluctuating similarly is the cash with respect to the total assets.

His Major Recommendations:

- The Co. Should properly segment its internal as well as external market and make according sales plan for future period.

- The Co. should study the business environment continuously as well as should make SWOT analysis so that it's activities can be analysis so that it's activities can be adjusted accordingly. On the basis of segmentation of market the company should formulate plane and policy.
- The company should make the appropriate capital structure which helps the reduction of cost of capital.
- The co. is paying huge amount of interest on debt. So it is better to assess the debt and equity market that enable to raise funds from low cost sources.
- The company should accurately forecast the amount and timing of cash flows so that borrowing can be minimized thus lessening interest expenses.
- No business can run without cash and making default on it's obligation. The basic management responsibilities is to ensure that the business has enough cash to meet it's obligation as they become due. Thus the co. should take several strategies to increase cash flows like differing income taxes, peak pricing and developing on effective product mix in both the short and long terms.

Dahal, (2006), has conducted a research entitle *Financial Performance of cooperative society Ltd.* Kathmandu.

His Main Objectives:

- To analyze the sources and applications of funds.
- To evaluate the liquidity position of Co-operative society Ltd.

His Major Findings:

- The capital structure of the Co-operative society Ltd., Inaruwa, Sunsari is not sound. There is heavy debt capital as compared to equity or ownership capital. Debt equity ratio for the period, F/Y 2061/062 to 2065/066 are 340.39%, 352.52, 330.11%, 417.96% and 169% respectively.
- The society is unable to mobiles its fund and public deposits in the profitable sector.
- The society has been suffering from loss for the year 2061/062, 2062/063 and 2063/064. High cost of goods sold, heavy interest expenses and inefficient management are the main causes of loss.

- The society has not yet adopted scientific form over and under inventory problems.

His Major Recommendations:

- The society should collect the find by issuing share capital and these capitals should be utilize in profitable sector of achieving the objectives of the society.
- The scientific tools of inventory management should be utilized by the society for solving over and under stocking in society.
- The management information system of the Co-operative society is poor. Therefore, the good management information system should be installed in the society to provide all financial information for effective managerial decision.

Dahal (2005), has conducted a research topic *cash flow Budget analysis of service industry as a component of PPC* (A case study of sagarmatha insurance company Pvt. Ltd.).

His Major Objectives:

- To analysis sales & expenses budget with cash budget of SIC.
- To draw the true picture of PPC of SI co.
- To finding the trend of premium collection and investment & its impact of cash budget.

His Major Findings:

- The company follows traditional method for planning the cash.
- The co posses large amount of fund but it is not profitability invested the co couldn't invest its available fund for national interest.
- The co does not follow the optimum cash of total cash available with it which invested prudently would have handsome return.
- Though the total premium of co is increasing its net profit is continuous decreasing.
- The company is under capitalized. It does not possess borrowed capital. It return on assets is 7.95% and if it could get cheaper fund it can go for borrowed capital.

His Major Recommendations:

- The proper cash flow management depends upon managing inflow and cash outflow. The management should give high priority for encouraging the inflow timely. Similarly the payments are to be made appropriately.
- The appropriate decision regarding investment is another factor. The investment decision should be effective as well as appropriate time base.
- Factor like nature of business level of revenue, credit term, types of customers economic condition greatly effects the cash flow management. Those are to be consider and used appropriately.
- The banking arrangement for meeting the cash short and depositing the excess cash immediately is also another factor.
  The motive of holding cash determining the optimum balance of cash, cash flow cycle and statistical analysis of cash flow are in separated activities in the cash flow management.

B.K. (2002), has conducted a research topic *financial performance analysis of Nepal co-operative Societies* Kirtipur.

His Main Objectives:

- To assess the financial stability of co-operative society.
- To examine some important ratio of co-operative society.

His Major Findings:

- Liquidity position of the co-operative society found highly fluctuating due to lack of working capital management.
- debtors' turnover ratio found to be very high due to carelessness in receivable management.
- The association has not maintained its appropriate leverage position. The funds are not appropriately managed and sundry creditors are not managed well.
- Return rations show very low achievement of the association. The assets are not used in full capacity and profitability is under 5% in every sector. It

indicates negligence of management. The brief profitability position of the association over the period of study sows the determination.

His Major Recommendations:

- The association should be rigid in receivable management and to make plans and polices strictly, collect the due amount in time.
- Sources and application of the funds should be properly analyzed. Maintain of maintaining inventory.
- Capital structure should be made by adjusting the proper mix of debt and equity. The debt to equity is found low.

2.10 Research Gap (Different Between the Current Research & Previous Research)

There is a gap between the present research and previous researches. 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 ration were not used and also the data & other necessary information's 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 effective communication. Accounting practices should be uniform both within and among corporation or other organizations. Financial reports of the enterprises should be readily comparable with those of another.

No doubt, accounting standards are not the bad evil, they are granting of a boan to an enterprises. 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 form government side nor from private sectors regarding whether 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 handicrafts probably this might be the first research study carried on this topic by using secondary data both in Nepalese context. This study has made an effort to raise general awareness exploring the current issue of NAS.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology, describes the methods of process applied in the entire aspect of study. Every research should be outline in the systematic manner and for that reason research methodology is one of the most important parts of every research. Though, "Research Methodology is a way to systematically solve the research problems. It refers to the various sequential steps to be adopted by a researcher whom is studying a problem with certain objectives" (Kothari, 1978:76).

The presented research focuses on the study of the Financial Statement Analysis of the Handicraft Industry for which company undertaken is Nepalese Crafts Pvt. Ltd. The set objectives of the research are tested upon the information gathered from the enterprise and generally accepted principle and various propounded theories. The study is conducted dividing the total work into the five chapters, first being Introduction, followed by Review of Literature. Research Methodology, Data Presentation and Analysis and Summary, Conclusion, Recommendation are the remaining chapters.

3.2 Research Design

The research attempt to analyze and examine the Financial Statement Analysis. This analysis involve the participation of all level and is comprehensive so as i.e. the cash flow management. Here the set of objectives are tested upon the data gathered and general principles. It is comparative analysis of the various years and analyzes too.

The data required for the clarity of the concept and fulfill the study objectives are collected mostly from company directly. The standard information and modern concept is view through the current journal and book-let. The information so collected is analyzed using various standard and statistical measures. The statistical calculation will help to see if or not there is trend on the activities.

The information presented is represented in diagram, chart and graph. The data after presentation is interpreted so as to best suit the interest of the reader or to provide the theoretical insight about the data behavior. While developing thesis extreme care is taken to present it in the simple flow of thought.

3.3 Source of Data

Data are the source of interpretation. They can be collected from two sources. They are:

- Primary Source: - Data collected by questionnaires, interview and discussions from the related.
- Secondary Source: - Data collected from books, literature, old thesis newspaper, journals etc.

Here due to the unavailability of primary source the total study is made on secondary data.

3.4 Processing and Tabulation

The available data are complied and processed according to as the objective of study. Before processing the data, they are tabulated. This tabulation is based on the time series covering six year period from fiscal year 2060/61 to 2065/66. Percentage and index are also used in tabulation when necessary.

3.5 Tool and Technique Used to Analyze the Data

The data analysis is made on the basis of various financial and statistical tools. To find the true position of Nepalese Craft's Pvt. Ltd. I have used following tools and techniques.

3.5.1 Financial Ratio Analysis

Financial analysis is the process of analyzing various items of financial statement of firm to ensure its comparative strength and weakness. Financial analysis is equally fruitful to the internal as well as external parties concerned to a corporate firm. Financial statement analysis involve a study of the relationship between income statement and balance sheet accounts, how these relationship change over time and how a particular firm compare with other firm in its industry.

These are various type of financial ratio used to make a comparative analysis of financial statement. For the purpose of research studies following financial ratios are used.

(a) Liquidity Ratios

(b) Leverage Ratios

(c) Asset and Investment Management Ratios

(d) Profitability Ratios

3.5.2 Statistical Tools

The research holds various statistical tools which are as follows.

(a) Mean

(b) Correlation and Regression Analysis

(c) Probable Error (P.E.)

(d) Trend Analysis

3.5.3 Cash Flow Statement

The cash flow analysis is done through by preparing of cash flow statement. The statement of cash flows visualizes the picture of movement on cash owing to the operating, investing and financing activities of a company during on accounting period.

The information in the statement of cash flows provides a basis for analyzing financial results. Additional analysis is possible through the use of three ratios relating to cash flow: the cash flow per share of common stock, cash flow margin and cash flow liquidity ratio.

(i) **Cash Flow per Share** = Net cash flows from operating activities / average no. of common share

(ii) **Cash Flow Margin =** Net cash flows from operating activities / Net sales

(iii) **Cash Flow Liquidity Ratio =** Net cash flows from operating activities plus cash balance/current liabilities

3.6. Research Variables

Sales, purchase, operating expenses, profit and loss account, item include in Balance Sheet, cash from operating activities, cash from investing activities, cash from financing activities are the major research variable of the study.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

The data presentation and analysis is the important part of the study because all the information and ideas will be analyzed and presented in this chapter. The forwarded study is the study of the Financial Statement Analysis as the component of the PPC. The basic objectives of this study have been already mentioned in the first chapter. The Financial Statement Analysis aspects have disused in the review of literature. In the research methodology necessary analytical tools and techniques have been employed for the accomplishment of prescribed objectives. In this chapter efforts have been made to process the obtained data analyzed and interpret them. The available data are presented in table and graph and they are analyzed with the help of statistical, mathematical and financial tools and finally interpreted on the basis of which facts are explored.

4.2 Financial Ratios

Financial ratio analysis helps to evaluate performances of the company by using various financial data extracted from different financial statements. Ratio analysis is a technique to study the relationship between two or more sets of financial data taken from income statement and balance sheet. Ratio analysis provides the information relating to strengths and weakness of a financial data in relating to other.

There are various types of financial ratios used to make analysis of financial statement. They are as follows:

1. Liquidity Ratios
2. Debt Management Ratios
3. Assets and Investment Management Ratios
4. Profitability Ratios

4.2.1 Liquidity Ratios

Liquidity ratios measure the ability of the unit to meet its short-term (generally one year) obligation and reveal the short term financial strength and weakness. Liquidity ratio usually consist of current ratio and quick ratio.

A. Current Ratio

A current ratio is the quantitative relationship between current assets and current liabilities. Current assets are those which can normally be converted into cash within an accounting year and current liabilities refer to those obligations which must be paid within an accounting year. It is calculated as follows.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilitie s}}$$

Generally current ratio of 2:1 is considered satisfactory. High current ratio finds favor with short-term creditors whereas low ratio causes concern to them. An increase in the current ratio reflects improvement in the liquidity position of the business while the decrease is a signal of deterioration in the liquidity position of the business.

Table : 4.1

Current Ratio

(Rs. in Lakh)

Year	2060/61	2061/62	2062/63	2063/64	2064/65	2065/66	Avg.
CA	1,023.14	1,068.44	1,114.81	1,681.07	1,597.56	1,752.86	1,372.98
CL	309.73	272.53	298.20	380.76	422.28	1,654.10	556.27
CR	3.30	3.92	3.74	4.42	3.78	1.06	2.47

Source: Annual Report of NC

From the above table: 4.1, it can be observed that NC has satisfactory liquidity position up to the fiscal year 2064/65 the first fiscal year of study period, current ratio is 3.3 which considered above standard. It is 3.92, 3.74, 4.42 and 3.78 in the F/Y 261/62, 2062/63, 2063/64 and 2064/65 respectively. These ratios indicate that the company has maintained good liquidity position in the respective fiscal year. But in the current fiscal year, current ratio has decreased to 1 .06 which is below standard indicates the low liquidity position. It shows that the NC would not be capable to meet the short-term obligation. Overall average current ratio recorded 2.47 during the study period.

B. Quick Ratio

The purpose of this ratio is to test the ability of the firm for immediate payment of current liabilities. It establishes the relationship between liquid assets and current liabilities. The term liquid or quick assets includes all the current assets minus inventory and prepaid expense. Inventories are excluded because it may be difficult to liquidate them at their full book value. It is calculated as follows:

$$Q.R. = \frac{\text{CA} - \text{Inventorie s} - \text{Prepaid Expenss}}{C.L.}$$

As it eliminate inventory and prepaid expense for matching against current liabilities. Therefore it is a more rigorous test of liquidity as compared to current ratio. Generally acid test ratio of 1:1 is considered satisfactory as a firm easily meet all current liabilities.

Table : 4.2

Quick Ratio

(Rs. in Lakh)

Year	2060/61	2061/62	2062/63	2063/64	2064/65	2065/66	Avg.
QA	733.16	868.47	744.09	992.94	1,126.89	962.97	904.75
CL	309.73	272.53	298.20	380.76	422.28	1,654.10	556.27
QR	2.37	3.19	2.50	2.61	2.67	0.58	1.63

Source: Annual Report of NC

The above table shows that the company has sufficient quick asset to meet its immediate liabilities because the quick assets is above standard. But in the current fiscal year the NC has low quick ratio as compare to standard, i.e. 0.58:1 indicate the company has not ability to pay off short term obligations.

4.2.2 Debt Management Ratios

This ratio indicates the extent to which debt financing is being used by a firm. It is the measure of long-term solvency of a firm or the degree of safety afforded to creditors. It is important to analyze leverage position from two aspects: first, how firm is using the borrowed funds to finance its assets, second, how far firm is able to serve its debts in terms of satisfying regular fixed charge. On the light of these facts we attempt to analyze following financial ratios.

A. Debt Equity Ratio

Debt-equity ratio is the widely used leverage ratio to evaluate the long-term solvency of a firm. This ratio expresses the relationship between debt capital and equity capital and reflects the relative claim of them on the assets of firm. It is calculated as follows:

$$D / E\ Ratio = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Total debt includes all items of debts, viz. long-term debt and current liabilities. The shareholder equity includes equity capital, preference capital, any balance of undistributed profits net of fictitious assets.

Table: 4.3

Debt/Equity Ratio

(Rs. in Lakh)

Year	2060/61	2061/62	2062/63	2063/64	2064/65	2065/66	Avg.
Total Debt	1,100.77	1,147.29	1,200.99	1,740.35	1,606.35	2,016.99	1,468.79
Total Equity	88.52	92.77	498.62	542.50	608.98	1570.78	567.03
D/E Ratio	12.44:1	12.37:1	2.41:1	3.21:1	2.64:1	1.28:1	2.59:1

Source: Annual Report of NC

From the above table 4.3, it seems greater contribution at a company's financing by debt holders than those of equity holders. In the first two year of study period debt equity ratio has observed 12.44 and 12.37 which indicate riskier to debt holder as the NC may be unable to satisfy creditor. In the succeeding fiscal year it has 2.41, 3.21, 2.64 and 1.28 respectively which was highly decreased than the previous year and proves cushion of protection to the creditors against losses. Due to the low level of capital investment by equity holders in comparison to debt holder they may involve in speculation and may not behave responsibility toward a firm so that it threatens the creditor's position. On average, debt- equity ratio has been observed 2.59 which indicate the greater risk to debt holder at the time of liquidation of company.

B. Debt-Assets Ratio

The debt-asset ratio shows the proportion of total debt used in financing total assets of a firm. Low debt-assets ratio is considered satisfactory to debt holders due to the protection against possible losses at the time of liquidation. However from the firm's management point of view, the firm with low debt ratio is not able to get leverage advantage. It is calculated as follows:

$$\text{Debt - Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Table: 4.4

Debt/Assets Ratio

(Rs. in Lakh)

Year	2060/61	2061/62	2062/63	2063/64	2064/65	2065/66	Avg.
Total Debt	1,100.77	1,147.29	1,200.99	1,740.35	1,606.35	2,016.99	1,468.79
Total Equity	1,189.30	1,240.06	1,699.62	2,282.85	2,215.34	3,587.77	2,035.82
D/A Ratio	92.56%	92.52%	70.66%	76.24%	72.51%	56.22%	72.15%

Source: Annual Report of NC

The above calculation shows that the company has 92.56% debt assets ratio in the fiscal year 2060/61 which indicates the company has acquire more assets from debt financing. This also indicates that high degree of financial risk. But the risk has decreased in the next following two year. In the F.Y. 2063/64 and 2064/65 has increased to 76.24% and 72.15% respectively. In the current fiscal year it is 56.22% which was lowest debt assets ratio during the study period. It indicates that use of debt to acquire the assets has decreased and has low degree of financial risk than the previous fiscal year. Overall average debt-assets ratio has recorded 72.15%, indicates 72.15% of total debt consists on total assets.

C. Interest Coverage Ratio

The interest coverage ratio also known as times interest earned (TIE) ratio measure the extent to which interest on debt capital is covered by EBIT. It measures the debt serving capacity of a firm. If the firm fails to maintain such capacity, it brings legal action to debt holders which possibly result into bankruptcy. Greater the TIE, more safety from creditors view point that interest claimed is fulfilled. It is calculated as follows:

$$\text{TIE} = \frac{EBIT}{Interest}$$

Table: 4.5

Interest Coverage Ratio

(Rs. in Lakh)

Year	2060/61	2061/62	2062/63	2063/64	2064/65	2065/66	Avg.
EBIT	66.77	107.24	141.56	178.02	213.85	190.42	149.64
Interest	82.00	93.35	105.03	111.43	115.69	119.94	104.57
TIE	0.82	1.15	1.35	1.60	1.85	1.59	1.43

Source: Annual Report of NC

The table 4.5 shows that TIE ratio has 0.82 times in the F.Y. 2060/61 and then after it has increased till the F.Y. 2064/65. This indicate that more safety for creditors to claim interest in their debt. But in the current fiscal it has decreased to 1.59 times as compare to previous year. This shows that the company has able to pay interest on debt capital to the extent that current EDIT falls to the 1.59^{th} of current level. Overall the company has satisfactory level of EDIT to cover the interest for debt holders. On average EDIT has observed 1.43 times during the study period and it showed debt holders are safety to claim interest on debt.

4.2.3 Assets and Investment Management Ratios

Assets and investment management ratios are also known as turnover ratios or activity ratio. This ratio measures how effectively a firm is managing its assets and whether or not the level of those assets is properly related to the level of operations as measured by sales. Following ratio are calculated to measure how efficiently NC employees the assets.

Table: 4.6

Assets and Investment Management Ratio

(Rs. in Lakh)

Particulars \ Year	2060/61	2061/62	2062/63	2063/64	2064/65	2065/66	Avg.
Annual sale	1,580.46	1,743.15	1,875.87	2,461.00	3,898.94	2,193.94	2,292.22
CGS	1,446.88	1,584.93	1,683.66	2,202.30	3,603.26	1,937.24	2,076.38
Avg. inventory	277.70	244.98	285.35	529.43	579.40	630.28	424.52
Receivables	135.41	150.11	152.19	167.78	177.78	203.88	164.53
Net F.A.	42.02	42.78	445.17	462.13	465.99	1393.16	475.21
Total Assets	1,189.30	1,240.06	1,699.62	2,282.85	2,215.34	3,587.77	2,035.82
ITOR	5.21	6.47	5.90	4.16	6.22	3.07	4.89
ACP	31	31	29	25	16	33	26
FACTOR	37.61	40.75	4.21	5.33	8.37	1.57	4.82
TACTOR	1.33	1.41	1.10	1.08	1.76	0.61	1.13

Source: Annual Report of NC

A. Inventory Turnover Ratio

Inventory turnover ratio (ITOR) measures how firm's average investment in inventory is capable of generating sales. It is the test of the liquidity of firm's investment in inventories. It is calculated as follows:

$$ITOR = \frac{C.G.S.}{\text{Avg. Inventory}}$$

A low inventory turnover ratio indicates that the firm is holding excessive stock of inventory and is unable to turn it over in term of sales. The excessive inventory investment in inventory is considered to be unproductive as idle assets earn nothing.

From above table 4.6, it can be observed that the ITOR in the F.Y. 2060/061 has 5.21 times which has increase in the F.Y2061/62 to 6.47 times indicates the velocity of conversion of stock into sales is better than the preceding fiscal year. In the F.Y. 2062/63 and 2063/64 it has decreased which was 5.90 times and 4.16 times. Again in the F.Y. 2064/65 has increased to 6.22 times indicate efficient management of inventory. But it has decreased to 3.07 times in the current fiscal year which represents lowest inventory turnover ratio during the study period and this show NC's, over investment in stock, dull business, poor quality of goods, slow moving of goods etc. The company has average 4.89 times of inventory turnover during the study period.

B. Average Collection Period

It also called days Sales outstanding (DSO) which measures how quickly the account receivables are being converted into cash. It shows the average length of time in term of number of days that a firm must wait after making sales before receiving cash. It is calculated as follows:

$$\text{ACP} = \frac{\text{Receivable s}}{Sales} \times 360$$

The minimum day on ACP is favorable for a company that shows the firm is collecting the debtors within a short period.

The above table 4.6 shows that average collecting period of NC during the first two year of study period was too high which indicate the NC's has not been collecting it's credit sales in a timely manner. It's ACP has 31 days in the both fiscal years. In the F.Y. 2062/63 it has reduced to 29 days. But in the F.Y. 2063/64 and 2064/65 it has collected account receivable quickly than the other fiscal year. In this fiscal year ACP has 25 and 16 days respectively. But in the current year it has increased to 33 days which indicates that the company has not able to collect account receivables in timely. The customers are slow payer and the company should review its credit policy and make its collection efforts effectively. The company has average collection period 26 days and the company should try to decrease the average collection period for speed collection from debtor.

C Fixed Asset Turnover Ratio

Fixed assets turnover ratio (FACTOR) indicates the firm's ability to generate sales based on its various fixed assets like plant and equipment. It measures the effectiveness of firm's utilization of fixed assets. A low fixed assets turnover ratio indicates that the firm is using its fixed assets not effectively. It is calculated as follows:

$$\text{FACTOR} = \frac{Sales}{F.A.}$$

From the above table 4.6 shows that the company has 4.82 times average fixed assets turnover during the study period. It has observed that the NC has used its fixed assets effectively as it has 37.61 and 40.75 times in the first two year of study period. But in the succeeding year the company has not used it's fixed assets effectively because of low fixed asset turnover ratio. In the current fiscal year it has very low i.e. 1.57 times fixed assets turnover ratio. This indicates company needs to re-evaluate overall strategies, marketing efforts and capital expenditure.

D Total Assets Turnover Ratio

The total assets turnover ratio (TACTOR) is calculated by dividing sales by total assets. It measures the overall utilization of firm's assets. A low ratio indicates that the company is not generating an adequate value of business for the size of its assets investments. So, increasing ratio is preference.

$$\text{TACTOR} = \frac{\text{Sales}}{\text{Total Assets}}$$

The above table 4.6 shows that total assets turnover ratio is fluctuating. It has 1.33, 1.41, 1.10 times in the F.Y. 2060/61, 2061/62 and 2062/63 respectively. In the F.Y. 2063/64 and 2064/65 it has decreased to 1.52. But this ratio has increased to 1.76 times indicate the company has able to generate business volume in term of generating sales revenue than the preceding year to some extent. In the current year it has decreased to 0.61 times. This indicates the company need to reevaluate overall strategies and capital expenditure program. On average this ratio has observed 1.13 times during the study period.

4.2.4 Profitability Ratios

Profitability is the net end result of a number of corporate policies and decisions. It is key factor that measure how effectively the firm is being operational and managed. Profitability ratios are calculated to measure the overall efficiency of the business. This ratio is used to analyze the financial strength and weakness of a firm. Generally profitability ratios are calculated either in relation to sales or in relation to investment.

Table: 4.7

Profitability Ratios

(Rs in Lakh)

Year / Particulars	2060/61	2061/62	2062/63	2063/64	2064/65	2065/66	Avg.
Annual sale	1,580.46	1,743.15	1,875.87	2,461.00	3,898.94	2,193.94	2,292.22
Gross profit	133.57	158.21	192.21	258.70	295.69	256.70	215.85
NPAT	(15.28)	10.55	26.66	50.25	73.02	49.81	32.50
Shareholder equity	88.52	92.77	498.62	542.50	608.98	1,570.80	567.03
Total assets	1,189.3	1,240.06	1,699.62	2,282.85	2,215.34	3,587.77	2,035.82
GPM	8.45%	9.08%	10.25%	10.50%	7.58%	11.70%	9.42%
NPM	(0.96)%	0.06%	1 .42%	2.04%	1 .87%	2.27%	1 .42%
ROA	(1.28)%	0.85%	1 .57%	2.20%	3.30%	1 .39%	1 .60%
ROE	(17.2)%	11.37%	5.35%	9.26%	11.99%	3.17%	5.73%

Source: Annual Report of NC

A. Gross Profit Margin

On of the most common ratio is operational analysis as the calculation of gross profit as a percentage of net sales. A firm should have a reasonable gross profit margin

(GPM) to ensure adequate coverage for operating expenses of the firm and sufficient return to the owners of the business. The gross profit should be adequate to cover operating expenses and to provide fixed charge, to pay dividend and build up reserves. It is calculated as follows:

$$\text{GPM} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

The table 4.7 shows that the gross margin has increased till the F.Y. 2063/64. It has 8.45%, 9.08%, 10.25% and 10.50% in the F.Y. 2060/61, 2061/62, 2062/63 and 2063/64 respectively. This increase trend of gross profit margin is a sign of good management as it implies that the cost of production of the firm is relatively low. But it has decreased to 7.58% in the F.Y. 2064/65. Again in the current year it has increased to 11.70%. The average gross profit margin has been observed 9.42% which is sufficient to cover the operating expenses and adequate return to the owner.

B. Net Profit Margin

This ratio measures the overall profitability of the firm. This ratio indicates management's ability to operate the business with sufficient success, not only recover to the cost of production, operating expense of business and cost of borrowed fund but also to leave a margin of reasonable compensation to the owners for providing their capital at risk. This ratio is calculated as follows:

$$\text{NPM} = \frac{\text{Net Profit}}{\text{Sales}} \times 100$$

The table 4.7 shows that the net profit margin of NC has negative in the first year of study period. After that year it has increased up to fiscal year 2063/64 It has 0.06%, 1.42% and 2.04% in the F.Y. 2061/62, 2062/63 and 2063/64 respectively which prove the efficient performance of management. But in the fiscal year 2064/65 it has decreased to 1.87%. Again in the current year it has increased to 2.27%. This indicates that the company is able to cover the cost of production, operating expense of business and cost of borrowed fund. On average net profit margin has observed 1.42% during the study period.

C. Return on Assets

The returns on assets (ROA) measure the overall effectiveness of management in generating profit with its available asset. The higher the firm's return on assets the better it is doing in operation and vice versa. It is calculated as follows:

$$ROA = \frac{NPAT}{Total\ Assets} \times 100$$

From the above table 4.7, it has observed that return on assets in the first fiscal year of study period is negative i.e. (1.28%). But after this year it has 0.85%, 1.57%, 2.20% and 3.30% in the F.Y. 2061/62, 2062/63, 2063/64 and 2064/65 respectively. This indicates that the company is able to used available resources than the preceding year. But in the current fiscal year it has decreased to 1.39%. Overall the average return on assets has observed 1.60% which is considered very low return on company's assets.

D. Return on Equity

The return on equity (ROE) measures the return on the owner's (both preferred and common stockholders) investment in the firm. Higher the ratio of return on equity is better for owner. It is calculated as follows:

$$ROE = \frac{NPAT}{Stockholde\ r\ Equity} \times 100$$

From above table 4.7, it has observed 5.73% average return on equity. The company has negative ROE in the F.Y. 2060/61. which indicates the company has not properly utilized owner's fund. It has increased to 11.37% in the F.Y. 2061/62. But in the F.Y. 2062/63 it has decreased to 5.35%. But in the F.Y. 2063/64 and 2064/65 ROE has increased to 9.26% and 11.99% respectively. Again in the current year it has decreased to 3.17%. The above table shows that the company has unstable ROE during the study period.

4.3 Analysis of Cash Flow

This statement of cash flow reflects the change in financial position for the F.Y. 2060/61 to 2065/66 classifying transaction into three categories operating, investing and financing activities.

Nepalese Crafts Pvt. Ltd. prepares cash flow statement under indirect method which is most often used in annual reports. Under indirect approach net profit or loss is adjusted for the effect of transaction of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payment and item of income or expense associated with investing or financing cash flows.

4.3.1 Analysis of Cash Flows from Operating Activities

The following table shows the Cash Flow of Nepalese Craft Pvt. Ltd. during the study period from operating activities.

Table No: 4.8
Cash Flow from Operating Activities

(Rs. in Lakh)

Particular	2060/61	2061/62	2062/63	2063/64	2064/65	2065/66
1. Cash flow from operating activities						
Net profit before tax	(15.23)	13.89	36.53	66.59	98.16	70.41
Add adjustments:						
Depreciation	2.37	2.11	2.80	2.54	3.63	3.87
Defer expense written off	0.98	0.98	-	-	-	-
Interest expense	-	93.35	105.03	111.43	115.69	119.99
Share investment written off	20.22	0.54	-	-	-	0.02
Interest income in fixed deposit	-	-	-	-	(0.77)	-
Gain /loss from sales of assets	-	(0.01)	(0.18)	(0.13)	0.008	(0.14)
Dividend received	-	(1.14)	(1.28)	(0.91)	(0.008)	-
A) Operating profit	8.34	109.72	142.18	179.52	216.71	194.15
Cash flow from change in current assets						
Decrease (increase) in inventory	-	90.01	(170.75)	(317.42)	217.46	(319.22)

Decrease (increase) in debtor	-	(14.70)	(2.08)	(15.59)	(10.00)	(26.81)
Decrease (increase) in advance, lending	-	(129.86)	111.17	(212.97)	(102.18)	106.42
Increase (decrease) in current liabilities	83.14	(46.74)	31.12	63.35	3.69	37.78
Decrease (Increase) in current assets	(159.44)	-	-	-	-	-
Payment of prize	(0.26)	-	-	-	-	-
Gratuity	-	-	-	5.38	6.72	5.87
Operator incentive	-	-	(0.53)	(1.33)	(1.51)	(2.19)
B) Cash flow from change in current assets	(76.56)	(101.29)	(31.07)	(478.58)	114.18	(198.15)
Cash flow from operating activities before tax (A + B)	(68.22)	8.43	111.11	(299.06)	330.89	(4.00)
Tax payment	(0.56)	-	(24.50)	-	(9.43)	(14.81)
I) Net cash flow from operating activities	**(68.78)**	**8.43**	**86.61**	**(299.06)**	**321.46**	**(18.81)**

Source: Annual Report of NC

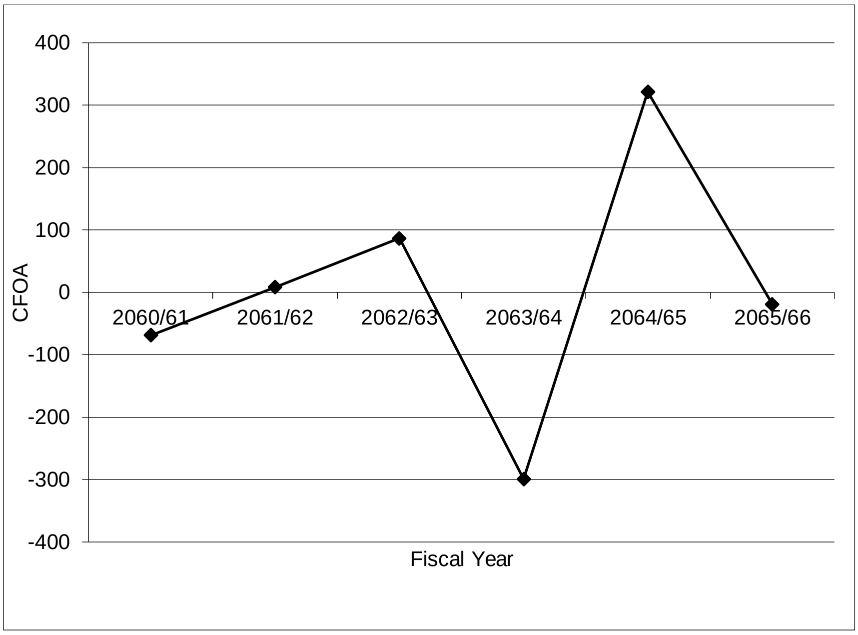
Net cash flows from operating activities of Nepalese Craft Pvt. Ltd. has negative i.e. Rs. (68.78) lakh in the F.Y. 2060/61 due to heavy losses and increase in current assets. In the fiscal year 2061/62 it has increased to Rs.8.43 lakh which indicates the operating result of NC was increasing gradually. In the fiscal year 2062/63 it has increased to Rs. 86.61 lakh and negative in the F.Y. 2063/64 i.e. Rs. (299.06) lakh because of heavily increase in inventory, debtor and advance. Cash flow from operating activity during the F.Y. 2064/65 is Rs.321.46 lakh. In the current fiscal year it is Rs. (18.81) lakh cash flows operating activities although it has positive net profit before tax.

The above statement of cash flows shows that the NC has fluctuating cash flows from operating activities ranging minimum Rs. (299.06) lakh in the F.Y. 2063/64 and highest Rs. 321.46 lakh in the F.Y 2064/65 which indicates that the company has not satisfactory operating activities. The main source of liquidity is CFOA which is not considered as good and there is not very hopeful position for the company for share repurchase as it's operating cash flow are unstable during the study period.

The cash flow from operating activities during the study period can be shown in graphical representation as follows:

Figure: 4.1

Trend Line of Cash Flow from Operating Activities



The above trend line show the NC has negative cash flow from operating activities in the first year of study period. After this year, it has gradually increased in the F.Y. 2061/62 and 2062/63. But in the F.Y. 2063/64 and 2064/65 it has heavily decreased and increased respectively. In the current fiscal year it has again decreased. The above trend line shows the company has fluctuating CFOA during the study period.

Normally, there is positive correlation between sales revenue and cash flow form operating activities. Higher the sales revenue is considered higher the CFOA and vice- versa. The correlation coefficient (r) between sales revenue (x) and CFOA (y) have been identified 0.55. This shows that the sales revenue and CFOA are positively con-elated .The reliability of r has been tested by calculating 6×P.E which is 1.15 found. Since r<6×P.E, it is not significant which shows the calculated value of r is not reliable. (Appendix- A)

4.3.2 Analysis of Cash Flows from Investing Activities

The following table shows the Cash Flow of Nepalese Craft Pvt. Ltd. during the study period from investing activities.

Table: 4.9

Cash Flow from Investing Activities

(Rs. in Lakh)

Particular	2060/61	2061/62	2062/63	2063/64	2064/65	2065/66
2) Cash flow from investing activity						
Dividend received	-	1.14	1.28	0.91	0.008	-
Purchased of fixed assets	(3.40)	(4.42)	(9.60)	(19.70)	(7.60)	(12.05)
Investment	-	(6.22)	(10.80)	(0.006)	(6.76)	(289.98)
Sales of fixed assets	0.97	1.45	0.41	0.25	0.02	0.29
2) Cash flow from investing activities	**(2.43)**	**(8.05)**	**(18.71)**	**(18.55)**	**(14.33)**	**(301.74)**

Source: Annual Report of NC

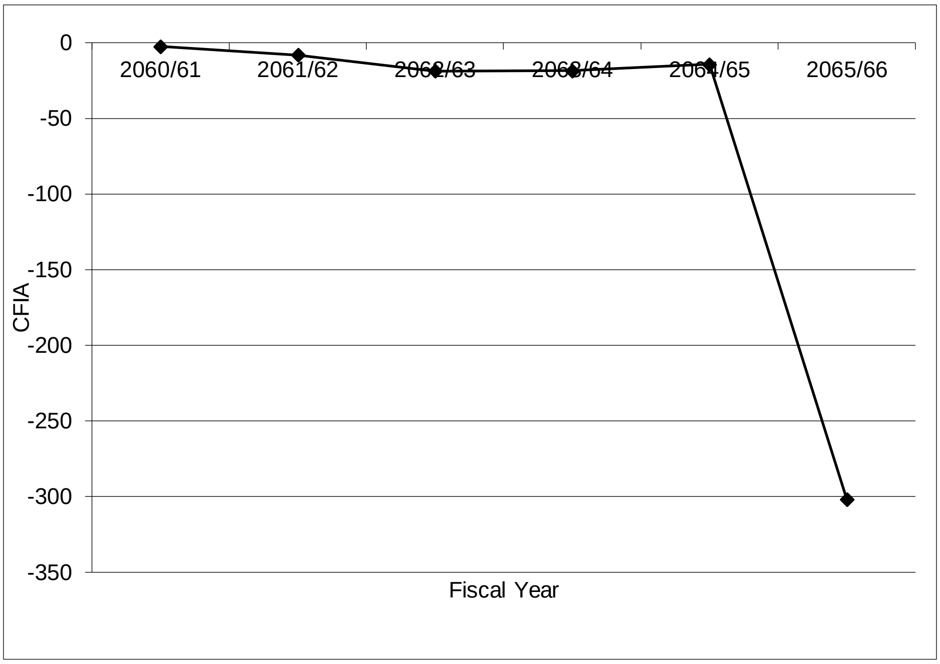
Cash flow from investing activities NC have been observed negative during the study period which indicates the more purchased of fixed assets and purchase of investment. There has small portion of cash inflows from investing activities from dividend received and sales of fixed assets. It has observed that the cash flows from investing activities are Rs. (2.43) and Rs (8.05) lakh during the first two year of study period. It has increased to Rs. (18.71) and Rs. (18.55) lakh in the F.Y 2062/63 and 2063/64 respectively. In the F. Y. 2064/65 and 2065/66 it has Rs. (14.33) lakh and Rs. (301.74) lakh cash flows from investing activities respectively. The company has more outflows in the current fiscal year due to purchase of more investment.

The main investing activities during the study period involve new investment acquisition and purchased of fixed assets to enhance future growth opportunities. The negative cash flows from investing activities in every year of study period indicate that the company is able to expansion of trade and business.

The cash flows from investing activities during the study period can be shown in graphical representation as follows:

Figure: 4.2

Trend Line of Cash Flow from Investing Activities



The above trend line shows the cash flows from investing activities is negative during the study period which indicates the company has purchased more fixed assets and made investment in other company. The outflow from investing activities seems more in the current fiscal year as comparing the previous year.

The correlation coefficient (r) between sales revenue (x) and cash flow from investing activities (y) have been observed 0.027 which shows there is low correlation between them. The value of r has tested by calculating the value of 6×P.E. which was found 1.65 indicates the calculated value of r is not reliable , because r<6×P.E. (Appendix-B)

4.3.3 Analysis of Cash Flow from Financing Activities

The following table shows the cash flow of NC Pvt. Ltd. during the study period from financing activities.

Table: 4.10

Cash Flow from Financing Activities

(Rs. in Lakh)

Particular	2060/61	2061/62	2062/63	2063/64	2064/65	2065/66
3) Cash flow from financing activity						
Issues of share	0.04	-	-	-	-	-
Borrowing(payment)of loan	99.23	83.72	28.04	456.79	(175.52)	(120.87)
Overdraft	-	-	-	-	5.44	535.76
Interest payment	-	(93.35)	(105.03)	(111.45)	(115.15)	(114.79)
Interest received in fixed deposit	-	-	-	-	0.77	-
Dividend payment	-	-	(6.19)	(7.43)	(4.96)	(4.42)
3) Net cash flow from financing activities	**99.27**	**(9.63)**	**(83.19)**	**337.91**	**(289.42)**	**295.68**

Source: Annual Report of NC

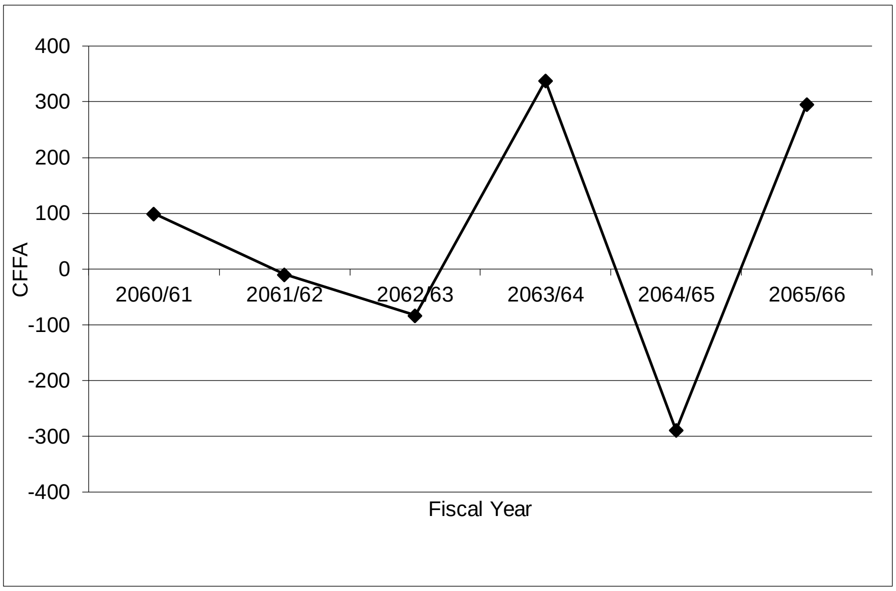
Issue of share is one of the sources of cash inflows of financial activities. The NC has issued Rs.40, 000 shares in the F.Y. 2060/61 but in the other year of study period issue of share is nil. Another source of cash inflows is loan. NC has borrowed loan Rs. 99.23, Rs. 83.72, Rs. 28.04 and Rs. 456.79 lakh in the F.Y. 2060/61, 2061/62, 2062/63 and 2063/64 respectively. But the company has repaid Rs. l75.52 and Rs. 120.57 lakh it's loan in the F.Y. 2064/65 and 2065/66 lakh respectively. But the company was able to earn interest Rs. 0.77 lakh in the F.Y. 2064/65.

The company has got opportunity of overdraft Rs. 5.44 and Rs. 535.76 lakh in the last two year of study period respectively that indicates the reputation of company is better than previous. Due to the huge amount of borrowing the company has also paid Rs. 105.03, Rs. 111.45, Rs. 115.15 and Rs. 114.79 lakh interests in the last four year of study period respectively. The company has paid more amount of interest in borrowed loan, so it is better to issue of share than to borrow loan to save interest expenses.

In the first and fourth year of study period, cash flows from financing activities has positive due to borrowing of loan. It also observed that the company has positive cash inflow in the current year due to huge amount of overdraft. During the F.Y. 2061/62, 2062/63 and 2064/65, the cash flows from financing activities has found negative. The company has repaid its loan Rs. 175.52 and Rs.120.87 lakh in the last two year of study period respectively. The company has paid Rs. 0.30, Rs. 0.20 and Rs. 0.18 per share of dividend in the F.Y. 2063/64, 2064/65 and 2065/66 respectively. The cash flows from financing activities during the study period can be shown in graphical representation as follows:

Figure: 4.3

Trend Line of Cash Flow from Financing Activities



The above trend line shows the cash flow from financing activities was fluctuating trend during the study period. Cash flow from financing activities has positive during the study period except in the F.Y. 2060/061 The cash inflow from financing activities has gradually decreasing in the first two year of study period. But it has huge amount of inflow in the F.Y.2063/064 Again it has incurred out flow in the F.Y. 2064/065 and inflow in the F.Y. 2065/066 the trend line shows the unstable cash flows from financing activities.

The correlation coefficient (r) between sales revenue (x) and cash flows from financing activities (y) have been observed (0.464) which shows there is negative correlation between them. The value of r has tested by calculating the value of 6 x P.E. which is found 1.66 indicates the calculated value of r is not reliable because r < 6 x P.E. (Appendix -C).

4.3.4 Analysis of Cash Flow from Overall Activities

The following table shows the cash flow of NC Pvt. Ltd. during the study period from overall activities.

Table: 4.11

Cash Flow Statement from Overall Activities

(Rs. in Lakh)

Particular	2060/61	2061/62	2062/63	2063/64	2064/65	2065/66
l) Net cash flow from operating activities	(68.78)	8.43	86.61	(299.06)	321.46	(18.81)
2) Cash flow from investing activities	(2.43)	(8.05)	(18.71)	(18.55)	(14.33)	(301.74)
3) Net cash flow from financing activities	99.27	(9.63)	(83.19)	337.91	(289.42)	295.68
Change in cash position (1+2+3)	**28.06**	**(9.25)**	**(15.29)**	**20.30**	**17.71**	**(24.87)**
Opening Cash and Bank balance	**35.02**	**63.08**	**53.83**	**38.54**	**58.84**	**76.56**
Closing Cash and Bank balance	**63.08**	**53.83**	**38.54**	**58.84**	**76.56**	**51.69**

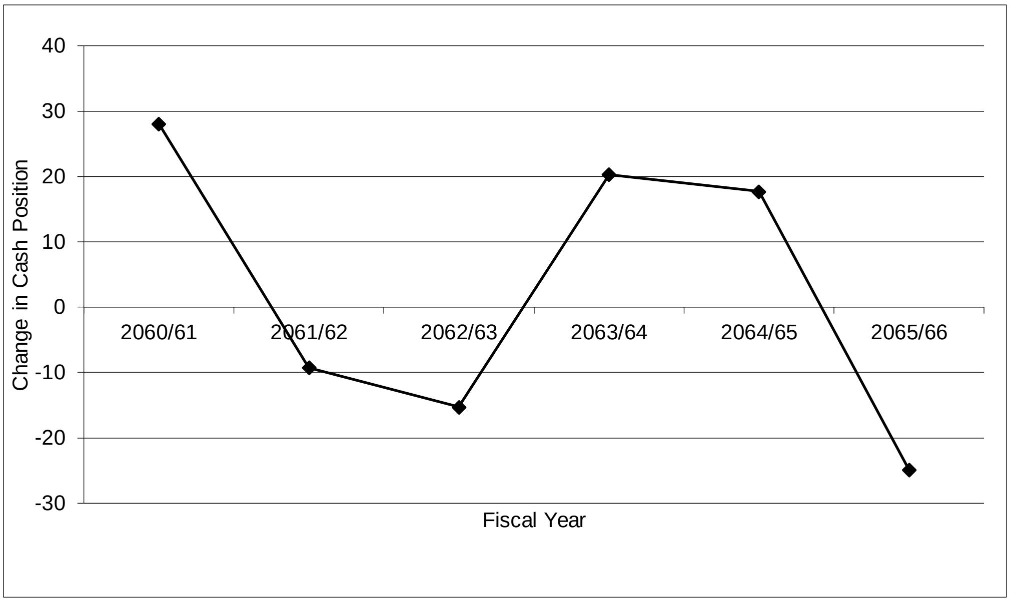
Source: Annual Report of NC

From above statement of cash flows it has observed that total cash increased by Rs. 28.05 lakh in the F.Y. 2060/61 but it has decreased by Rs. 9.26 and Rs. 15.29 lakh in the F.Y. 2061/62 and 2062/63 respectively. Again it has increased by Rs. 20.29 lakh and Rsl7.71 lakh in the F.Y. 2063/64 and 2064/65 respectively. In the current year it has decreased by Rs.24.87 lakh. This indicates that the NC has unstable change in cash position during the study period.

The change in cash position during the study period can be shown in graphical representation as follows:

Figure:4.4

Trend Line of Change in Cash Position



The above trend line of change in cash position shows the fluctuating change in cash position. In the first two year of study period it has positive change in cash position which is decreasing trend. In the F.Y. 2062/63 the company has not able to generate sufficient cash. But the company has generated cash from it's activities in the F.Y. 2063/64 and 2064/65. But in the current fiscal year the change in cash position in negative which represent there was deficit from it's activities.

4.4 Analysis of Profit and Loss

Profit and loss A/C contains all the items of revenue, gains, losses and operating expenses incurred in carrying on the business and in selling and distributing the goods for the particular accounting period. Revenues are amounts which the customers pay to the firm for providing goods and services. To provide goods and services to customers, the firm uses economic resources are called expenses. Profit and loss A/C shows the actual net profit or loss from its operating for a particular period. Net profit is an indicator of firm's efficiency in term of business operation.

Following table shows the P/L trend of NC during the study period.

Table: 4.12

Profit and Loss

(Rs. in Lakh)

Year	Profit & loss	Increase (Decrease) %
2060/061	(15.23)	-
2061/62	10.55	169.27
2062/63	26.66	152.7
2063/64	50.25	88.48
2064/65	73.02	45.31
2065/66	49.81	(31.78)
Total	**195.06**	
Average	**32.51**	

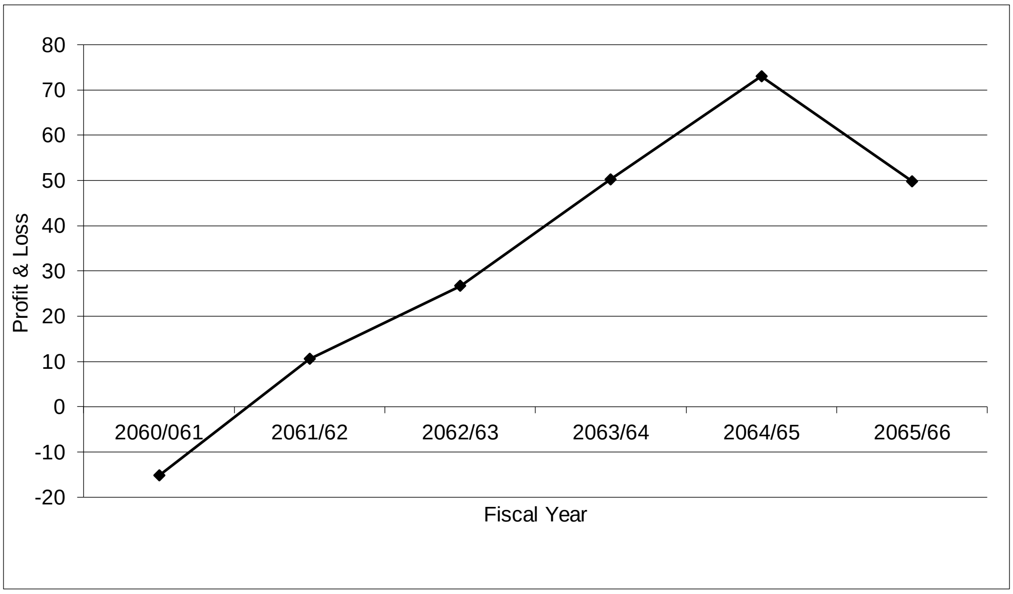
Source: Annual Report of NC

From the above table 4.12 it has observed that the profit and loss is fluctuating. It has average Rs. 32.51 lakh during the study period. In the first year of study period net profit after tax was negative which has increased to Rs.10.55 lakh during the F.Y. 2061/62. Again it has increased till F.Y. 2064/65. But in the current year it has highly decreased than the previous year which is Rs.49.81 lakh.

The following trend line shows the trend of profit and loss of NC.

Figure: 4.5

Trend Line of Profit & Loss



From the above trend line of P/L, it has cleared that the NC has incurred loss in the first year of study period. After this year the profit trend has increased up to the fiscal year 2064/65 which indicates the operating activities is assumed as better in these years. But in current year it has decreased as compare to previous year.

Generally there is positive relationship between sales and profit & loss .It is assumed that when sales is increasing, then P&L also increasing and vice-versa. This relationship has calculated by using the Karl Pearson's correlation coefficient. The correlation coefficient (r) between sales (x) and NPAT (y) has found 0.852 which shows there is positive correlation between sales revenue and NPAT. The reliability of r has tested by calculation value of 6×P.E. The value of 6×P.E. has calculated 0.45 which indicates that the value of r is significant. (Appendix- D)

4.5 Analysis of Cash and Bank Balance

The term cash is most important current assets for operation of business. It is an idle and non earning asset. Therefore the company should keep sufficient cash, neither more nor less. More cash balance reduce the rate of return on equity and hence the value of the firm's stock.

The term cash includes coins, currency and cheques held by the firm and balance in it's bank accounts. Some times near-cash items such as marketable securities or bank deposit are also includes in cash.

Table: 4.**13**

Cash and Bank Balance

(Rs. in Lakh)

Year	Cash and Bank Balance	Increase (Decrease)%
2060/61	63.08	-
2061/62	53.83	(14.68)
2062/63	38.54	(28.41)
2063/64	58.84	52.66
2064/65	76.56	. 30.14
2065/66	51.69	(32.49)
Total	**342.54**	**-**
Average	**57.09**	**-**

Source: Annual Report of NC

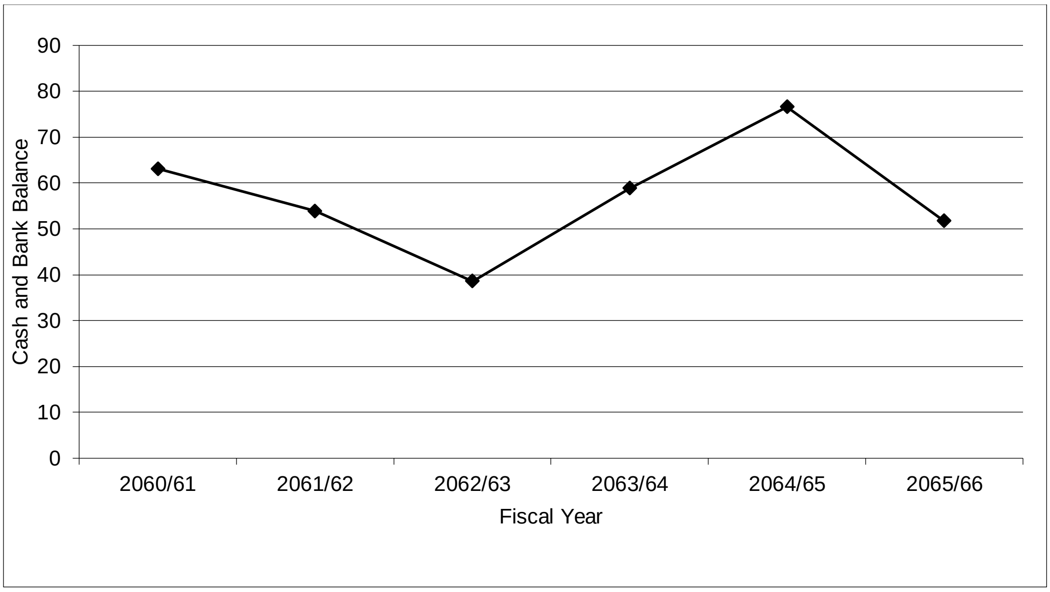
The above table 4.13 shows the amount of cash and Bank balance of during the study period. Total cash and bank balance of NC includes Bank balance, cash in transit and fixed deposit account. The cash balance at the end of each fiscal year has been compared to preceding year to analyze fluctuation on cash and bank balance. The company has average 57.09 lakh cash and bank balance during the study period.

In the F.Y. 2060/61 cash and bank balance of NC has observed Rs. 63.08 lakh which has decreased by 14.68% in the Fiscal year 2061/62 In the F.Y. 2062/63 it has Rs. 38.54 lakh of cash which is 28.41% less than previous year. But in F.Y. 2063/64 it has increased to Rs.58.84 lakh i.e. increased by 52.66% than the previous year and again increased by 30.14% in the F.Y. 2064/65 as compare to preceding year. In the current year it has decreased to Rs 51.69 lakh which is 32.49% less than previous year.

The Cash and Bank balance during the study period can be shown in graphical representation as follows.

Figure: 4.6

Trend Line of Cash & Bank Balance



The above trend line shows the company has fluctuating cash and bank balance. There has decreasing trend from first year or study period to F.Y. 2062/63 but it is positive. After that it has increasing trend till F.Y. 2064/65 but again it has decreasing trend in current fiscal year of study period.

The figure suggest that the cash and bank balance held is very erratic in nature ranging from Rs. 38.54 lakh in F.Y. 2061/62 to highest Rs. 76.56 lakh in F.Y. 2064/65 Such fluctuation states that the company has not been following a definite policy regarding the amount of cash to hold at end of the year.

4.6 Analysis of Ability to Generate Cash Flows in Future

The information in statement of cash flows also assists to predict the ability to generate future cash flows. Here an effort is made to find out the future cash flows of Nepalese Craft Pvt. Ltd. for the F.Y. 2066/67 and 2067/68. For this, Cash flow from Operating, Investing and Financing activities are calculated by fitting straight trend line considering Operating, Investing and Financing as dependent variable and sales revenue as independent variable.

Fitting straight trend line taking Fiscal year (x) as independent variable and Sales revenue (y) as dependent variable, sales revenue would be Rs. 3304.36 and Rs. 3593.54 lakh in the F.Y. 2066/67 and 2067/68 respectively.

Taking sales revenue (x) as independent variable and cash flow from operating activities (y) as dependent variable, cash flows from operating activities would be Rs.138.78 and Rs. 177.02 lakh in the F.Y. 2066/67 and 2067/68 respectively. From estimation of future cash flows from operating activities, it seems positive in future. (Appendix-F)

In the same way taking sales revenue (x) as independent variable and cash flows from investing activities (y) as dependent variable, cash flows from investing activities would be Rs. (55.74) and Rs. (54.34) lakh in the F.Y. 2066/67 and 2067/68 respectively. (Appendix-G)

Taking sales revenue (x) as independent variable and cash flows from financing activities (y) as dependent variable, cash flows from financing activities would be Rs. (73.04) and Rs. (110.60) lakh in the F.Y. 2066/67 and 2067/68 respectively. The trend of cash flows from financing activities in the future year seems negative. (Appendix - H)

By using expected value of cash flows from financing, investing and financing activities we can shows expected cash balance at the end of F.Y. 2066/67 and 2067/68 as follows.

Table: 4.14

Expected Cash and Bank Balance

(Rs. in Lakh)

Particulars / **Year**	**2066/67**	**2067/68**
1. Cash Flow from Operating Activity	138.78	177.02
2. Cash flow from Investing Activity	(55.74)	(54.34)
3. Cash flow from Financing Activity	(73.04)	(110.60)
Change in Cash Position (1+2+3)	**10.00**	**12.08**
Opening Balance of Cash & Bank	**51.65**	**61.65**
Closing Balance of Cash & Bank	**61.65**	**73.73**

From above table 4.14, expected change in cash position would be Rs.10.00 and Rs.12.08 lakh in the F.Y. 2066/67 and 2067/68 respectively. This is increasing trend as comparing to current year change in cash position. Total expected cash balance at the end of each fiscal year would be Rs61.65and Rs.73.73 lakh respectively. From this calculation NC cash balance for future period seems to be increasing trend which is favourable for the company.

4.7 Analysis of Cash Turnover Ratio

The cash balance of the company should be optimum to meet it's current obligations. The cash turnover ratio explains how quickly cash is recovered from sales. Higher ratio indicates the firm's sound liquidity position and vise-versa. Although high ratio consider as good, this indicates excess cash balance being held idle. It is calculated as follows:

$$\text{Cash Turn Over Ratio} = \frac{\text{Cash and Bank Balance}}{Sales}$$

Table: 4.15

Cash Turnover Ratio

(Rs. in Lakh)

Year	Cash and Bank Balance	Sales	Ratio
2060/61	63.08	1,580.46	25.05
2061/62	53.82	1,743.15	32.39
2062/63	38.54	1,875.87	48.69
2063/64	58.84	2,461.00	41.84
2064/65	76.56	3,898.94	50.93
2065/66	51.68	2,193.94	42.45
Total	**342.52**	**13,753.36**	**-**
Average	**57.09**	**2,292.22**	**40.15**

Source: Annual Report of NC

The table 4.15 shows that cash turnover ratio of NC has fluctuated too high. The highest ratio has recorded 50.93 times in the F.Y. 2064/65 and lowest ratio of 25.05 times has been observed in the F.Y. 2060/61. The average ratio has calculated 40.15 times.

In the F.Y. 2062/63, Cash turnover ratio was 32.39 times which has decreased although sales volume is higher than the preceding year. In the same way it is 48.69, 41.84 and 42.45 times in the F.Y. 2062/63, 2063/64 and 2065/66 respectively. Generally a high sale implies high cash balance to hold and vice versa. But the above table shows the company has not applying any definite policy on holding cash balance in relation to sales volume.

Normally cash balance held at the end of each fiscal year can fluctuate in relation to fluctuation of different variables. One of the variables to change cash balance is considered as sales volume. Higher the sales volume higher the cash balance held in each year and vice- versa. Generally cash balance and sales volume are positively correlated. Here an effort is made to find out the relationship between sales volume and cash and Bank balance using correlation coefficient.

The correlation (r) between sales revenue (x) and cash and bank balance (y) has calculated 0.69 which is high degree of correlation between them. This indicates that sales and cash and bank balance move in same direction i.e. if sales volume increase then cash and bank balance also increase and vice- versa.

Whether r is significant or not, we should calculate 6×P.E. We have found value of 6×P.E. is 0.86 which is greater than calculated value r. This indicates the correlation between sales revenue and cash & bank balance r = 0.69 is not significant. It can be conclude that the NC is not considering the higher the sales volume, higher the cash and bank balance and vice- versa. (Appendix-E)

4.8 Analysis of Cash & Bank Balance to Current Assets Ratio

Cash is most liquid current assets and as much more the amount of cash balances in a firm, more liquid the company in meeting the current obligation. The ratio of cash and bank balance to current assets indicates the proportion of cash balance to current assets. Higher the ratio shows the more cash held by company as current assets. On the other hand the stable pattern of ratio for different year indicates the company has been following the systematic policy regarding how much cash balance to hold at the end of each year. It is calculated as follows.

$$\text{Cash to Current Assets Ratio} = \frac{Cash}{\text{Current Assets}} \times 100$$

Table: 4.16

Cash & Bank Balance to Current Assets Ratio

(Rs. in Lakh)

Year	Cash and Bank Balance	Current Assets	Ratio%
2060/61	63.08	1,023.14	6.17
2061/62	53.82	1,068.44	5.04
2062/63	38.54	1,114.81	3.46
2063/64	58.84	1,681.07	3.50
2064/65	76.56	1,597.56	4.97
2065/66	51.68	1,752.56	2.95
Total	**342.52**	**8,237.58**	**-**
Average	**57.09**	**1,372.93**	**4.16**

Source: Annual Report of NC

From the above table 4.16, it can be observed that the highest ratio is 6.17% in the F.Y. 2060/61 and lowest ratio is 2.95% in the current year of study period. Cash to current asset ratio was 5.04%, 3.46%, 3.50% and 4.79% in the 2061/62, 2062/63, 2063/64 and 2064/65 respectively. The above table shows the liquidity position of NC is decreasing in succeeding year as it's cash to current assets ratio is decreasing. It also indicates that the contribution of cash into current assets is decreasing.

Overall cash to current assets ratio was 4.16% which is consider not satisfactory to meet it's current obligation from cash and bank balance.

4.9 Analysis of Cash & Bank Balance to Current Liabilities Ratio

This ratio is used to indicate the amount of cash available to pay current obligation of the firm. A moderate ratio is considered as satisfactory. Too high ratio indicates excess cash balance held idle and too low ratio indicates the company is unable to pay it's liability from cash and bank balance. It is better to pay it's liability in timely to gets credit facilities. It is calculated as follows:

$$\text{Cash to Current Assets Ratio} = \frac{Cash}{\text{Current Assets}} \times 100$$

$$\text{Cash to Current Liabilitie s Ratio} = \frac{Cash}{\text{Current Liabilitie s}} \times 100$$

Table: 4.17

Cash & Bank Balance to Current Liabilities Ratio

(Rs. in Lakh)

Year	Cash and Bank Balance	Current Liabilities	Ratio%
2060/61	63.08	309.93	20.35
2061/62	53.82	272.53	19.45
2062/63	38.54	298.20	12.92
2063/64	58.84	380.76	15.45
2064/65	76.56	422.28	18.13
2065/66	51.68	1,654.11	3.12
Total	**342.52**	**3,337.81**	**-**
Average	**57.09**	**556.30**	**10.26**

Source: Annual Report of NC

The above table 4.17, shows that the ratio between cash and bank balance and current liabilities. In the first fiscal year of study period this ratio is 20.35% which indicates cash is available 20.35% of current liabilities to pay it's current liabilities. In the succeeding year this ratio has decreased which reflect the fewer amounts of cash available to meet short term obligation. The ratio has observed 19.75%, 12.90% and 15.43% in the F.Y. 2061/62, 2062/63 and 2063/64 respectively. But this ratio has increased to 18.45% in the F.Y. 2064/65 than the preceding year which shows the cash and bank balance has available more to pay current liabilities. But in the current fiscal year it has decreased to 3.12% indicates poor ability to pay short term obligation.

On average it has 10.26% cash and bank balance to current liabilities. The cash and bank balance was less than current liabilities in every fiscal year. This balance of cash is not sufficient to pay current liabilities and the NC should manage other sources to pay short term obligation.

4.10 Analysis of Cash Flow per Share, Cash Flow Margin and Cash Flow Liquidity Ratio

The information in the statement of cash flows provides a basis for analyzing financial results. Additional analysis is possible through the use of three ratios relating to cash flow: the cash flow per share of common stock, cash flow margin and cash flow liquidity ratios.

Table 4.18

Cash Flow per Share, Cash Flow Margin & Cash Flow Liquidity Ratios

(Rs. in Lakh)

Particulars / Year	2060/61	2061/62	2062/63	2063/64	2064/65	2065/66	Avg.
CFOA	(68.78)	8.43	86.61	(299.06)	321.46	(18.81)	4.975
Cash Balance	63.08	53.83	38.54	58.84	76.56	51.69	57.09
Net Sales	1580.46	1743.15	1875.87	2461.00	3898.94	2193.94	2292.22
Current Liabilities	309.73	272.53	298.20	380.76	422.28	1654.10	556.27
CFOA + Cash Balance	(5.70)	62.26	125.15	(240.22)	398.02	32.88	62.07
Avg. no of Common Share	24.78	24.78	24.78	24.78	24.78	24.78	24.78
Cash Flow per Share	(2.78)	0.34	3.50	(12.07)	12.97	(0.76)	0.20
Cash Flow Margin%	(4.35)	0.48	4.62	(12.15)	8.24	(0.86)	0.21
Cash Flow Liquidity Ratio	(0.02)	0.23	0.42	(0.63)	0.94	0.02	0.11

Source: Annual Report of NC

4.10.1 Cash Flow per Share

The cash flow per share of common stock ratio is equal to the net cash provided by operation divided by the average no. of share of common stock outstanding. This ratio indicates the company's ability to pay dividend and liabilities. Higher the ratio is considered the greater the ability to pay liabilities.

$$\text{Cash Flow per Share} = \frac{\text{Net Cash Flows from Operating Activities}}{\text{Average No. of Common Share}}$$

It is already state that cash flow per share of common stock ratio indicates the ability to pay dividend and liabilities. From the table no. 19, cash flow per share of common stock has observed negative in the fiscal year 2060/61, 2063/64 and 2065/66 which indicates that the NC's poor ability to pay dividend and current liabilities. Thus the company should use other sources to pay dividend and current liabilities. On the other hand the company should improve it's operating activities to generate enough cash flows from operating activities. Cash flow per share has observed Rs.0.34, Rs.3.50 and Rs.12.97 in F.Y. 2061/62, 2062/63 and 2064/65 respectively. This ratio has highest in the F.Y. 2064/65 i.e. 12.97 per share which indicates the company has sufficient cash flows from operating activities to pay dividend and current liabilities.

4.10.2 Cash Flow Margin

The cash flow margin ratio is equal to net cash provided by operation activities divided by net sales. This ratio is a measure of a company's ability to turn sales revenue into cash. The higher the ratio is considered better.

$$\text{Average No. of Common Share} = \frac{\text{Net Cash Flows from Operating Activities}}{\text{Net Sales}}$$

The above table 4.18 also shows the cash flow margin of NC during the study period which seems not satisfactory because the company is unable to turn sales revenue into cash, due to low cash flow margin. The company has no ability to turn cash from sales revenue in the F.Y. 2061/62, 2062/63 and 2064/65 because cash flow margin is (4.35%), (12.15%) and (0.86%) respectively. In the F.Y. 2061/62, 2062/63 and 2064/65 cash flow margin has positive indicates the company is able to turn sales revenue into cash to some extent.

4.10.3 Cash Flow Liquidity Ratio

The cash flow liquidity ration is equal to the total of cash, 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.

$$\text{Cash flow liquidity ratio} = \frac{\text{Net Cash Flows from Operating Activities} + \text{Cash Balance}}{\text{Current Liabilitis}}$$

From the above table 4.18 shows that the ability to pay short term debt has identified poor in the F.Y. 2060/61 and 2063/64 due to negative cash flow liquidity ratio. In other year of study period this ratio has observed positive which indicates that the company has ability to pay short term debt to some extent but seems not satisfactory due to low liquidity ratio. So the company should extend it's trading activities effectively to generate more cash inflow and should maintain more cash and bank balance at the end of each year.

4.11 Major Findings

- Proper Planning aspect is virtually ignored in the company (Nepalese Crafts). The planning is not based upon some scientific base, but it is surface planning.
- The sales revenue forecasting is baseless. The actual sales revenue rises much more than forecasted one. Inability of forecasting the accurate sales revenue is having worse influence on controlling the expenses.
- Current ratio reveals better in every fiscal year during study priod expect extent fiscal year. In current F.Y. current ratio has decrease to 1.06 which is below standard in dictates the low liquidity position: It shows that the NC world not be capable to meet the short term obligation.
- Quick ratio shows NC has sufficient anise assets to meet its imprecate liabilities because F.Y. the NC has low quick ratio that indicate the company has not ability to pay as short term obligations.
- One to the low level of capital investmentby enmity holder in comparison to dust holder they may involve in speculation and may not behave responsibility toward a firm so that it threatens the creditors position.
- In the current fiscal year ITOR is 3.07 times which represents lowest ITOR and this shows NC's over investment in stock and slow Moring of goods.
- Fixed assets thrower ratio and total assets thrower ratio is very in current fiscal year.
- NC is able to used available resources in f.y. 2061/062 to 2064/065. But in the current fiscal year it has decreased to 1.39%.
- The NC has return on equity unstable during the study period.

- The main sources of liquidity is CFOA which is fluctuating during the study period.
- The investing activities during the study period involve now investment acquisition and purchase of fixed assets to enhance future growth opportunities. The negative cash flows from investing activates in every year the study period indicate that the Nepalese Crafts Pvt. Ltd. is able to expansion of trade and business.
- Hard cash balance of the company is not as sufficient to meet the current liabilities of the company.
- The average collection period is 26 days which shows the slow collection from debtors.
- Company merely suffers chances of bad debts as the debtor of the company is too negligible. This is good aspect for the company from collection side.
- The company has raised funds through loan and overdraft. It has not issued shares except in the first year of the study period which was also of very small portion. Due to such loan, the company paid more interest.
- Average cash flow margin was 0.21% which indicated the company has not ability to generate sales revenue.
- The company has not adequate cash and bank balance to meet it's short term and long term debts.
- The company has paid more amount of interest in borrowed loan.
- The Nepalese Crafts Pvt. Ltd. has unstable charge in cash position during the study period.

CHAPTER-V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Nepalese handcrafts, which have been a part and parcel of the Nepalese heritage, depict the great tradition and proud culture of this great Himalayan kingdom. Their origin dates back to the Stone Age when human beings were devoid of tools of any kind. Nepalese handicrafts products have been best known to the world. In the last 30 years, export of handicrafts of the country has considerably grown. Thus, the development of handicraft, helps in preserving the national heritage of the country and on other hand, it contributes to eliminating poverty by creating job opportunities. Nepalese handicraft industries have been providing employment to hundreds of thousands of people of the country. It has also been a prime source of foreign exchange required for the importation of necessities.

In Nepal, many handicraft industries are operating, which Nepalese Crafts Pvt. Ltd. is one of them. It is registered in 'Gharelu Tatha Sana Udhog' in 2058 BS. The enterprise was established for the export and manufacturing of Nepali handicrafts and readymade garments. The enterprise produces leather's and suede items such as hat, bag, purse, jacket, pant, moflar and scarf. Similarly, its produces good quality of hemp and woolen products and it export its product mainly to Japan.

The present study is the first study upon the performance of the company, which covers the period of six years from 2060/61 to 2065/66. The study focused to analyzes the Financial statement analysis as a part of comprehensive profit planning and control.

The study is conducted through the secondary data. The annual report of various years accounts for major source of information. The information is presented in tabular from and analyzed using various tools like percentage, increasing times, mean, standard deviation, correlation, regression and financial ratios. To have know-how of information at glance, diagrams are used.

From the study the major source of cash of the company is sales revenue. The revenue has an increasing trend and increases by 2292.23 lakh over 6 year. The company's production cost has corresponding to the increase in sales revenue. Similarly, administrative expense has also increased in every fiscal year but other expense has decreased in first year and increase in every year of the study conducted.

The company lacks the proper planning system, which has headed the company downwards. Minimum effort has been put for managing the cash. The main source of cash is sales revenue and mid and long-term loan. Due to lack of proper cash flow management, the company has not been able to utilize the fund on profitable basis.

5.2 Conclusions

The analysis of financial statement helps to conclude that the normal business operation of Nepalese crafts Pvt. Ltd is not satisfactory during the study period. Although the co has made profit except in the first year of study period but the cash flow at the end of each F.Y. is not satisfactory and is highly flu hating generally it is better to continued increase in cash flow in succeeding years. The cash flow from operating activities also can't career the short term and long term liabilities. The co has also made investment though loan and overdraft which caused excessive payment of interest. So it is better to is she common stocks or raise funds from low cost sources.

The company is not holding optimum level of cash balance at the end of each year which is indicated by unstable ending balance of cash of NC. Shortage of cash put obstruction in business operation where as excessive cash than requirement contribution nothing to the profitability of co since idle cash earns nothing. So the co should follow the policy to purchase marketable securities at the time of excessive cash balance and sales them at the time of shortage of cash. Similarly the company has not ability to meet it's current liabilities from it's cash balance.

To enhance the earning per share and help to increase the market price per share in the future, the company can repurchase it's own stock if it has sufficient cash flow from operating activates. But from the analysis of cash flow statement it seems that there is no possibility to repurchase of it's own stocks.

5.3 Recommendations

The details analysis of financial statement and other related information of profit some suggestions. These recommendations would be best in the interest of while conducting business activities and will help to increase cash flow for the future.

- The ultimate objectives of the study is to forward some useful recommendations for the improvement of the company on the basis of the present position analysis. The recommendations are:
- Proper planning regarding the sales plan for particular period should be made and efforts should be raised to accompany it.
- Scientific accounting tools and reports should be well prepared also the transaction should be well recorded to get proper result.
- liquidity measures the company's ability to pay current liability. Too high liquidity is an indication of mismanagement of resources and too low liquidity is risky one. Hence the company is suggested to maintain to its liquidity position in normal standard i.e. 2:1 and is also recommended to follow consistency liquidity policy.
- Steps should be taken to reduce cost per unit that increase profit to some extent.
- Current assets should be increase to meet its stander to current liability.
- There is unfair competition in market. The firm should make SWOT analysis to survive in present market competition.
- Research and development work on product in new area, cost control.
- The performance of the company is not to the range as it should be improving the weak areas indicated by the study.
- The company should accurately forecast the amount and timing of cash flow so that borrowing can be minimized thus lessening interest expenses.
- The Company should decrease the average collection period for speed collection from debtor.

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APPENDIX-A

Correlation Coefficient between Sales Revenue (x) and Cash Flows from Operating Activities (y)

(Rs. in Lakh)

Sales (x)	CFOA (y)	Xy	x^2	y^2
1580.46	(68.78)	(108704.04)	2497853.81	4730.69
1743.15	8.43	14694.75	3038571.92	71.06
1875.87	86.61	162469.10	3518888.26	7501.29
2461.00	(299.06)	(735986.66)	6056521.00	89436.88
3898.94	321.46	1253353.25	15201733.12	103336.53
2193.94	(18.81)	(41268.01)	4813372.72	353.82
∑x=13753.36	**∑y=29.85**	**∑xy=54458.39**	**$\sum x^2$=35126940.83**	**$\sum y^2$=205430.28**

n=6

$$*Correlation\,coefficient\,(r) = \frac{n\sum xy - \sum x \sum y}{\sqrt{\{n\sum x^2 -\}}\sqrt{\{n\sum y^2 - (\sum y)^2\}}}$$

$$r = \frac{6 \times 5445589.39 - 13753.36 \times 29.85}{\sqrt{6 \times 35126940 - (13753.36)^2}\,\sqrt{6 \times 205430.28 - (29.85)^2}}$$

$$r = 0.055$$

$$*\Pr obable\,Error\,(P.E.) = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - (0.55)^2}{\sqrt{6}}$$

$$= \frac{0.4705}{2.4495}$$

$$= 0.192$$

$$*6 \times P.E. = 6 \times 0.192 = 1.152$$

APPENDIX-B

Correlation Coefficient between Sales Revenue (x) and Cash Flows from Operating Activities (y)

(Rs. in Lakh)

Sales (x)	CFIA (y)	xy	x^2	y^2
1580.46	(2.43)	-3840.52	2497853.81	5.90
1743.15	(8.05)	-14032.36	3038571.92	64.80
1875.87	(18.71)	-35097.53	3518888.26	350.06
2461.00	(18.55)	-45651.55	6056521.00	344.10
3898.94	(14.13)	-55871.8102	15201733.12	205.35
2193.94	(301.74)	-661999.4556	4813372.72	91047.03
∑x=13753.36	**∑y=(363.81)**	**∑xy=(816493.22)**	**$\sum x^2$=35126940.83**	**$\sum y^2$=92017.24**

n=6

$$* \text{Correlation coefficient}\,(r) = \frac{n\sum xy - \sum x \sum y}{\sqrt{\{n\sum x^2 -\}}\sqrt{\{n\sum y^2 - (\sum y)^2\}}}$$

$$r = \frac{6\times(816493.22) - 13753.36(363.81)}{\sqrt{6\times 35126940.83 - (13753.36)^2}\sqrt{6\times 92017.24 - (-363.81)^2}}$$

$$r = 0.027$$

$$* \text{Probable Error}\,(\text{P.E.}) = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1-(0.27)^2}{\sqrt{6}}$$

$$= 0.275$$

APPENDIX-C

Correlation Coefficient between Sales Revenue (x) and Cash Flows from Operating Activities (y)

(Rs. in Lakh)

Sales (x)	CFFA (y)	xy	x^2	y^2
1580.46	99.27	156892.26	2497853.81	9854.53
1743.15	(9.63)	-16786.63	3038571.92	92.74
1875.87	(83.19)	-156053.63	3518888.26	6920.58
2461.00	(337.91)	-831596.51	6056521.00	114183.17
3898.94	(289.42)	-1128431.22	15201733.12	83763.94
2193.94	(295.68)	648704.18	4813372.72	87426.66
∑x=13753.36	**∑y=350.62**	**∑xy=335921.57**	**$\sum x^2$=35126940.83**	**$\sum y^2$=302241.62**

n=6

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

$$r = \frac{6 \times 335921.57 - 13753.36 \times 350.62}{\sqrt{6 \times 35126940.83 - (13753.36)^2}\sqrt{6 \times 302241.41 - (-35062)^2}}$$

$$r = 0.027$$

$$* \text{Probable Error (P.E.)} = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - (-0.0464)^2}{\sqrt{6}}$$

$$= 0.276$$

$$* 6 \times \text{P.E.} = 6 \times 0.276 = 1.66$$

APPENDIX-D

Correlation Coefficient between Sales Revenue (x) and Cash Flows from Operating Activities (y)

(Rs. in Lakh)

Sales (x)	NPAT (y)	xy	x^2	y^2
1580.46	(15.28)	-24149.43	2497853.81	233.48
1743.15	10.55	18390.23	3038571.92	111.30
1875.87	26.66	50010.69	3518888.26	710.76
2461.00	50.25	123665.25	6056521.00	2525.06
3898.94	73.02	284700.60	15201733.12	6331.92
2193.94	49.81	109280.15	4813372.72	2481.04
∑x=13753.36	**∑y=195.01**	**∑xy=561897.49**	**$\sum x^2$=35126940.83**	**$\sum y^2$=11.393.56**

n=6

$$* \text{Correlation coefficient}\,(r) = \frac{n\sum xy - \sum x \sum y}{\sqrt{\{n\sum x^2 -\}}\sqrt{\{n\sum y^2 - (\sum y)^2\}}}$$

$$r = \frac{6 \times 335921.57 - 13753.36 \times 350.62}{\sqrt{6 \times 35126940.83 - (13753.36)^2}\sqrt{6 \times 302241.41 - (-35062)^2}}$$

$$r = 0.027$$

$$* \text{Probable Error}\,(\text{P.E.}) = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - (-0.852)^2}{\sqrt{6}}$$

$$= 0.0755$$

$$* 6 \times \text{P.E.} = 6 \times 0.19 = 0.45$$

APPENDIX-E

Correlation Coefficient between Sales Revenue (x) and Cash Flows from Operating Activities (y)

(Rs. in Lakh)

Sales (x)	Cash & bank balance (y)	xy	x^2	y^2
1580.46	63.08	99695.42	2497853.81	3979.09
1743.15	53.82	96816.33	3038571.92	2896.59
1875.87	38.54	72296.03	3518888.26	1485.33
2461.00	58.84	144805.24	6056521.00	3462.43
3898.94	76.56	298502.85	15201733.12	5861.43
2193.94	51.68	113382.82	4813372.72	2670.82
∑x=13753.36	**∑y=342.52**	**∑xy=822498.69**	**$\sum x^2$=35126940.83**	**$\sum y^2$=20355.41**

n=6

$$*\text{Correlation coefficient}\,(r) = \frac{n\sum xy - \sum x \sum y}{\sqrt{\{n\sum x^2 -\}}\sqrt{\{n\sum y^2 - (\sum y)^2\}}}$$

$$r = \frac{6 \times 335921.57 - 13753.36 \times 350.62}{\sqrt{6 \times 35126940.83 - (13753.36)^2}\sqrt{6 \times 302241.41 - (-35062)^2}}$$

$$r = 0.027$$

$$*\text{Probable Error}\,(\text{P.E.}) = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - (-0.69)^2}{\sqrt{6}}$$

$$= 0.144$$

$$*6 \times \text{P.E.} = 6 \times 0.144 = 0.86$$

APPENDIX-F

Computation of Cash Flows form Operating activities for next fiscal year by fitting the straight trend line taking sales revenue (x) as independable variable and CFOA (y) as depended variable.
Then straight line i.e. actual sales revenue (x) CFOA (y) is expressed by:
y=a+bx

(Rs. in Lakh)

Sales (x)	CFOA (y)	u=x-2292.22	v=y-4.98	u^2	uv
1580.46	68.78	-711.76	-73.76	506602.30	52499.42
1743.15	8.43	-549.07	3.45	301477.86	-1894.30
1875.87	86.41	-416.35	81.63	173347.32	-33986.65
2461.00	(299.06)	168.78	-304.04	28486.69	51315.87
3898.94	321.46	1606.72	316.48	2581549.16	508494.75
2193.94	(18.81)	-98.28	-23.79	9658.96	2338.08
∑x=13753.36	**∑y=29.85**	**∑u=0.04**	**∑y=(0.03)**	**^{u2}=3601122.29**	**∑uv=476135.43**

n=6

$$Mean\,Sales = 13753.36/6 = 2292.22$$

$$Mean\,CFOA = 29.85/6 = 4.98$$

$$Now, b = \frac{n\sum uv = \sum u \sum v}{n\sum u^2 - (\sum u)^2}$$

$$b = \frac{6 \times 476135.43 - 0.04 \times (0.03)}{6 \times 3601122.29 - (0.04)}$$

$$b = 0.1322$$

$$Again, a = \frac{\sum y}{n} - \frac{b\sum x}{n}$$

$$a = \frac{29.85}{6} - 0.1322 \times \frac{13753.36}{6}$$

$$a = (298.05)$$

$$Equation\,of\,\,trend\,line\,(y) = a + bx$$

$$y = (298.05) + 0.1322x$$

Expected CFOA (y) for 2066/67

When sales revenue (x) = Rs. 3304.36 lakh (Expected sales revenue for 2066/67), then expected CFOA is calculated as follows.

y=(298.05) + 0.1322 x 3304.36

= Rs. 138.78 lakh

Expected CFOA (y) for 2067/68

When sales revenue (x) = Rs. 3593.54 lakh (Expected sales revenue for 2067/68), then expected CFOA is calculated as follows.

y= (298.05) + 1322 x 3593.54

= Rs. 177.02 lakh

APPENDIX-G

Computation of Cash Flows form Operating activities for next fiscal year by fitting the straight trend line taking sales revenue (x) as independable variable and CFIA (y) as depended variable.

(Rs. in Lakh)

Sales (x)	CFOA (y)	u=x-2292.22	v=y-(60.64)	u^2	uv
1580.46	(2.43)	-711.76	(63.07)	506602.30	44890.7032
1743.15	(8.05)	-549.07	(68.69)	301477.86	37715.6183
1875.87	(18.71)	-416.35	(79.35)	173347.32	33037.3725
2461.00	(18.55)	168.78	(79.19)	28486.69	-13365.6882
3898.94	(14.33)	1606.72	(74.97)	2581549.16	-120455.7984
2193.94	(301.74)	-98.28	(362.38)	9658.96	35614.7065
∑x=13753.36	**∑y=(363.81)**	**∑u=0.04**	**∑y=(727.65)**	**u^2=3601122.29**	**∑uv=17436.91**

n=6

$$\text{Mean Sales} = 13753.36/6 = 2292.22$$

$$\text{Mean CFOA} = (363.81)/6 = (60.64)$$

$$\text{Now}, b = \frac{n\sum uv = \sum u \sum v}{n\sum u^2 - (\sum u)^2}$$

$$b = \frac{6 \times 17436.91 - 0.04 \times (727.65)}{6 \times 3601122.29 - (0.04)}$$

$$b = 0.004843$$

$$\text{Again}, a = \frac{\sum y}{n} - \frac{b\sum x}{n}$$

$$a = \frac{-363.81}{6} - 0.004843 \times \frac{13753.36}{6}$$

$$a = (71.74)$$

$$\text{Equation of trend line } (y) = a + bx$$

$$y = (71.74) + 0.004843x$$

Expected CFIA (y) for 2066/67

When sales revenue (x) = Rs. 3304.36 lakh (Expected sales revenue for 2066/67), then expected CFIA is calculated as follows.

y=(71.74) + 0.004843 x 3304.36
= Rs. (55.74) lakh

Expected CFIA (y) for 2067/68

When sales revenue (x) = Rs. 3593.54 lakh (Expected sales revenue for 2067/68), then expected CFOA is calculated as follows.

y=(71.74) + 0.004843 x 3593.54
= Rs. (54.34) lakh

APPENDIX-H

Computation of Cash Flows form Operating activities for next fiscal year by fitting the straight trend line taking sales revenue (x) as independable variable and CFFA (y) as depended variable.

(Rs. in Lakh)

Sales (x)	CFOA (y)	u=x-2292.22	v=y-58.44	u^2	uv
1580.46	99.27	-711.76	40.83	506602.30	44890.7032
1743.15	(9.63)	-549.07	(68.07)	301477.86	37715.6183
1875.87	(83.19)	-416.35	(141.63)	173347.32	33037.3725
2461.00	337.91	168.78	279.47	28486.69	-13365.6882
3898.94	(289.42)	1606.72	(347.86)	2581549.16	-120455.7984
2193.94	295.68	-98.28	237.36	9658.96	35614.7065
∑x=13753.36	**∑y=350.62**	**∑xy=0.04**	**∑y=0.10**	**u^2=3601122.29**	**∑uv=17436.91**

n=6

$$\text{Mean Sales} = 13753.36/6 = 2292.22$$

$$\text{Mean CFFA} = 350.62/6 = 58.44$$

$$\text{Now}, b = \frac{n\sum uv = \sum u \sum v}{n\sum u^2 - (\sum u)^2}$$

$$b = \frac{6 \times (467790.73) - 0.04 \times 0.10}{6 \times 3601122.29 - (0.04)}$$

$$b = (0.1299)$$

$$\text{Again}, a = \frac{\sum y}{n} - \frac{b\sum x}{n}$$

$$a = \frac{-350.62}{6} - (0.1299) \times \frac{13753.36}{6}$$

$$a = 356.20$$

$$\text{Equation of trend line } (y) = a + bx$$

$$y = 356.20 + (0.1299)x$$

Expected CFFA (y) for 2066/67

When sales revenue (x) = Rs. 3304.36 lakh (Expected sales revenue for 2066/67), then expected CFIA is calculated as follows.

y=356.20 + (0.1299) x 3304.36

= Rs. (73.04) lakh

Expected CFIA (y) for 2067/68

When sales revenue (x) = Rs. 3593.54 lakh (Expected sales revenue for 2067/68), then expected CFFA is calculated as follows.

y=356.20 + (0.1299) x 3304.54

= Rs. (110.60) lakh