

**A STUDY ON WORKING CAPITAL
MANAGEMENT
OF
SOALTEE HOTEL LIMITED**

A THESIS

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VIVA VOCE-SHEET

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I hereby declare that the work done in thesis entitled “A Study on Working Capital Management of Soaltee Hotel Limited” submitted to Nepal Commerce Campus, Faculty of Management, Tribhuvan University, is my own created work reported in the form of partial fulfillment of the requirement of Masters Degree of Business Studies (M.B.S.) course under the guidance and supervision of respected teacher supervisor Mr. Rewan Kumar Dahal, lecture of Nepal Commerce Campus.

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ABBREVIATIONS

AR	:	Average Receivable
ARTR	:	Average Receivable Turnover Ratio
CA	:	Current Assets
CATR	:	Current Assets Turnover Ratio
CL	:	Current Liabilities
CR	:	Current Ratio
CV	:	Coefficient of Variance
DDC	:	Diary Development Corporation
FA	:	Fixed Assets
FY	:	Fiscal Year
GP	:	Gross Profit
ITR	:	Inventory Turnover Ratio
LTD	:	Long Term Debt
LTF	:	Long Term Fund
NBCL	:	Nepal Battery Company Limited
NI	:	Net Income
NIC	:	Nepal Insurance Company
NP	:	Net Profit
NPM	:	Net Profit Margin
NWC	:	Net Working Capital
PE	:	Probable Error
QA	:	Quick Assets
QR	:	Quick Ratio

r	:	Coefficient of Correlation
r ²	:	Coefficient of Determination
ROE	:	Return on Equity
SD	:	Standard Deviation
SH Ltd.	:	Soaltee Hotel Limited
STD	:	Short Term Debt
STF	:	Short Term Fund
TA	:	Total Assets
WC	:	Working Capital

CHAPTER - 1

INTRODUCTION

1.1 Introduction

The study of Working Capital behavior occupies an important place in financial management. It has never received so much attention as in recent years. The earlier emphasis of financial management was mostly on long term financial decision making which led to the development of theories concerning this decision as compared to short term financial decision. Later on when many enterprises failed or their growth restricted either due to shortage or mismanagement of working capital, the study of working capital management assumed a greater significance.

Working Capital is the lifeblood of every organization. Working Capital Management refers to the proper management of firm's current assets and current liabilities. It is concerned with all decisions and acts that influence the determination of appropriate level of current assets and their efficient use as well as choice of the methods of financing them, keeping in view of liquidity.

No area of business is so intimately related to its other areas as the area of working capital management. Working capital policies affect marketing, personnel, production and other functions. Almost every activity of business or everything that happens in the business is related to working capital decision.

The inefficient management of working capital will lead to loss of profit in short run but it will ultimately lead to the downfall of the enterprise in long run. A deeper understanding of the importance of working capital can lead not only to material savings in the economical use of capital but can also assist in furthering the ultimate

aim of business. An excessive investment in working capital will lower the rate of return while inadequate investment will hamper the solvency position and growth, thereby affecting the smooth operation of the business.

1.2 Hotels in Nepal

The first ordinary type of hotel Himalayan Inn was opened at New Road in around 1920/51. Immediately, Paras Inn was opened at Bhugol Park at New Road. In 1952/053 Nara Samsher opened Nepal Hotel at Jawalakhel. That is the staff college at present. He had invited Mr. Tom Mandies from India to manage the hotel. Later, when Nara Samsher closed his hotel in 1954, Mr. Mandies opened Snow View Hotel at Lazimpat. Mr. Boorish Lissanevitch opened tourist standard hotel i.e. Royal Hotel in 1955 at Bahadur Bhawan at Kantipath. That is the Rajshava Bhawan and the Election Commission at present.

In 1964, Mr. Ramshankar, who was successfully operating Green Hotel at New Road, opened Shankar Hotel at old Rana Palace, Lazimpat for tourist standard. This hotel was the first four-star hotel of Nepal. In the same year within 9 months the Hotel De La'Annapurna came up as a five- star hotel. In the year 1966 the Hotel Soaltee came up as five-star deluxe hotel. Similarly, Blue Star Hotel in 1968 and Hotel Crystal in 1972 came up to fulfill the need of the increasing number of tourist arrivals.

In the late 60's hoteliers of Kathmandu realized the importance of joint effort for the development of hotel industry and they joined hands to form the Hotel Association of Nepal(HAN) in 1966. Its main objective was to promote in the hotel business and to make Nepal known as an attractive tourist destination in the international arena. It is a non-political, non-profit making and non-governmental organization. It is representation of more than 211 members. They elect 15 members executive committee including the chairman and the secretary for 2 years.

The objectives of HAN is to promote hotel industry of Nepal in the international marker, to promote uniform rules in the administration of hotels, to protect the lawful

rights of members and to maintain good understanding among the members within and outside the kingdom of Nepal, to coordinate with different international agencies for the betterment of hotel industry of Nepal, to organize joint or coordinated effort to solve the problems faced by the hotels of Nepal and to take part in national and international conferences, seminars representing Nepal.

1.3 General Overview of Soaltee Hotel Limited

The Soaltee Hotel Limited, Kathmandu is the premier hotel of the kingdom and is located in the green suburbs of Tahachal in the neighborhood of Swayambhunath Stupa, just fifteen minutes away from the Airport and ten minutes away from the city center. Three kilometers to the nearest fair site (Bhrikuti Mandap), three kilometers to City Center, Sixty minute walk to the nearest Bus Stop, eight kilometers to the nearest Airport (Tribhuvan International Airport).

The hotel has a reputation for excellent standards of service and accommodation. Further amenities include a health club and swimming pool, beauty salon and barber shop, a shopping arcade, casino and bowling alley. The hotel also features the Megha Malhar Convention Centre, recognized amongst the best in south Asia offering two large conference halls, lounges and a boardroom. Rooms can accommodate from 10 to 600 delegates. State of the art audio visual equipment is available with fully trained technicians on call. This living legend carries on the legacy of superiority it acquired four decades ago.

It is spread over 11 acres of space and surrounded by manicured gardens and with views of the mountain ranges, the SH Ltd. offers a resort atmosphere for both business and leisure travelers. It offers 283 Superior, Deluxe and Crowne Plaza Club rooms, eight executive suites and seven regal suites, as well as non-smoking rooms with features of central air conditioning, attached bathrooms, color television with satellite, international direct dial telephones, internet and email access capability, temperature control, tea and coffee making machine minibar, hairdryers etc.

SH Ltd. offers the widest choice of dining options in Kathmandu. The hotel has five excellent world class restaurants, a cozy lobby bar and 24 hours room service.

Similarly, SH Ltd. provides convention center for conferences and meetings and such rooms can accommodate meetings from 10 to 600 delegates. During the SAARC summit 2002, which was held in Kathmandu they were honored as official hotel. Besides, they have and honor of housing other international conference like, SAARC conference on clinical oncology, FAO international conferences, WHO international conference on HIV and sexually transmitted diseases etc.

Mr. Dinesh Bahdur Bista holds the responsibility of Chairman and the board of directors include Mr. Gyanendra Purush Dhakal, Mr. Ganga Bahadur Khatri(K.C), Mr. Bijay Bahadur Shrestha, Mr. Sashi Raj Pandey, Mr. Rabi Bhakta Shrestha, Mr. Bhola Bikram Thapa and Mr. Niranjana Kumar Tibarewala. The company secretary is Mr. Lil Bahadur Khatri.

The hotel has commissioned a Modern Flight Catering unit at Tilganga, which is presently fully operational. It has also invested in the 36 MW upper Bhoite Koshi Power Company Private Limited.

1.4 Statement of Problem

Working Capital is the lifeblood of every organization. Working Capital Management refers to the proper management of firm's current assets and current liabilities. It is concerned with all decisions and acts that influence the determination of appropriate level of current assets and their efficient use as well as choice of the methods of financing them, keeping in view - liquidity. It has become difficult in many organizations. In most of the organization, it has been misunderstood as the management of money and the managers are found over conscious about the burden of money rather than its efficient utilization. It has been the most challenging area of modern corporate finance where the management always faces a trade off between liquidity and profitability of the firm.

The effective management of Working capital plays vital role to the overall success of most firms over investment. Unproductive current assets will reduce the profitability of a firm where an ineffective management of current liabilities will have

a negative impact on both the firms' cost of capital and risk. Also, in the short run current assets and current liabilities may be the only items that a firm can adjust to meet changed circumstances. So, it is very essential to analyze and find out problem and its solution to make efficient use of funds for minimizing the risk of loss to attain profit objective. Given a volatile economic development, it is not surprising that working capital management deserved the large portion of management time. It should be realized that the working capital needs of the firm should fluctuate with the changing business activity. This shows that the management of working capital in itself a decision area in the framework as the overall financial management. Most of the companies have well recognized the importance.

Following are the major problems that have been identified for the purpose of the study:

- Which working capital policy is SH Ltd. following?
- Is SH Ltd. investing appropriately in each type of working capital?
- What are the sources of financing working capital in SH Ltd. and are they appropriate?
- To extent does working capital management affect the profitability of SH Ltd?
- Is the composition of current asset in SH Ltd. suitable?
- Is SH Ltd. utilizing its current asset effectively
- Is there sound liquidity position in SH Ltd.?

1.5 Objectives of the Study

Working Capital play vital role in success or failure of every organization. The excess as well as inadequate level of working capital may cause harm to the business. The aspect of working capital management is concerned with the short term financing decision. It has never received much attention in the literature of finance.

The basic objectives of the study have been to study and analyze the position of working capital management of SH Ltd. and to provide the necessary suggestions and

recommendations for the improvement. The objectives of this study can be listed as follows:

- To analyze the working capital financing and investment policies of SH Ltd.
- To examine the standard of cash, receivable and inventory management.
- To ascertain the short-term solvency position of SH Ltd.
- To analyze the effect of working capital policies on the profitability of SH Ltd.
- To find out the factor affecting the size of working capital of SH Ltd.

1.6 Significance of the Study

Working Capital Management plays a vital role in smooth running of the business. No, business can run successfully without an adequate amount of working capital. Nepalese business environment is in the threshold of change. In this situation, firms have to adopt suitable strategies for their existence. They should maintain proper balance and coordinate the different functional area of business concern. The success or failure of any organization depends on its strategy, which is affected by working capital. Adequate working capital creates an atmosphere of certainty, security and confident in business. Working Capital Management assumes great significance as huge sum of money has been invested in the form of current assets. It occupies most crucial area of management. Regardless of excellent production and wide fixed assets, management faces the loss of control of its firms because of the liquidity crisis. Thus, this study can be helpful for the management of SH. Ltd. to adopt appropriate working capital position and to make sound strategy in future. This study can further be helpful to carry out further research study in the same field. This study will diagnose the relationship of working capital management to the efficiency of the enterprises as a whole. It can also prove to be helpful for the management to improve its efficiency as well as the profitability with proper management of working capital and its components.

1.7 Limitation of the Study

This study attempts to evaluate the working capital management of Soaltee Hotel Limited. As far as possible the study tried to present actual situation of the company. But due to unforeseen contingencies and difficulties. It was accompanied by some limitation and following are the major limitations of the study:

- The study concentrates only on the data of SH Ltd. for analysis of working capital. Other organization's data has not been considered.
- The study covers only a time period of seven years from fiscal year **2059/060 to 2065/066** and attempts to make trend analysis.
- Time and financial constraint are also the major limitations of the study.
- The study is mainly based on the annual financial statement and record of official data. Therefore the policy as well as decision matters of the corporation are not analyzed.

1.8 Organization of the Study

The study has been organized into five major chapters each devoted to some aspects of the study of working capital management. , which are as follows:

Introduction

The first chapter includes Introduction, which will cover introduction of working capital management, hotels in Nepal, general overview of SH. Ltd., statement of problem, objective of the study, significance of the study and limitation of study.

Review of the Literature

The Second Chapter deals with the Review of the Literature relating to working capital management. The available literatures will be divided into three sections. The first section will cover the review of books; second section will cover the review of journals or articles and third will cover the review of dissertation.

Research Methodology

The Third Chapter covers the research methodology to be adopted for the study consisting introduction, research design, source of data, data processing procedure, tools and techniques of analysis and definition of the key terms.

Presentation and Analysis of Data

The Fourth Chapter deals with the presentation and analysis of data. It will fulfill the objective of study by presenting the data, analyzing them with the help of various statistical tools followed by methodology.

Summary, Conclusion and Recommendations

The Fifth Chapter will cover summary, conclusion and recommendations.

At the last, Bibliography has been included according to the test of relation in between various variables of working capital. Appendixes have also been included according to the reference books reviewed.

CHAPTER -2

REVIEW OF LITERATURE

2.1 Introduction

Review of literature is basically a study of available writing in one's field of research. The literature survey is done to accomplish the knowledge of the studies of their field of research. It provides the foundation for developing comprehensive theoretical framework to conduct research writing. The main objective of this chapter is to provide an insight into Working Capital management of Soaltee Hotel Limited. It includes reviewing of various studies such as different financial books, reports, journal, magazine, research done by researchers. Thus, this chapter aimed at reviewing on available literature on Working Capital management.

This chapter is broadly divided as follows:

2.2 Conceptual Framework

2.3 Review of Various Studies

2.2. Conceptual Framework

Proper financial management is the great essence for every business organization from the point of view of achieving entire success. In this respect, Working Capital Management plays a significant role in every organization. Simply the term Working Capital Management refers to the administration of all aspects of current assets and current liabilities, which greatly influence the overall day-to-day functional areas of the organization. The Current Assets are those assets including cash, which can be converted in cash within an accounting year i.e. a year span. The current assets is also called short-term assets comprises cash, inventories, marketable securities and account receivable etc. So, the amount of fund that is needed to finance the current assets of the firm is called working capital.

The Current Liabilities are those obligations, which have to be paid within an accounting year. It comprises trade creditors, account payable, short-term bank loans, and outstanding expenses. The short-term current assets and current liabilities are collectively known as Working Capital. For instance, without cash, bills cannot be paid, without receivable the firm cannot allow timing difference between delivering goods or services and collecting the money to pay them.

The goal of Working Capital management is to manage the current assets and current liabilities of the firm to keep at satisfactory level. It helps the firm to operate day-to-day transaction without any interruption. If the firm cannot maintain the satisfactory level of working capital, it is likely to become insolvent and may even be forced to bankruptcy. Working Capital Management involves deciding upon the account and composition of current assets and to finance these assets. The decision involves trade off between risk and profitability.

Working capital management practices in Nepalese organization provide totally a different picture. The past trend of many organizations had given emphasis in fixed assets, so they are facing financial problem all the time and the result shows lower efficiency. The government policy to concentrate more on fixed assets has overlooked the financing of working capital. So in order to create the culture of risk bearing ability through commercial prudence and professionalism, the aspect of working capital should be treated in the same way as fixed capital, while deciding the structure of the companies. Short-term financial decision has never received much attention in the literature of finance. More emphasis had been given to long-term financial decision.

By analyzing above concept about working capital, we concluded that all the corporate, whether public or private, manufacturing or non – manufacturing needs to have adequate working capital to serve in competitive market. The consideration of level of investment in current assets should avoid two-danger points-excessive and inadequate investment in current assets. Excessive investment in current assets should

be avoided as it impairs firm's profitability, as idle investment yields nothing. On the other hand, inadequate investment on working capital can threaten solvency of the firm, if it fails to meet its current obligation. It should be realized that the working capital needs of the firm might be fluctuating with changing business activity. So the effective management of working capital is must for the success of any organization. To have adequate healthy and efficient working capital, it should be properly determined, controlled, reviewed regularly. Working capital management is the process of planning and controlling the level and mix of the current assts of the firm as well as financing their assets.

It is therefore recognized fact that any mistake made in management of working capital can level to adverse effects in business and reduce the liquidity, turnover and profitability and increase the cost of financing of the enterprise. The skill of working capital management should be unique as to make efficient use of funds for minimizing the risk of loss to attain profit objective.

2.2.1 Concept of Working Capital

There are two concepts of working capital which are as mentioned below:

A. Gross Working Capital

Gross Working capital simply refers to firms' investment on current assets. Current assets are those assets which can be converted into cash within an accounting year or operating cycle and includes cash, short-term securities, debtors, bills receivable and stock. From the management point of view, the gross concept deals with the problem of managing individual current assets in day-to-day operations. The excessive investment in current assets affects profitability, as idle investment yields nothing. Similarly, inadequate investment in current assets makes it difficult to carry out day-to-day operation of the organization. It also enables a firm to plan and control funds to maximize the return on investment (Kulkari, 1996:376).

Pradhan & Koirala(1982) express their view about concept of Gross Capital as “If all the expenses needed to run the day to day operation of business such as amount to be invested in form of cash, finished goods, receivable etc are put together it is called Working Capital”. This working capital and total current assets are synonymous.

Gross Working Capital = Total Current Assets

This concept is also known as quantitative concept.

B. Net Working Capital

Net Working Capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of an outsider, which are expected for payment within an accounting year; include cash, bills payable and outstanding expenses. Net Working Capital can be negative or positive. A positive Net Working Capital will arise when current assets exceed current liabilities. A negative Net Working Capital will occur when current liabilities are in excess of current assets.

Net working capital can be more useful for the analysis of the trade off between profitability and risk.

Now a day, the net concept has overcome to gross concept because the gross concept is narrow in terms of working capital, as it does not indicate the firm’s liquidity correctly and do not compared with current liabilities. Sufficient procurement of funds in business cannot be made without having current liabilities.

From management point of view, gross working capital deals with the problem of managing individual current assets in the day-to-day operation. But for having long run view of working capital, we have to concentrate on the net value of current assets. The gross concept is important to newly established companies where liabilities have not been acquired immediately, but the net concept is important for both newly established and operating concerns where some amount of current liabilities are

maintained for the payment of different creditors, income taxes, bills payable, secured and unsecured loans etc.

Besides, the gross working capital and net working capital there is another concept called 'Zero Net Working Capital' in which the firm maintains the balance between sum of inventories and receivables with the amount of account payables. It means accounts payable are maintained through inventories and receivables and reduces the need of external financing. (Poudel et.al., 2005:323)

The definition described virtually represents the characteristics of working capital. Following are the characteristics of working capital:

a. Short Life

The working capital is characterized by assets with a life span of less than one year such as cash, marketable securities, account receivable etc. This short life span leads to high volatility in the level of investment.

b. Nearness to Cash or Liquidity

This basic characteristic constitutes the first line of defense against technical insolvency. Cash is the liquid assets having zero conversion time and 100% conversion rate but for inventory and marketable securities two factors –nearness to cash or amount of time required converting assets into cash and price realized on conversion must be considered.

c. Lack of Synchronization

Since the enterprise cannot produce on order only and cannot insist on cash payment, there is always the problem of synchronization in cash receipts and disbursements. It is also due to the level of investments in working capital that is affected by the sales volume, production policies and collection policies.

The basic characteristics of working capital as mentioned above indicate that it is a term of capital intended to be kept moving or circulating and its potential for earning comes from movements. Though the expenditures can be controlled and planned, its income is usually subject to random variation and is not controllable.

2.2.2 Need for Working Capital

The need for working capital to run day-to-day business activities cannot be underestimating. It helps to achieve entire goal of the business and maximize the wealth of shareholders. Business firm generally hold cash for these three purposes. They are as:

a. The transaction Motive

The transaction motive refers to the holding of cash to meet day-to-day requirement of the business. It helps business to run smoothly and uninterrupted basis.

b. Precautionary Motive

The precautionary motive refers to the holding of cash to meet the random and unforeseen fluctuations in cash flow i.e unpredictable change in demand and supply, strikes, unexpected slow down in collection of account receivable.

d. Speculative Motive

The speculative motive refers to the desire of a firm to take advantage of opportunities, which present themselves at unexpected moment. They can make purchases at favorable price or reduce price on payment of immediate cash, speculative interest rate etc.

2.2.3 Types of Working Capital

There are two types of Working Capital which are as mentioned below:

a. Permanent Working Capital

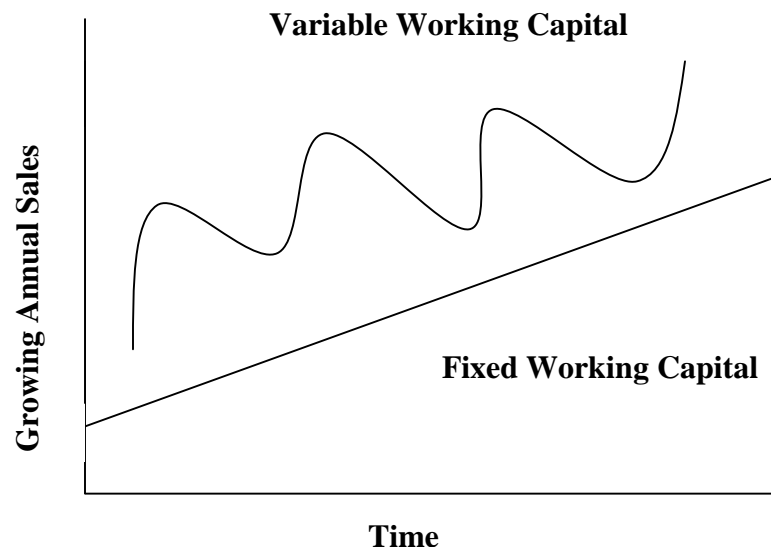
Permanent Working Capital refers to that level of current assets which is required on continuous basis over the entire year. Organization cannot operate its regular

operation and sales functions in the absence of this portion of working capital. It includes the amount of cash, receivable and inventory mentioned as current assets to carry operations at any time. Therefore, manager holds certain minimum amount of working capital to ensure uninterrupted production and sales function. This portion of working capital is directly related to the firm's expansion of operation capacity.

b. Temporary Working Capital

Variable working capital is also known as temporary seasonal and fluctuate working capital. It represents that portion of working capital, which is required over permanent working capital. If the nature of production and sales of a firm directly related to seasonal variation, it should stock extra raw material, work in process and inventory of finished goods. Therefore this portion of working capital depends upon the nature of firms' production, relation between labour and management. The following figure clearly shows about the portion of working capital. If firm has sound management of this portion of working capital, it can easily win the other competitors in the cutthroat of the market.

Figure No: 1



2.2.4 Determinants of Working Capital Policy

There are no set rules to determine the working capital requirement of a firm. The firm itself should manage working capital in proper way by considering the need of the business. The total working capital requirement is determined by a wide variety of factors and these factors could affect different enterprise differently and they do vary from time to time.

Generally, following factors affects the working capital requirement of the organization.

a. Nature of Business

Working Capital requirement of a firm are basically related to the nature of the business. Trading and financial firm needs large sum of money to be invested in working capital. Public organization need limited working capital only for the use of cash sales and supply services. Working capital for the manufacturing concern falls between the two extreme requirement of trading firm and public enterprises.

b. Manufacturing Cycle

Shorter the manufacturing period (cycle), the lesser will be the need of working capital to finance and vice versa.

c. Production Policies

Production policies are also another factor, which affects in determining the working capital requirement. For instance, if a firm produces seasonal goods, then it will be sold in certain month of the year and inventories will be kept at minimum level, this increases working capital. If the work of business is done manually, the requirement of working capital will be more.

d. Business Fluctuation

Business situations and business cycle also affects the need of working capital. Time and cycle fluctuation effects demand of the products that in turn affect the temporary and variable working capital need. In boom period when sales increases, the firm

need its investments in purchasing inventories, additional funds may be required to invest in plant and machinery to meet the increased demand. At the time of boom, more investment has to be made in stock and the need for working capital increases but during the time of recession and depression low amount of working capital is enough.

e. Growth and Expansion of Business

The volume of assets, sales as well as expansion activities of the enterprises has direct bearing upon the needs of working capital. The business firms having the program of expansion, development and modernization have to manage more working capital. It might also need working capital to utilize its full production and operation capacity of fixed assets. Higher the volume and expansion of activities of the enterprises, the higher will be the need of working capital and vice versa.

f. Credit Policy

The firm may adopt liberal credit policy or the tight credit policy. A firm with liberal policy gives longer credit period to the customer. It results in the higher receivables thereby increasing the need for the working capital. On the other hand, a firm having tight credit policy gives shorter credit policy that decreases the investment in account receivables thereby reducing the need for working capital.

g. Price Level Change

The fluctuations in price level have greater influence in determining the need of working capital. The firm requires maintaining high amount of working capital if the price level rises due to increase in cost of inputs.

h. Sales Volume

The fluctuation in demand and supply of the product affects the level of working capital. The higher the volume to sales, the higher will be the need of working capital. . It is because; the firm needs additional inventories to support the payment of additional labor that is needed to support the increased sales.

i. Cash Conversion Cycle

Working capital is also called a circulating capital. The larger the cash conversion cycle, the larger will be the need for working capital and vice versa.

j. Others

Factors such as coordination between production and distribution activities, conservative dividend policy as well as liberal depreciation policy strengthen the working capital position of the organization.

2.2.5. Working Capital Policy

Working capital refers to the firm's basic policies relating to the target level of each category of current assets and how current assets to be finance. Deciding how much current assets to be maintained and how to finance them are crucial issues of working capital management because the level of current assets and financing them have direct impact on the firm's profitability, liquidity and risk.

Basically there are two policies of Working Capital to examine the above two issues:

- A. Current Assets Investment Policy
- B. Current Assets Financing Policy

Working Capital Investment Policies

A. Current Asset Investment Policy

Current assets investment policy refers to the policy regarding the total amount of current assets to be carried out to support the given level of sales. How much a firm to invest in current assets will depend on its operating cycle? There are three alternative current assets investment policy-relaxed, moderate and restricted. Under each policy, a different amount of working capital is carried to support each level of sales.

i. Relaxed Current Assets Investment Policy

Relaxed current assets investment policy is also called conservative, flexible, and fat cat policy. In this, the organization holds relatively large amount of current assets i.e.

cash, marketable securities, inventory and receivables to support the given level of sales. In addition the company is motivated to sale by applying liberal credit policy. Therefore, this policy creates the longer receivable collection period. It is also used to create longer inventory and cash conversion cycle. Thus, the policy provides the lowest expected return on investment with lower risk.

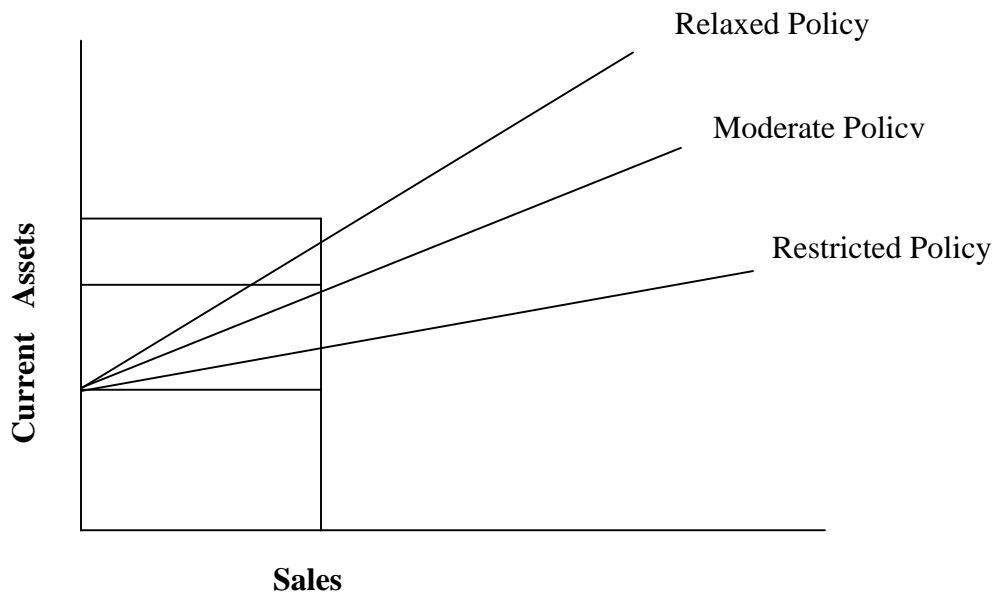
ii. **Restricted Working Capital Investment Policy**

It is also called as tight, lean and mean, aggressive policy. Under this, the organization has high control in current assets. The company holds minimum level of inventory, marketable securities, receivable and cash to support given level of sales. This policy tends to reduce the inventory, receivable, cash conversion period. The company follows tight credit policy and bears the risk of losing sales.

iii. **Moderate Working Capital Investment Policy**

In this policy, a company holds the amount of current assets in between the relaxed and restricted policies. The ratio of current assets to sales is neither to high or too low under this policy. Both the risk and return are moderate in this policy.

Figure No. 2



Working Capital Financing Policy

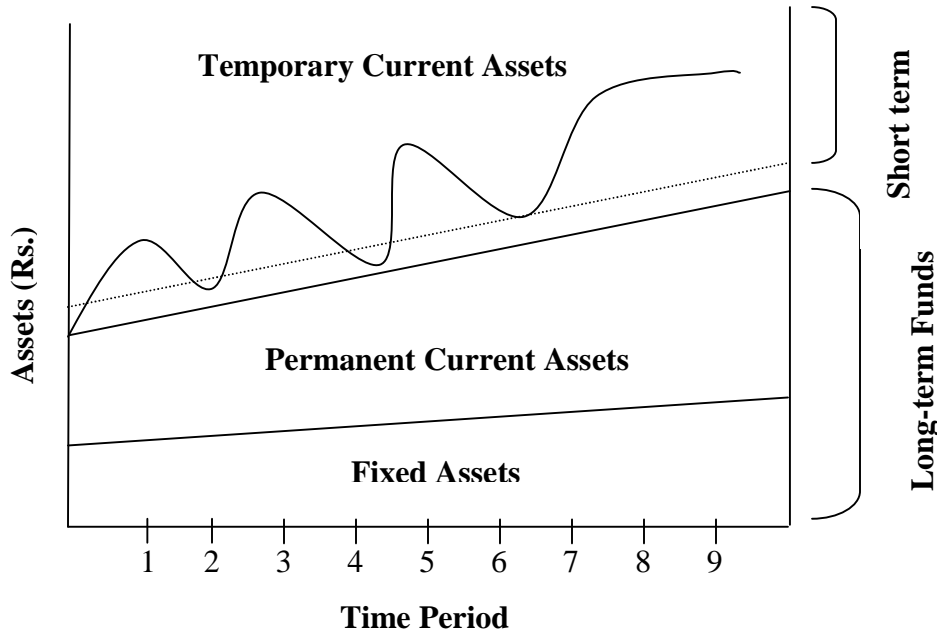
A. Current Assets Financing Policy

Current assets financing is one of the concerning topic of working capital management. Working capital management involves deciding upon the amount and composition of current assets and how to finance these assets. This decision involves trade off between risk and profitability. The financing of current assets through short-term and long-term sources is different regarding the cost and flexibility. Therefore, business enterprises have to identify the way to apply financing mix on current assets financing.

i. Aggressive Financing Policy

The aggressive financing policy is quite risky leading to high profitability and low liquidity. Under this policy, firm finances its entire temporary current assets and a part of permanent current assets from short term financing and permanent requirement by long-term sources. Some extremely aggressive firms may even finance a part of their fixed assets with short term financing. The relatively more use of short term financing makes the firm more risky. There is higher risk, higher return and low liquidity position under this aggressive policy.

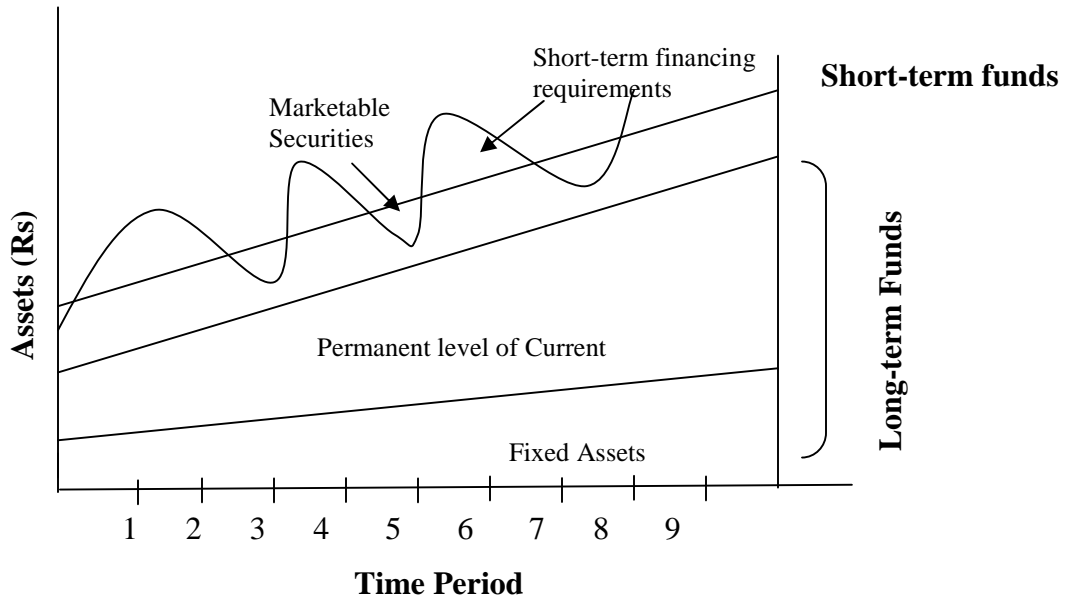
Figure No. 3
Financing Under Aggressive Policy



ii. Conservative Financing Policy

The financing policy of a firm is said to be conservative when it depends more on long-term funds for financing needs. Under this policy, the firm finances its permanent current assets and a part of temporary current assets through long-term funds. While short term funds are reserved for use in the event of an emergency. This policy has kept a large amount of current assets with long conversion period, low level of current liabilities and higher interest. When the firm does not need temporary current assets, the idle long-term fund can be invested on marketable securities. This policy is less risky leading to profitability and high liquidity. Thus risk and return are lower than aggressive policy and liquidity position is higher than aggressive policy. So, the policy is also known as very safe financing policy.

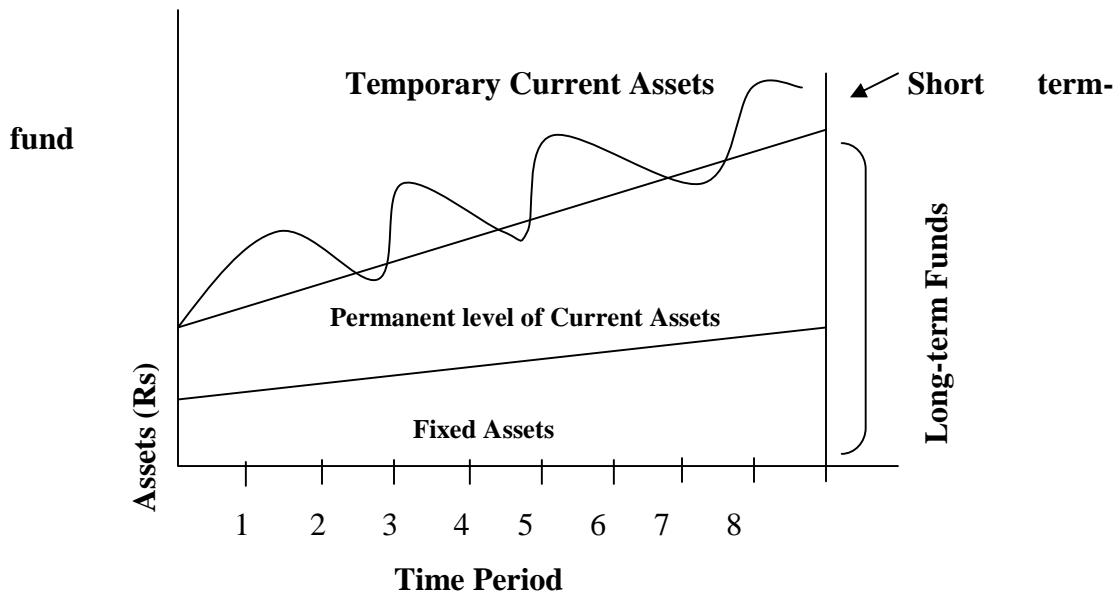
Figure No: 4
Financing Under Conservative Policy



iii. Moderate Financing Policy

This approach lies between aggressive and conservative policy. It is neither too risky nor least risky. It lies between a low liquidity, high profitability case and high liquidity low profitability case. Under this policy, the firm finances its permanent current assets with long-term financing and temporary current assets with short term financing. It aims at achieving a trade off between profitability and liquidity. In other words, a firm adopts that financial plan, which matches assets and liabilities, maturates, so it is also called maturity matching policy. This approach is also called self-liquidating approach.

Figure No: 5
Financing Under Moderate Policy



2.2.6 Goals of Working Capital Management

The firm's policies for managing its working capital should be designed to achieve three goals.

a. Adequate Liquidity

If a firm lacks sufficient cash to pay its bills when due, it will experience continual problems. The most important goal is to achieve liquidity for conducting day-to-day operations.

b. Minimization of Risk

In selecting its sources of financing payables and other short-term liabilities may involve relatively low cost. The firm must ensure that these near term obligations do not become expensive compared to the current assets on hand to pay them. The matching of assets and liabilities among current account is a task of minimizing the risk of being unable to pay bills and others.

c. Contribution on Maximizing Firm's Value

The firm holds working capital for the same purpose as any other assets, which are to maximize the present value of common stock and value of the firm. It should not hold idle cash any more than it should have idle fixed assets. The investment of excess cash, minimizing of inventories, speedy collection of receivables and elimination of unnecessary and costly short-term financing all contribute for maximization of the firm's value.

2.2.7 Adequacy of Working Capital

The proper functioning of business operation will be ensured only when the management would maintain the right amount of working capital on continuous basis. Both excessive and as well as inadequate working capital positions are dangerous from the firm's point of view which is reflected below (Pandey, 1999:825)

The dangers of excessive working capital are:

- It results in unnecessary accumulation of inventories. Thus, chances of inventory mishandling, waste, theft and losses increase.
- It is an indication of defective credit policy and stock collection period. Consequently, higher incidence of bad debts results, which adversely affects profit.
- Excessive working capital makes management co placement, which degenerates, into managerial inefficiency.
- Tendencies of accumulating inventories tend to make speculative profit grow. This may tend to make dividend policy liberal and difficult to cope with in future when the firm is unable to make speculative profits.

The dangers of inadequate working capital

- It stagnate growth. It becomes difficult for the firm to undertake profitable projects for non-availability of working capital funds.
- It becomes difficult to implement operating plans and achieve the firm's profit target.

- Operating inefficiencies creep in when it becomes difficult even to meet day-to-day commitments.
- Fixed assets are not efficiently utilized for the lack of working capital funds. Thus, the firm's profitability would deteriorate.
- Paucity of working capital funds render the firm unable to avail attractive credit opportunities etc.
- The firm loses its reputation when it is not in a position to honour its short-term obligations.

2.3 Literature Review of Related Studies

The purpose of reviewing the literature is to develop some expertise in one's area, to see what new contribution can be made, and to receive some ideas for developing a research design. Thus, the previous studies can no be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies.

2.3.1 Review of Books

There are specially two concepts of working capital: gross and net concept. The gross working capital simply called as working capital, refers to the firm's investment in current assets. Current assets are those assets which can be converted into cash within an accounting year and include cash, short-term securities, debtors, bills receivables, stock and prepaid expenses. The term net working capital refers to the different between current assets and current liabilities. Current liabilities are those claims of outsiders which are expected to mature for payment within an accounting year includes creditors, bills payable, ban overdrafts and outstanding expenses or accrued income. Net working capital can be negative or positive. A positive net working capital will occurs when current assets exceed current liabilities. A negative net working capital will occurs when current liabilities are in excess assets (**Pandey, 1992**).

The working capital policy of the firm namely conservative and aggressive is two extreme ends. Dividing CA by FA gives CA to FA ratio. Assuming the constant level of FA, a higher CA/FA ratio means an aggressive CA policy assuming other factors constant. Higher level of CA implies greater liquidity and solvency of the firm. There is less risk of technical solvency, but a considerable amount of funds will be tied up in CA, which causes to lower the profitability. On the other side, to have a higher profitability, firm can take aggressive CA policy maintaining lower level of CA, which will lower the solvency of the firm and the level of risk in the same manner. Thus the reasonable approach is to balance the cost of maintaining CA and risk associated in such a way that the tradeoff between risk and return is minimized (**Pandey, 1992**).

Weston and Bingham have given some theoretical insights into working capital management after their various research studies on it. The broad conceptual findings of their study provide sound knowledge and guidance for the further study on the field of management of working capital in any enterprises and naturally to this study as well. They explain, in the beginning, the importance of working capital, concept of working capital, financing of working capital, the use of short term versus long term debt, relationship of current assets to fixed assets. They have dealt with the various components of working capital and their effective management techniques. The components of working capital, they have dealt with are cash, marketable securities, receivables and inventory. For the efficient management of cash they have explained the major sources and forms of short term financing such as trade credit, loans from commercial banks and commercial paper (**Weston & Brigham, 1984**).

Working capital management is usually described as involving the administration of these namely cash, marketable securities, receivables and inventories and the administration of current liabilities. It means the working capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the inter-relationship that exist between them (**Van Horne, 2001**)

Working capital management is the effective lifeblood of any business. Hence, the management of working capital plays a vital role for existing of any public enterprises successfully while study it. It is the centers on the routine day-to-day administration of current assets and current liabilities. Therefore, working capital management in public enterprises must needed to determine the adequacy of investment in current assets otherwise it could seriously erode their liquidity base. Secondly, they must select the type of current assets, suitable for investment so as to raise their operational efficiency. Thirdly, they are required to ascertain the turnover of current assets, which determine the profitability of the concerns. Lastly, they must find out the appropriate sources of funds of finance the current assets.

Proper management of working capital must ensure, adequate amount of working capital as per need of business firms. It should be in good health and efficiency circulated. To have adequate healthy and efficient circulation of working capital it is necessary that working capital be properly determined and allocated to its various segments, effectively controlled and regularly reviewed (**Agrawal, p-8**).

2.3.2 Review of Articles /Journals

Different analysts have approached Working Capital Management in different ways. A review of these approaches is important in order to develop an approach that can be employed in the context of selected organization. Articles, journals, bulletins are of great significance for thesis writing. It adds extra inputs in this study. So, various published articles, journals relating to working capital management published by different management experts are reviewed.

Mauriello,(1962) has presented the article on “Working capital concept”. This article looks afresh at the problem of determining working capital, and proposes a simple yet comprehensive restatement of principles with respect to current assets and current liabilities. The working capital is measure of liquidity of a concern working capital is an important to management as a measure of the fluidity of capital and as an indicator of balance in the assets and liability structure in the company Banks and the other short-term creditors are vitally interested in the amount of working capital from the

standpoint of evaluating the prospect of repayment of their claims against the company.

Achieve more efficient financial management and eliminate unnecessary “hits” to the company’s bottom line!

With today’s unsettling economic conditions, there is no more challenging area in finance than working capital management. This seminar address all the key issues: from organizing and improving control over your company’s cash flows-to identifying key friction points among the various financial functions (cash/marketable securities, inventory, accounts receivable and payable and notes payable)-to establishing efficient investing and borrowing approaches and developing a global working capital management system. You will discover an effective way to broaden your horizons and learn how specific elements of working capital management work separately and together.

How You Will Benefit:

- Create an effective, company-wide working capital management system
- Handle cash flows more efficiently
- Develop successful strategies for short-term liquidity
- Enhance the conversion of accounts receivable to cash
- Find out how different purchasing approaches affect account payable and cash management.
- Measure and control the cost of your company’s working capital management
- Apply a global approach to working capital management, incorporating major foreign subsidiaries into your system (www.knowledgestrom.com/seminar no:01530-XNBB)

Shrestha (1983) in his study has conducted an empirical observation of ten-selected PEs. PE finding of which are an article “Working Capital Management in PEs”. He has focused on the liquidity, turnover and profitability position of sampled enterprises. He also states that the managers often lack basic knowledge of working capital and its overall impact on the operative efficiency and financial viability of

public enterprise. In his analysis, he focused that four PEs had maintained sufficient liquidity position, two PEs is excessive and the remaining four had failed to maintain desirable liquidity position. On the turnover side, two PEs had negative working capital turnover, four had adequate turnover, one had high turnover and the remaining three had not satisfactory turnover on net working capital. He has also found that out of ten PEs, six were operating in losses while only four were getting same percentage of profit. Based on Prof. Dr. Manohar K. Shrestha has brought certain policy issues such as lack of suitable financial planning, negligence towards working capital management, deviation between liquidity and turnover of assets and in ability to show positive relationship between positive relationship between relationship between turnover and return on net working capital. He has also suggested the measures to overcome above policy issues like identification of needed funds, regular checks, and development of management information system, positive attitude toward risk and profit and determination of right combination of short term and long term sources of funds to finance working capital.

Pradhan & Koirala (1983) had jointly published a article on “Working Capital Management in Nepalese Corporation’. This article aims to find out the difficulties, problems and importance to current assets management and also aims to find the motive for holding cash and inventory. They have focused on evaluation of the working capital position of selected manufacturing and non Manufacturing Corporation of Nepal. They have sampled five manufacturing and six non-manufacturing public enterprises. This study is concentrated on the size of investment, trend of investment and need to control the investment in current assets, significance of current assets management. Major findings of this study are as follows:

1. Investment in total assets had declined over a period of time in both manufacturing and non-manufacturing corporations. However, the manufacturing companies had consistently more investment in cash and receivable as compared to non-manufacturing corporations.

2. Management of working capital was more difficult than that of fixed capital. They found the high level of inventory in manufacturing ones.
3. Inventory management was a great significance in manufacturing corporations and the management of cash and receivable was a great significance in non-manufacturing corporations.
4. The major motive for holding cash in Nepalese corporation was to provide a reserve for routine not outflows of cash to keep on the production process and sales.

Acharya (1985) has published his article regarding 'Problems and implements in the management of working capital in Nepalese enterprise'. He has described operational and organizational problems as a two major problems faced by the Nepalese PEs regarding working capital management. In his number of studies, it has been repeatedly found that the gross efficiency exists in the operation of public enterprise. He states most of the Nepalese enterprises has misunderstood the management of working capital as the management of money and managers are found conscious about receiving money rather than its efficient utilization. Thus, existing problems in the finance are mostly directed toward the management of working capital rather than in any area. Lack of regular evaluation of financial result as well as regular internal and external audit system, most of PEs being unable to present their capital requirements with proper justifications, functioning of finance department was not satisfactory, some PEs are facing the problem of under utilization of capital.

He has stressed on high cost of production, which have left their PEs in less secured position. He further added the cost reduction is only possible reassurance for smooth operation and long-term existence of the public enterprises in Nepal. The cost reduction program is highly associated with the optimization of working capital. Increase of Current liabilities than current assets, not following the current ratio 2:1, slow inventory in PEs, change in working capital in relation to fixed capital had very low impacts over the profitability, PE have not followed the conventional proportional of debt to equity as 1:1, very thin transmutation of capital employed into

sales, absent or inefficient information management system, ineffective use of performance evaluation tools and techniques, and working capital management has never been considered as a managerial job.

He has suggested avoiding the system of crisis decision, which prevailed frequently in the operation and also to strictly follow the set system and method of decision making to achieve set objective.

Another article relating to working capital management is by **Pradhan (1988)**. He studied on 'The demand for working capital by Nepalese Corporations'. For the analysis he has selected nine manufacturing public corporations with the 12 years data from 1973 to 1984. In earlier studies concerning the demand for cash and inventories by business firms didn't report unanimous findings. A lot of controversies exist with respects to the presence of economies of scales, role of capital cost, capacity utilization rate and the speed with which actual cash and inventories are adjusted to describe cash and inventories respectively. The pooled regression result shows that the demand for working capital and its components is a function of both sales and their capital cost.

Mahat(2004a) enlightens us with the spontaneous source of working capital in his article titled, "Spontaneous Source of Working Capital" he has defined it as those sources that emerge in the normal course of business company to finance its CA. It included trade credit, provision and accrued expenses.

Trade credit is the facility of credit obtained by the company from its suppliers. For this the company has to provide its credit worthiness by maintaining good track record of liquidity and profitability. Loss of the opportunities provided by the suppliers on cash purchase or prompt payment of dues like incentives or discount is terms as cost of trade credit. A company must compare the cost of trade credit with the opportunity cost of cash before making a decision. But the company must always bear in mind that overstretching payment to the suppliers may create trouble, which can hamper the effective management of WC.

Provisions are amount charged to the profit and loss account for an estimated expense for e.g. provision of income tax, provision of employee bonus and proposed dividends. Accrued expenses are the expenses due on some specific date but not paid for by the company for e.g. salary payable, audit fees payable etc.

Mahat suggests that in this period of recession in Nepal, sick companies must take the maximum use of spontaneous sources of WC in order to improve their performance.

In this article 'Cash Credit Vs Bank Overdraft' Mahat writes that bank overdraft and cash credit are the most popular WC assistance provided by the banks. Bank overdraft is an arrangement by which the banker allows the customer to draw over and above the current account balance whereas in cash credit, the customer is allowed to overdraw his account up to a pre-sanctioned. But the drawings are subject to drawing power. It is sanctioned against the security of CA. Bank overdraft being an old concept is very popular in the world of banking but cash credit is a relatively new concept and is less popular internationally(Mahat,2004b).

2.3.3 Review of Thesis

The numbers of thesis have been done by the students relating to working capital management and among them few-selected thesis related to working capital management are studied in his section:

Sapkota (2006), had carried out “*A study on working capital management of Himal Cement Company limited*”. He had used ratio analysis using financial statements of the company for five years from 2002 to 2006.

His Major Objectives:

-) To examine the current assets and current liabilities position.
-) To reveal the specific performance in working capital management.
-) To evaluate the each type of current assets of the company.

-) To understand the accuracy of working capital depending upon the nature of financing by current assets or not.

His Major Findings:

-) Major part of current assets is occupied by inventory.
-) Inventory turnover ratio, cash conversion cycle and receivable conversion period is found at satisfaction level.
-) Poor liquidity position.
-) Poor profitability position of the firm i.e profit making capacity is low due to low utilization of plant capacity, inefficiency in sales and operations activities and lack of efficient management of the company.
-) High operation inefficiency due to high production cost.
-) Management of receivable seems to be far better than other aspects.

His Major Recommendation:

-) To determine certain rate of return on investment and so set certain sales target.
-) Suitable working capital should be formulated and implemented to keep optimum size of investment in each component of current assets and current liabilities.
-) Proper attention should be given to employee planning.

Sharma (2007), in his thesis entitled “*A study on working Capital Management of Nepal Battery Co. Ltd.*” has concerned with working capital management Of NBCL by analyzing various ratio of the period of five years. He used secondary data of balance sheet and profit and loss a/c of the company from 2001 to 2005.

His Major Objectives:

-) To analyze the liquidity composition of working capital (assets utilization and profitability position).
-) To study the relationship between sales and different variable of working capital of NBCL.

His Major Findings:

-) Major component of working capital of NBCL are cash and bank balance, account receivables, inventory and misc. current assets and inventory holds large position of current assets.
-) Inventory to total assets shows fluctuating trend and receivable to total assets position show increasing trend. The turnover position is in fluctuating trend and receivable conversion period and inventory conversion period is long which is unfavorable for the company.
-) Values of current and quick ratios are found nearly equal to standard inefficiency in operation can be see through wide difference between gross profit margin and net profit margin and high level of operation ratio.

Shrestha (2008), has carried out his thesis entitled “*A study on working capital management of Diary Development Corporation*”. He has taken five years study period and applied the secondary data.

His Major Objectives:

-) To appraise the working capital management of DDC.
-) To study the relationship between sales and different variables of working capital.

His Major Findings:

-) The Major components of current assets are inventory, cash and bank balance sundry debtors and miscellaneous current assets in which inventory hold the major position and cash hold the smallest position.
-) Company’s investment in form of working capital has been increasing. The average investment in current assets in lower with respect to net fixed assets during the study period and DDC has on clear vision about the investment in current assets to fixed assets position.
-) There is growing tendency of investment over current assets.

-)] Liquidity position of the company is not well because current and quick ratios are below standard value.
-)] Because of high collection, period, turnover position of the company is weak.
-)] The overall return position of DDC is negative because of inefficient utilizing of CA, TA and shareholders wealth.

His Major Recommendation:

-)] DDC should minimize its current assets by adjusting on inventory and cash balance. It should increase production capacity by investing capital goods.
-)] Reduce operating cost by avoiding unnecessary manpower and expenses.

Ghimire (2008), in his thesis entitled “*A study of working capital position of Arihanta Multi- fibers Limited*” has covered the period of 5 years from fiscal year 2003 to 2008.

His Major Objectives:

-)] To show the working capital position of Arihanta Multi- fibers Company Ltd.
-)] With respect to cash, credit and inventory management to examine the nature of companies current assets and current liabilities properly.
-)] To see the affect of working capital on profitability.
-)] To examine the nature of funds, their sources and utilizing.

His Major Findings:

-)] The Arihanta Multi-fibers Company Ltd’s current assets consists of mainly stock of raw material, finished products, packing materials, sundry debtors, advance and receivables, cash and balances and so on. The inventory occupies major share i.e.61.04%.
-)] The company’s current liability mainly consists of sundry creditors, advance and payable provision. Sundry creditor occupies the largest share i.e.51.15%.
-)] The overall percentage of current assets on total assets is in increasing trend i.e. 19.84%, 23.22%, 26.12%, 29.81% and 29.78% respectively.

Timsina (2010), in his thesis entitled “*A study on working Capital Management of Nepal Insurance Company.*” has concerned with working capital management Of NIC by analyzing various ratio of the period of five years. He used secondary data of balance sheet and profit and loss a/c of the company from 2005 to 2009 and used primary data from structured interviewed from relater person of the organization.

His Major Objectives:

-) To analyze the size and structure of working capital of NIC.
-) To analyze the relationship between income and working capital.
-) To analyze the working capital flow cycle or cash conversion cycle of NIC.
-) To examine whether the adequacy of working capital depends upon the nature of financing current assets or not.

His Major Findings:

-) The major components of current assets in n NIC Ltd. are cash and bank balances, sundry debtors, investments in different securities and other investments, there is increasing trend of current assets every year. The sundry debtors occupies major share i.e. 31%.
-) Current liabilities of NIC, contains estimated liabilities for outstanding claim, due to re-insure, sundry creditors, provision as divided and other. The due to re-insure occupies major share i.e. 36%.
-) The overall percentage of current assets on total current assets is in decreasing and increasing trend i.e. 31%, 14%, 25%, 26% and 4% respectively.
-) If the current assets can pay current liabilities then liquidity position will be satisfactory. Generally current ratio is said well if it is 2:1.
-) The relationship between liquidity and profitability can be accessed through correlation coefficient. The correlation coefficient is just 0.2128 where the PE is 0.2870 and significant, In other words, there is negative correlation between liquidity profitability of NIC.

His Major Recommendation:

-) It is suggested to make a working policy for the proper management of working capital as the efficient management of resources depends upon the working capital management policy and no such policies could be found during the study period.
-) The relation between the company and the re-insurer as firm has enough profit and reserves.
-) Trend of current assets show increasing trend but the correlation shows negative relationship between current assets and operating income. So, it is suggested to search for the better use of the funds.

2.4 Research Gap

Working capital controlling nerve center for any type of organization. Many research studies have been conducted by the different students, experts and researchers about working capital management. Some studies are related to case study of a single company and some are comparative in nature. The financial and statistical tools used by most of the researcher were ratio analysis, test of hypothesis, correlation analysis and trend analysis. Regression analysis and primary tools have not been used by many researches. This research will include different tools like ratio analysis, correlation analysis, regression analysis and interview as a primary tool of analysis, regression and structured questionnaire and interview are the specific tools used in this research and also used the provided latest data to show the overall working capital of SH Ltd. This research can help the person who wants to know about overall working capital management of Soaltee Hotel Limited. This research may be new as well as the research work may be appreciable.

CHAPTER -3

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is the process of arriving to the solution of the problem through planned and systematic dealing with collection, analysis and interpretation of facts and figure. It is a way to systematically solve the research problem. It may be misunderstood as a science of studying how research is done scientifically. In this we study the various steps that are generally adopted by a researcher in studying the research problem along with the logic behind them. It is inquiry into any subject matter, which is an endeavor to discover for find out valuable fact, which would be useful for future application or utilization. A systematic research study needs to be followed to achieve predetermined objectives.

The main objective of this study is to measure the degree of financial soundness and performance of SH Ltd. i.e analyzing the working capital management. This chapter includes the entire research methodology used and followed in the study. It includes research design, nature and sources of data, data processing procedures, analysis of variables, and financial and statistical tools analysis.

So, the main purpose of research is to make research work easy, effective and helps to find a solution of the problem.

3.2 Research Design

Research design is the arrangement of the condition for the collections and analysis of data in a manner that aims to combine relevance to the research purpose. It can be defined as the plan, structure and strategy of investigation concerns so as to answer the research questions and to control variants. It is the overall operational pattern of framework of the project that stipulates what information to be collected from which

sources by what procedures. Thus, it is not possible for the researcher to conduct a research work without a research design.

In this study, descriptive as well as analytical research approach is followed to analyze the present structure, constraints and future potentiality of the SH Ltd.

Besides, the research also includes various financial, statistical and qualitative aspects and these aspects are described details where it is necessary.

3.3 Nature and Sources of Data

Nature and Sources of Data plays a vital role on research work. Without proper information and data, research study cannot be made effective. Here, the research is based on primary and secondary data but most of the study is based on the secondary data provided by the organization. The primary data collected through structured questionnaire and interviewed. The secondary data are collected from booklets, balance sheet published official records, previous literatures etc.

3.4 Data processing Procedure

Data processing procedure depends upon one's study. Here, both primary and secondary data collection procedure are applied. The collected secondary data are properly arranged, tabulated and computed in accordance with the requirement of the study. Whereas secondary data are collected directly from the organization's annual reports, bulletins, journals, booklets and also from the website www.soalteecrowneplaza.com And some are collected from Nepal Commerce Campus's library including T.U. and Primary data structured questionnaires are given to related personnel of the organization and for the information not obtained from the questionnaire, a structured interview is conducted.

3.5 Analysis of Variables

These variables of Soaltee Hotel Limited are used and analyzed for evaluating working capital management.

- i) Sales
- ii) Cash, Inventory, Receivables, Debtors
- iii) Current Assets and Current Liabilities
- iv) Fixed Assets and Total Assets
- v) Short Term Financing and Long Term Financing.

3.6 Tools and Techniques of Analysis

Financial as well as the statistical tools are used to make the analysis more convenient, reliable and authentic. For data analysis, different items from the balance sheet and other statements are tabulated. Their ratios, means, standard deviation, and coefficient of correlations of different variables, regression analyses are then calculated, presented in the table. Following are the brief introduction of the financial and statistical tools used in the study:

I. Financial Tools

The most widely used tools for the financial analysis is the ratio analysis. Ratio analysis is widely used tools for financial analysis which establishes the numerical or quantitative relationship between two items i.e. variables form the financial statement. It helps to ascertain the financial condition of the organization. The management may be able to judge their financial stability by using various ratios. With the help of the financial ratio calculation, the company could easily know the financial situation, performance and take suitable and corrective actions to relieve from arising problems.

The ratios are simply calculated by dividing one component to another to show their corresponding relationship with each other. Following are the financial ratios, which can be analyzed to determined financial position of an organization:

i. Current Assets to Total Assets Ratio

This ratio measures what percentage of company's total assets is invested in the form of current assets. In other words it indicates what percentage of the company's total assets are current assets. It is calculated as follows:

$$\text{Current Assets to Total Asset Ratio} = \frac{\text{Current Assets}}{\text{Total Assets}}$$

Higher ratio indicates decrease in the risk and profitability of the company as it holds sound working capital position. But a high ratio gives the business freedom to adapt to changing circumstances.

ii. Current Assets to Fixed Assets Ratio

This ratio represents the relationship between the current assets and fixed assets. It can be calculated by using following formula:

$$\text{Current Assets to Fixed Assets Ratio} = \frac{\text{Current Assets}}{\text{Fixed Assets}}$$

If the ratio is greater than 1, it represents more investment in current assets than fixed assets. If the ratio equals to 1, it represents the equal proportion of current assets and fixed assets.

iii. Inventory to Current Assets Ratio

This ratio indicates the relationship of inventory to current assets i.e. it represents the portion of inventories to current assets.

It is calculated by using following formula:

$$\text{Inventory to Current Assets Ratio} = \frac{\text{Inventory}}{\text{Current Assets}}$$

Higher ratio measures greater part of current assets occupied by the inventory (blocking of material in stock). It indicates the weak working capital management of the company.

iv. Inventory to Total Assets Ratio

This ratio indicates the relationship of inventory to total assets i.e. it represents what percentage of total assets is in the form of inventories.

It is calculated by using following formula:

$$\text{Inventory to Total Assets Ratio} = \frac{\text{Inventory}}{\text{Total Assets}}$$

Higher ratio measures greater part of total assets occupied by the inventory (blocking of material in stock). It indicates the weak working capital management of the company

Liquidity Position

Liquidity ratio is used to measure the firm's ability to meet the short-term obligation. The consequences of inadequate short term liquidity are very serious and therefore measures of such liquidity have been attached greater importance.

Net Working Capital itself is one of the measures of determining liquidity. An enterprise with more net working capital is considered to be more liquid than one with less net working capital.

i. Current Ratio

Current Ratio is the relationship between current assets and current liabilities. The current ratio measures a firm's liquidity position i.e ability to meet current obligation. It shows the short-term solvency and financial strength of the firm. It measures the extent to which short-term assets cover the claims of short-term creditors. It indicates the availability of current assets for every unit of current liability. It can be calculated by using following formula:

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

The standard measurement of current ratio is 2:1. If the current assets are two times of current liabilities i.e 2:1, there will be no adverse effect on daily operation. If the ratio

is less than 2, the difficulties may arise while paying current liabilities. If the ratio is more than 2, it is very comfortable for the creditors but on the other hand it indicates the idle fund in business that does not produce return.

ii. Quick Ratio

Quick Ratio helps to test the ability of the firm to make immediate payment of current liabilities. Not all the current assets are equally liquid, the inventory and prepaid expenses cannot be termed to be a liquid assets. It can be calculated by using following formula:

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

Where, Quick Assets=Current Assets-Inventory, Prepaid expenses

Generally, the quick ratio of 1:1 is considered to be ideal for any business organization.

Debt Management Ratio

These ratios are used to indicate the extent to which a firm has financed its assets with borrowed funds.

i. Debt ratio Margin

This ratio measures the percentage of total funds provided by creditors. Total assets compute it dividing total debt.

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

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

Profitability Position

Profitability ratio measures the efficiency of the organization. It indicates the degree of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of the business enterprises. Through profitability ratios, the investors and lenders can decide whether to invest in a particular business is good or not. In addition, the adequate return, to its shareholders also depends on profitability. Generally, the profitability position of the companies is analyzed with the help the following ratios.

i. Gross Profit Margin Ratio

The gross profit margin ratio expresses the relationship between gross profit and sales. It indicates the productivity and efficiency of the organization. It is calculated as:

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

Where Gross Profit = Net sales – Cost of Goods sold.

A high gross profit margin ratio indicates better profitability position and also implies ratio that firm is able to produce at low cost. A low gross profit margin may reflect higher cost of goods sold due to the firm's inability to purchase goods at favorable terms.

ii. Net Profit Margin Ratio

This measures the relationship between net profit and sales of the enterprise. It measures the overall profitability of firm's ability to earn net profit. It is calculated by following formula:

$$\text{Net Profit Margin Ratio} = \frac{\text{Net Profit After Tax}}{\text{Net Sales}} \times 100$$

Higher ratio indicates the overall efficiency of the firm and better utilization of total resources. Lower ratio indicates the poor financial planning and low efficiency of the firm.

iii. Return on Total Assets Ratio (ROA)

This ratio measures the overall profitability of all financial resources invested in the firm's assets. It is calculated as follows:

$$\text{ROA} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}} \times 100$$

Here, higher ratio indicates the better utilization of the total assets and high efficiency of the company.

iv. Return on Current Assets Ratio

This ratio helps to analyze the earning power of the current assets of the company. It measures the effective utilization of current assets. The table given below shows the relationship between the current assets and net profit after tax of Soaltee Hotel Limited.

It is calculated by using following formula:

$$\text{Return on Current Assets Ratio} = \frac{\text{Net Profit After Tax}}{\text{Current Assets}} \times 100$$

Turnover Ratio

Funds are invested in various assets in a business to make sales and to earn profit from it. The efficiency with which assets are managed directly affects the volume of sales. Thus an activity ratio measures the efficiency or effectiveness with which a company manages its resources or assets. These ratios are called turnover ratio. The relationship between sales and assets are indicated by the turnover ratios. It is also known as efficiency of the business concern in inventory management. The higher turnover ratio indicates better utilization of assets. Thus it measures the degree of

effectiveness in use of resources by firm. Following are the turnover ratio calculated in the study:

i. Current Assets Turnover Ratio

This ratio shows the relationship between current assets and sales. It indicates the number of times the average current assets are turned over during a year. It shows how far the company can effectively utilize its current assets. It is calculated by using following formula:

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

Higher turnover ratio shows the efficient utilization of current assets. It reflects the adequacy of current assets. Lower ratio indicates greater volume of working capital.

ii. Inventory Turnover Ratio

The inventory turnover ratio measures how quickly inventory can be converted into sales. It is the test of efficient inventory management. It establishes the relationship between cost of goods sold during the given period and average amount of inventory for the period. It can be calculated by using following formula:

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

High inventory turnover ratio indicates the good inventory management of the company. Whereas lower inventory turnover ratio shows excessive inventory levels and suggests the management to manage its inventory properly.

iii. Net Working Capital Turnover Ratio

This ratio shows the number of times the working capital is turned over during a year. It is calculated as:

$$\text{Net Working Capital Turnover Ratio} = \frac{\text{Net Sales}}{\text{Net Working Capital}}$$

Where, Net Working Capital = Current Assets – Current Liabilities

Here, higher net working capital turnover ratio indicates effective utilization of working capital.

The higher ratio indicates how cash is rapidly converted into sales and shows company's good cash management. The lower ratio indicates slow, weak cash management.

iv. Total Assets Turnover Ratio

This ratio shows the relationship between sales and total assets. This ratio indicates how much total assets being used to generate sales. It can be calculated by using following formula:

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

Higher ratio indicates the effective utilization of total assets and vice versa.

v. Days Sales Outstanding

It is also called average collection period. It indicates the number of days sales that are tied up in receivables. This measures the efficiency in collecting accounts receivables of an organization i.e. the average length of time that an organization must wait after making a sale before receiving cash.

$$\text{Days Sales Outstanding} = \frac{\text{Receivables}}{\text{Average Sales per Day}}$$

Less average collection period is preferred because if average collection period is reduced, it frees up some funds, which can be invested somewhere else and earn some return.

vi. Fixed Assets Turnover Ratio

This ratio indicates the number of times the average fixed assets are turned during the year.

It is computed dividing sales by net fixed assets.

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

II. Statistical Tools

With the help of statistical tools, we can measure the relationship between two or more variable. In this study following statistical tools are used:

i. Arithmetic Mean

It is the most popular and widely used to present the given data. The value is obtained by adding together all the items and by dividing its total by the number of items. It represents the entire data, which lies almost between the two extremes. It can be calculated by using following formula:

$$\text{Mean } (\bar{x}) = \frac{\sum x}{N}$$

Where, \bar{x} = Mean

$\sum x$ = Sum of values of all term

N = number of terms

ii. Standard Deviation

The standard deviation is an important and widely used measure of dispersion. The standard deviation measures the absolute dispersion (or variability) of distribution. The measurement of the scatterness of the mass of figures in a series about in an average is known as dispersion. The high amount of dispersion reflects high standard deviation where as lower standard deviation means a high degree of uniformity of the observation as well as homogeneity of the observations. It is denoted by Sigma (σ). It can be calculated as:

$$\text{Standard Deviation S.D } (\sigma) = \sqrt{\frac{\sum f_x (x - \bar{x})^2}{N}}$$

Where, x = value of observation

\bar{x} = Mean of observation

N = Number of observation

iii. Coefficient of Correlation

The Coefficient of Correlation measures the degree of relationship between two sets of figure. Coefficient of correlation analysis is the statistical tools generally used to describe the degree to which one variable is linearly related to other variables. But it does not study about the cause and effect relation. The result of coefficient of correlation must lies +1 and -1.

There are different types of measures to study the correlation between the variables. Here, Karl Pearson's Correlation coefficient is used to find out the relationship between the variables of Soaltee Hotel Limited.

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}}$$

Where, x = the first variable

y = the second variable

N= No. of observation

The Correlation (r) must always lies between +1 and -1. Thus +1 and -1 are the limits of coefficient.

If r = +1, the relationship is perfectly positive

If r = -1, the relationship is perfectly negative

If r = 0, there relationship is no relationship between the variable

If r < 0, there is negative relationship between the variable

If r > 0, there is positive relationship between the variable

iv. Coefficient of variation

Coefficient of variation is the percentage variation in mean, standard deviation being considered as the total variation in the mean. "The coefficient of variation is used in such problems where the researcher wants to compare the variability of more than two years. A distribution with smaller coefficient of variation is said to be more

homogeneous or inform or less variable than the other and the series with greater coefficient of variation is said to be more heterogeneous or more variable than the other”

$$\text{Coefficient of Variation (CV) } = \frac{\text{Standard Deviation}}{\text{Mean}}$$

v. Probable Error (P.E)

The probable error of the correlation coefficient is applicable for the measurement of reliability of the computed value of the correlation coefficient. It also enables us to find the limits within which ‘r’ is expected to lie. It is denoted by P.E.

$$\text{P.E} = \frac{0.6745(1-r^2)}{N}$$

Where, r = correlation of coefficient

n = no. of observation

The probable error is used to test whether the calculated value of correlation is significant or not.

If $r < 6P.E$, the value of ‘r’ is not significant so, there is no evidence of correlation

If $r > 6 P.E$, the value of ‘r’ is significant, i.e ., correlation is certain

vi. Regression Analysis

Regression analysis is used as a tool of determining the strength of relationship between two variables. It is a statistical too with the help of which we can estimate or predict the value of one variable when the value of other variable is known. The unknown variable which we have to predict is called dependent variable and the variable whose value is known is called independent variable. The analysis used to describe the average relationship between two variables is known as simple liner regression analysis. In other words it indicates the cause and effect relationship between two variables.

If x and y are two variables, the algebraic expression of regression equations are called regression equation of y on x which describe the variation in the value of y for given change in the value of x.

Regression equation of y on x is given by:

$$Y=a+bx\text{----- (i)}$$

Where,

Y=dependent variable

x = Independent variable

a = Value of y when x = 0

b= regression coefficient of y on x

In other words, a and b are constants to be determined to find the position of the line completely. The parameters a and b of equation is obtained by solving the normal equation of least square method:

$$y = na + b \sum x \text{-----(ii)}$$

$$\sum xy = a \sum x + b \sum x^2 \text{-----(iii)}$$

Where, n= no. of years

By solving the equations (ii) and (iii), we get 'a' and 'b'. Substituting the values of a and b in equation (i) or (ii), we get the equation of line of regression of y on x.

vii. Coefficient of Determination

Coefficient of determination measures how well the line fits the data. In other words it is simply the squared value of the correlation coefficient. It tells what proportion of the variation between the data points is explained or accounted for by the best fit line fitted to the points. It indicates how close the points are to the line.

CHAPTER –4

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

As mentioned in introductory chapter, the main objective of this study is to analyze the working capital management of Soaltee Hotel Limited. To achieve the set objective, data are presented and analyzed. The major variables for this study are current assets, current liabilities, total assets, sales, inventory, and net working capital. It includes composition of net working capital, relationship between current assets to total assets as well as fixed assets, liquidity position, profitability position, turnover position, correlation analysis, trend analysis, regression analysis. Simply presenting the variables is not sufficient; so various financial and statistical tools have been used for further analysis.

4.2 Composition of Working Capital

According to the nature of the business and attitude of the management towards risk, different organization use different current assets. Firms having risk adverse management, maintain the high liquid assets in its total working capital and vice versa. The business firm that aims to maximize return on share holders' investment should earn sufficient return from its operation, which depends upon the volume of the sales and to increase sales level, optimum current assets is required the effective composition of the current assets has the greater impact on the whole working capital management as well as the success and failure of the organization. Excess current assets increases cost and low current assets decreases profitability. The composition of working capital of Soaltee Hotel Limited is analyzed below:

4.2.1 Composition of Current Assets

The business firm requires the different types of assets to run their business. The assets can be fixed assets and current assets. Without current assets no business can run, so, the firm has to maintain the appropriate level of current assets to run their business smoothly. The success and the failure of any business firm depend upon the proper management of current assets. The components of the current assets are inventory, sundry debtors, cash and bank balances etc. The proper management of the current assets is necessary to achieve the principal objectives of any business organization to earn maximum profit and ultimately maximize the share holder's wealth.

A firm needs cash to various purposes such purchase of raw materials pay expenses. This is because of not perfect matching between cash inflow and outflow. Cash may also be held to meet future expenses. The stock of raw materials is kept in order to ensure smooth production and to protect the risk of upon available of raw materials. The efficient management of current assets is an integral part of overall part of the financial management. Therefore, the overall current asserts are analyzed.

Table No. 1
Composition of Current Assets

Particulars	2059/060	2060/061	2061/062	2062/063	2063/064	2064/065	2065/066
Inventory	44207000	53806000	51842000	49853000	48086000	49403000	53086000
Sundry Debtors	54094000	55075000	48340000	60668000	103930000	103304000	114013000
Cash and Banks	22272000	19619000	14840000	24682000	10962000	14296000	41408000
Prepaid, Advances Loan and Deposits	20591000	27660000	17923000	22019000	30191000	43267000	58660000
Total	141164000	156160000	132945000	157222000	193169000	210270000	267167000

Source: Balance sheet of SH Ltd.

Table No. 2
Percentage of Current Assets

Particulars	2059/060	2060/061	2061/062	2062/063	2063/064	2064/065	2065/066	Average
Inventory	31.31%	34.46%	38.99%	31.71%	24.89%	23.49%	19.87%	29.24%
Sundry Debtors	38.32%	35.27%	36.36%	38.59%	53.80%	49.13%	42.67%	42.02%
Cash & Banks	15.78%	12.56%	11.16%	15.70%	5.68%	6.80%	15.50%	11.88%
Prepaid, Advances Loan and Deposits	14.59%	17.71%	13.49%	14%	15.63%	20.58%	21.96%	16.85%

An organization needs not only the fixed assets but also CA. CA refer to all those assets such as cash, marketable securities, debtors accounts receivable, notes receivable, inventory, short-term investment etc., which are convertible in cash within an accounting period. In most of the concerns CA comprise more than 45% of TA. Thus efficient management of CA is an integral part of overall management.

The major component of CA in SH. Ltd. is inventories, sundry debtors, cash & bank balances, prepaid advances, loan & deposits. The composition and percentage composition of CA are clearly shown in the table above.

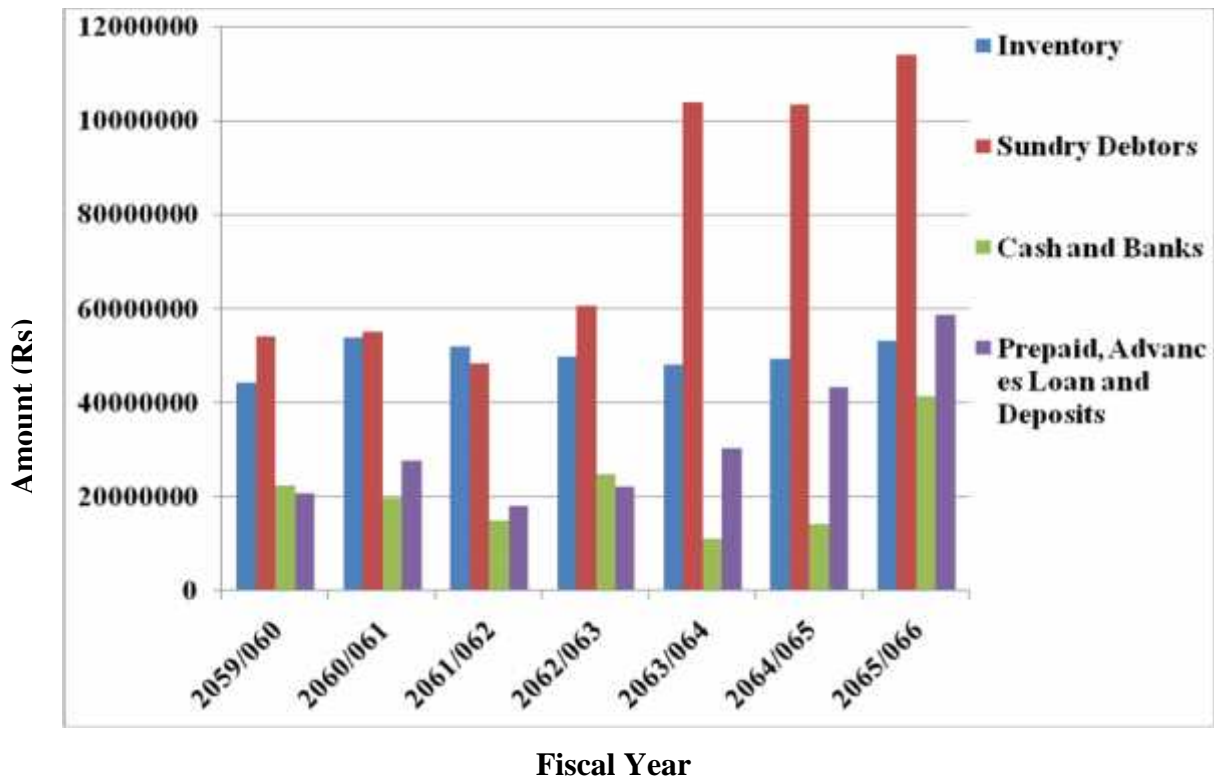
It is seen that there is gradual growth in the inventory of SH Ltd. during the study period from 19.87% to 38.99%. SH Ltd. held the highest inventory in the FY 2061/062, which amounts to Rs. 51842000 but in FY 2060/061, inventory had occupied the highest proportion of CA. The CV of inventories is 21.33%.

In average, cash & bank balance occupied 11.88% of CA during the 7 years study period. The highest amount of cash was held in the FY 2065/066, which amounts RS. 41408000. The lowest cash of RS. 10962000 was held in the FY 2063/064. The CV of cash & bank balances is 33.08%.

Sundry debtors occupied the highest proportion of CA except in FY 2063/064. During this year, highest proportion of 53.80%, this amounts to Rs. 103930000. The CV of sundry debtors is 15.40%.

Miscellaneous CA, which comprises of prepaid, advances, loan and deposits, was highest in the 2065/066. It amount to RS. 586600002 and occupies 21.96% of CA. in the FY 2061/062 miscellaneous CA occupied only 13.49% of CA. The CV of miscellaneous CA is 18.34%.

Figure No. 6
Composition of Current Assets



This table represents current assets position of Soaltee Hotel Limited. SH Ltd's current assets consists investment, sundry debtors and cash including bank and prepaid, advances including loan and deposits. This table represents the pattern of current assets of SH Ltd. and their fluctuation year after year.

4.2.2 Composition of Current Liabilities

The Current Liabilities are those obligations, which have to be paid within an accounting year. It involves the liquidity and solvency of the firm. The major component of the current liabilities includes sundry creditors, loan & advances,

provision for Taxation, and other miscellaneous current liabilities and provision. The short-term current assets and current liabilities are collectively known as Working Capital. For instance, without cash, bills cannot be paid, without receivable the firm cannot allow timing difference between delivering goods or services and collecting the money to pay them.

Table No. 3
Composition of Current Liabilities

Particulars	2059/060	2060/061	2061/062	2062/063	2063/064	2064/065	2065/066
Sundry Creditor	46147000	54077000	62937000	73966000	104462000	80716000	70023000
Loan & Advance	168281000	163886000	170213000	180621000	190031000	153905000	82861000
Provision for Taxation	388000	1864000	2373000	3204000	1878000	1676000	2987000
Misc. CL and Provision	50390000	60917000	65634000	72869000	77964000	105382000	162340000
Total	265206000	280744000	301157000	330660000	374335000	341679000	318211000

Source: Balance sheet of SH Ltd.

Table No. 4
Percentage of composition of Current Liabilities

Particulars	2059/060	2060/061	2061/062	2062/063	2063/064	2064/065	2065/066	Average
Sundry Creditor	17.40%	19.26%	20.90%	22.37%	27.91%	23.62%	22.00%	21.92%
Loan & Advance	63.45%	58.38%	56.52%	54.62%	50.76%	45.05%	26.04%	50.69%
Provision for Taxation	0.15%	0.66%	0.79%	0.96%	0.50%	0.49%	0.94%	0.64%
Misc. CL and Provision	19.00%	21.70%	21.79%	22%	20.83%	30.84%	51.02%	26.75%

The CL of SH Ltd. consists of sundry creditors, loan and advances, provision for taxation and miscellaneous liabilities and provision, which is shown in the table. Thus table 4 shows the percentage proportion of different components to total CL.

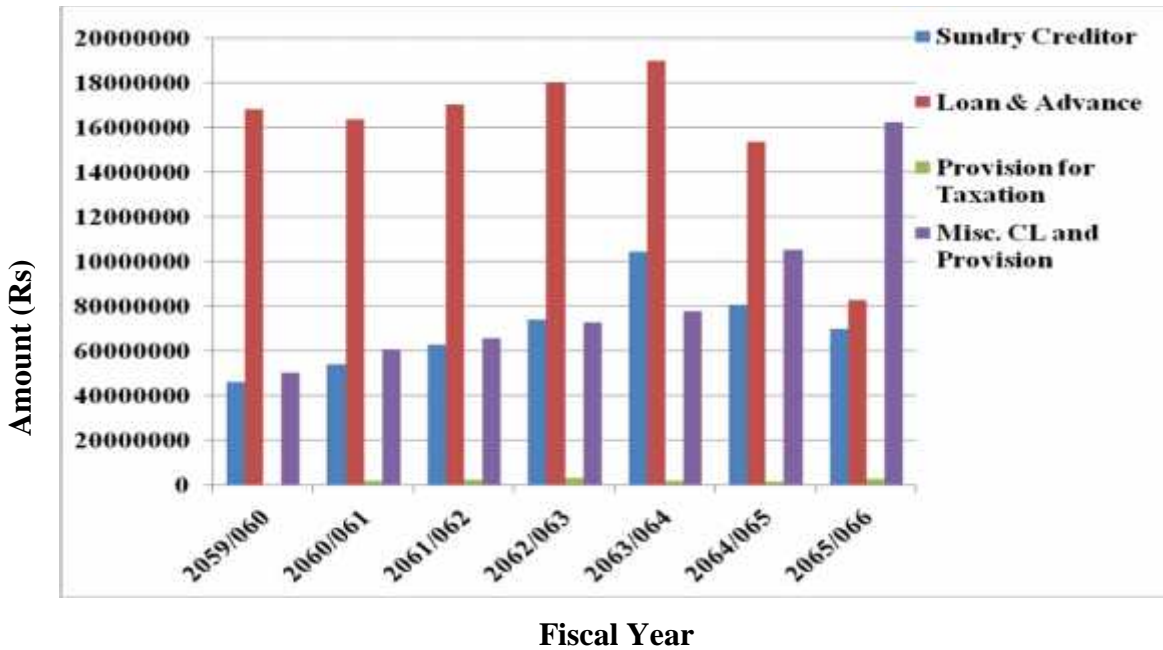
The total current liabilities were highest in the FY 2063/064, which amounts to Rs. 374335000. The amounts of sundry creditors has fluctuating trend. It is highest of Rs.104462000 in the FY 2063/064 and lowest of Rs. 46147000 in the FY 2059/060. It represents 27.91% and 17.40% of CL in that year. The CV of sundry creditors is 14.19%.

Loan and advances is highest of Rs. 153905000 in the FY 2064/065 and lowest of Rs. 82861000 in the FY 2065/066. It has occupied highest proportion of TCL during study period. The CV of loan and advances is 22.51%.

The provision for taxation has occupied the least percentage of TCL, the highest being 0.96% in the FY 2062/063. The CV of provision for tax is 40.62%.

The miscellaneous CL and provision was highest in FY 2065/066 of Rs. 162340000, which occupies 51.02% of CL in that year. Its proportion is lowest of 20.83% in the FY 2063/064. The CV of miscellaneous CL and provision is 39.30%.

Figure No.7
Composition of Current Liabilities



Current liabilities of the Soaltee Hotel Limited contain sundry creditors, loan and advances, provision for tax and miscellaneous current liabilities and provision. The above table shows the amount of different component of current liabilities hold by SH Ltd. As per the table, the amount of current liabilities is highest in the year 2063/064. It shows the fluctuation of the current liabilities. Where as in the fiscal year 2062/063, 2064/065 and 2065/066 the amount is lower which indicates the high level of fluctuation existing.

4.3 Turnover Position

The relationship between sales and assets are indicated by the turnover ratios. It is also known as efficiency of the business concern in inventory management. The higher turnover ratio indicates better utilization of assets. Thus it measures the degree of effectiveness in use of resources by firm. Following are the turnover ratio calculated in the study:

4.3.1 Current Assets Turnover Ratio

Current Assets turnover ratio shows the relationship between current assets and sales. This turnover ratio indicates the management's efficiency in overall management of current assets. It is calculated by dividing net sales by current assets.

Table No. 5
Current Assets Turnover Ratio

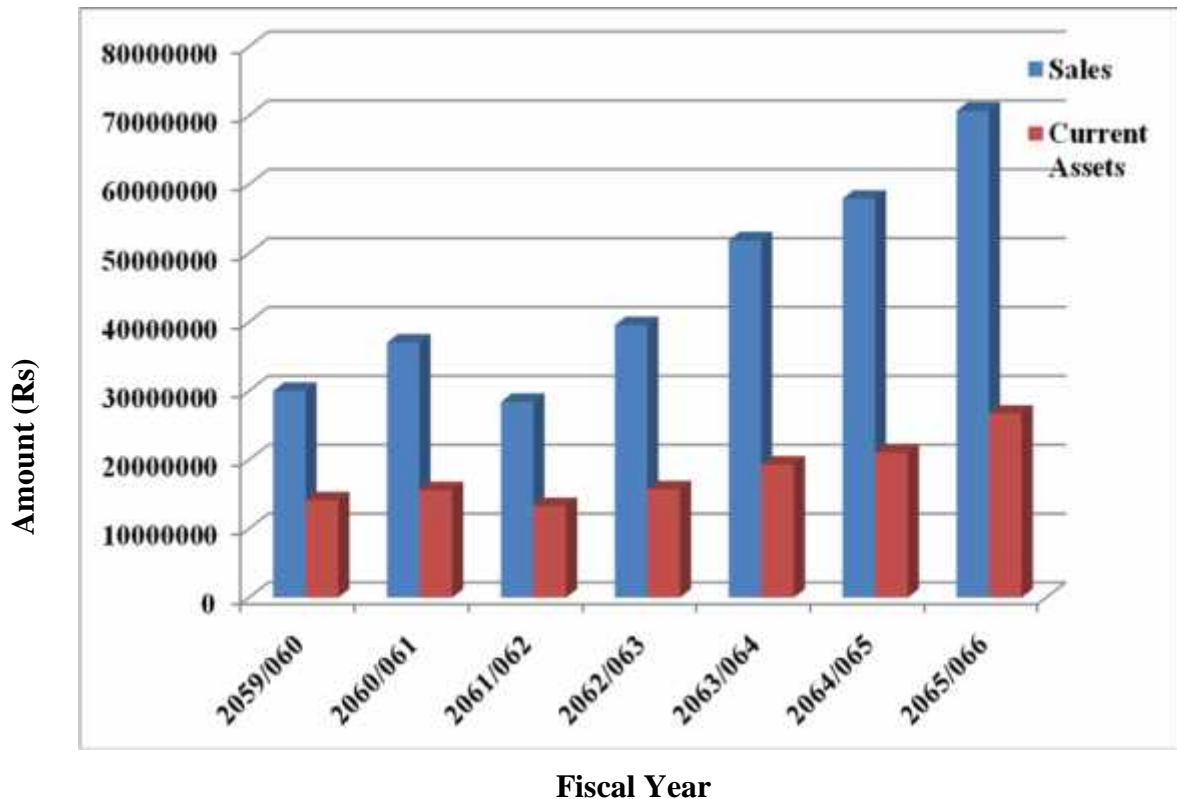
Year	Sales	Current Assets	Sales/CA
2059/060	300325000	141165000	2.13
2060/061	370533000	156160000	2.37
2061/062	284226000	132945000	2.14
2062/063	395769000	157222000	2.52
2063/064	518815000	193169000	2.69
2064/065	579437000	210270000	2.76
2065/066	706920000	267167000	2.65

Source: balance sheet of SH Ltd.

The CATR is in increasing trend in 7 FY study period. It is highest in FY 2064/065, which means the CA was effectively utilized in during this period. CATR was lowest of 2.13 in the FY 2059/060, which indicates the firm needs to reevaluate its strategies.

In above table, the current assets turnover ratio is quite fluctuating. It is in increasing and decreasing trend. In FY 2065/066, the current assets turnover ratio is 2.56, which is the highest one. Where as in FY 2059/060, it is 2.13 times and is the lowest one during the study period. Here the average ratio is 2.47 times. Since the ratio is quite fluctuating, the management is not being able to effectively maintain the overall management of current assets.

Figure No.8
Proportion of Current Assets to Sales



4.3.2 Inventory Turnover Ratio

Inventory is very important part of current assets. It should be maintained effectively and efficiently. The inventory turnover ratio measures how quickly inventory can be converted into sales. It is the test of efficient inventory management. Thus actual liquidity position of the company cannot be measured without measuring the liquidity of inventories. So, inventory turnover ratio has been used to measure the liquidity financing. Higher inventory turnover ratio indicates the higher degree of liquidity and vice-versa.

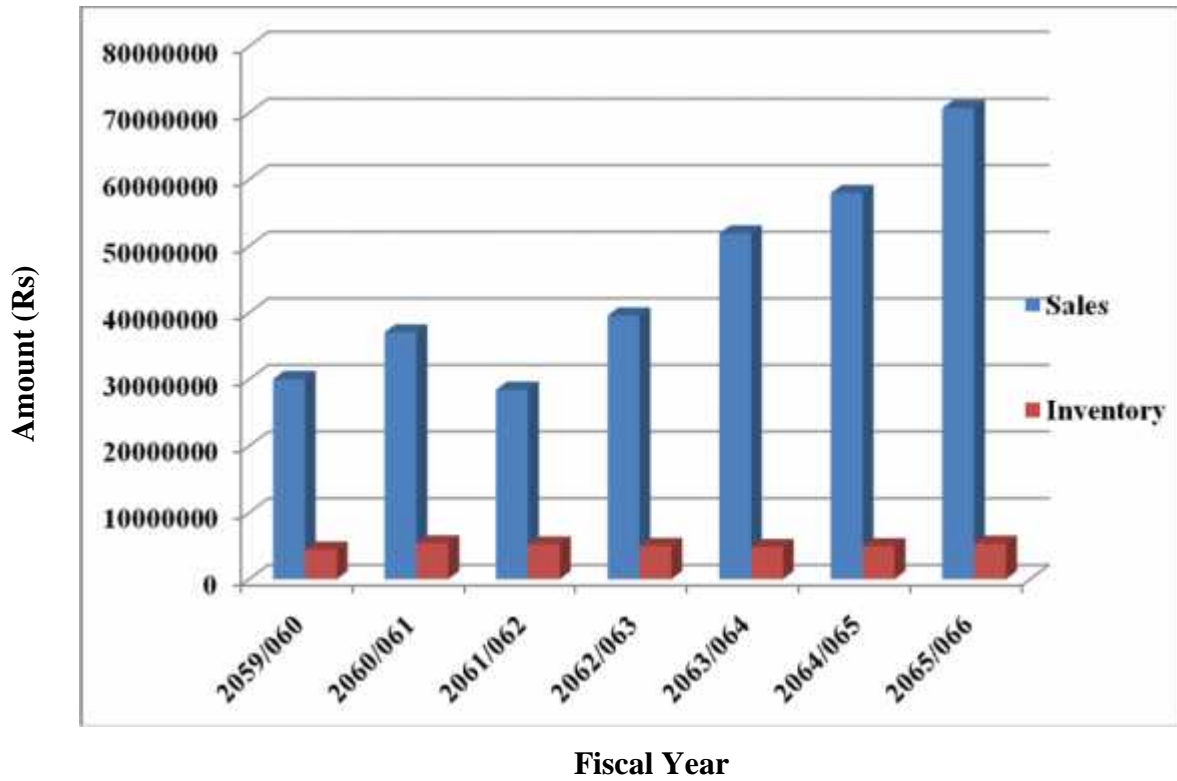
Table No. 6
Inventory Turnover Ratio

Year	Sales	Inventory	Sales/Inventory
2059/060	300325000	44207000	6.79
2060/061	370533000	53806000	6.89
2061/062	284226000	51842000	5.48
2062/063	395769000	49853000	7.94
2063/064	518815000	48086000	10.79
2064/065	579437000	49403000	11.73
2065/066	706920000	53086000	13.31

Source: balance sheet of SH Ltd.

The above table shows the inventory turnover position is quite fluctuating during the study period. It varies from 5.48 to 13.31 times. During the study period, FY2065/066 shows the highest ratio and it has been able to maintain a ratio of 13.31 times, which means the company turned over its inventory more times this year. FY2061/062 shows the lowest ratio with the ratio of 5.48 times. The average ratio is 8.99 times.

Figure No.9
Proportion of Inventory to Sales



4.3.3 Account Receivable Turnover Ratio

The ratio gives a general measure of the productivity of the receivables investment. It reflects the number of times the firm collects its account receivable per year.

Table No. 7
Account Receivable Turnover Ratio

Year	Sales	AR	Sales/AR
2059/60	300325000	54094000	5.55
2060/61	370533000	55075000	6.73
2061/62	284226000	48340000	5.90
2062/63	395769000	60668000	6.52
2063/64	518815000	103930000	4.99
2064/65	579437000	103304000	5.61
2065/66	706920000	114013000	6.20

Source: balance sheet of SH Ltd.

During the study period, SH Ltd. had highest ARTR of 6.73 in the FY 2060/061, which means it turns its receivable roughly 6.73 times per year. The lowest ARTR ratio of 4.99 times exists in the FY 2063/064. And its average ratio is 5.39 times.

4.3.4 Current Assets to Total Assets

The need of Current Assets depends upon the nature and size of the business. It is required to meet the working capital, which is required to run the day-to-day operation of the business. If the firm increases the proportion of Current assets, there is high profitability of return as well as risk and vice versa. And a total asset is the sum of total of fixed and current assets. CA to TA ratio shows the percentage of CA in TA. CA is an important factor for the operation of the firm. It also helps to find the CA investment policy followed by the company.

Table No. 8
Proportion of Current Assets to Total Assets

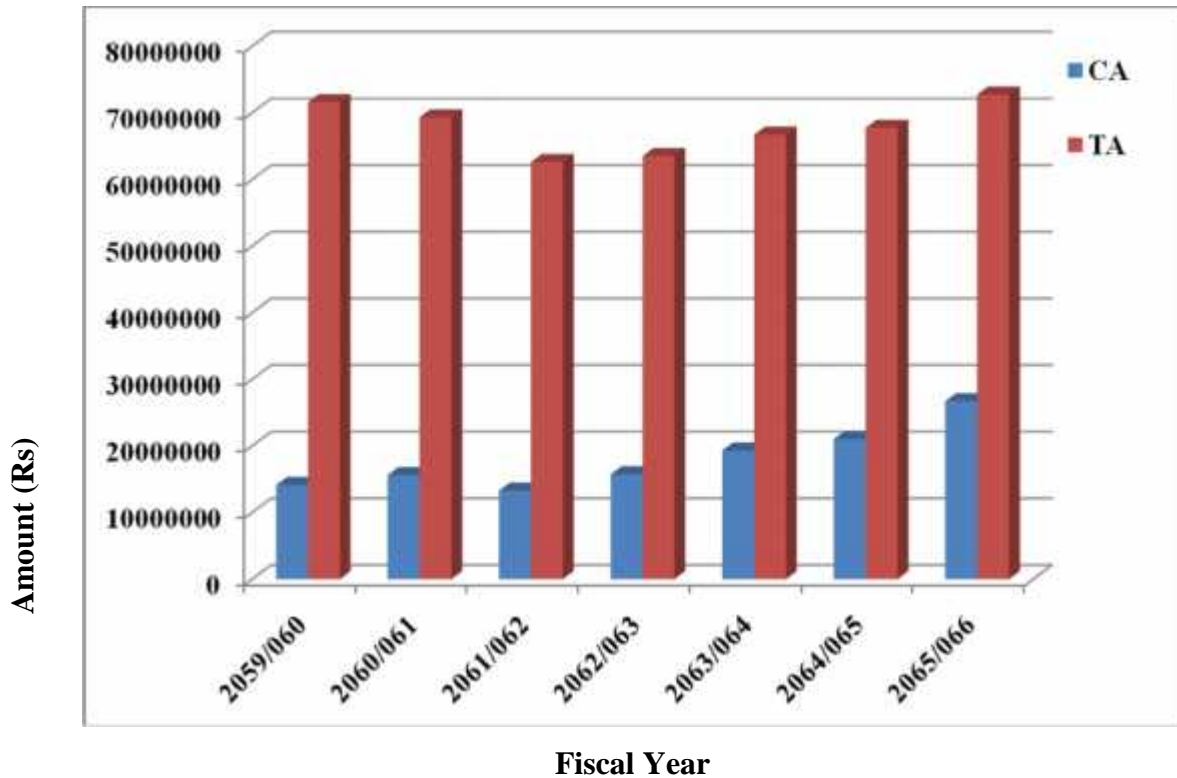
Year	CA	TA	CA/TA 100
2059/60	141165000	715923000	19.72%
2060/61	156160000	693110000	22.53%
2061/62	132945000	626031000	21.24%
2062/63	157222000	635026000	24.76%
2063/64	193169000	667051000	28.96%
2064/65	210270000	677354000	31.04%
2065/66	267167000	727447000	36.73%

Source: balance sheet of SH Ltd.

The above table illustrates the ratio of Current Assets to Total Assets of SH Ltd. It represents the proportion of current assets investment to total assets investment. During the study period, the proportion of current assets to total assets is quite fluctuating. In FY 2065/066 the 36.73% which is the highest during the study period and lowest is 19.72% in the FY 2059/060.

Figure No.10

Relationship between current Assets to Total Assets



4.3.5 Current Assets to Fixed Assets

Every organization should properly invest in Current Assets and Fixed Assets to support a particular level of output. The organization should determine the proper proportion of Current Assets with Fixed Assets. The level of Current Assets can be measured by relationship between current assets to fixed assets, which can help to understand the current assets investment policy of the organization.

Assuming a constant level of fixed assets higher current assets to fixed assets ratio indicates an aggressive current assets policy, lower ratio indicates a conservative current assets policy. The two goals of financial management, profitability and liquidity are directly linked with the management of current assets. With a decrease in the volume of current assets, the profitability increases but the liquidity declines and vice versa. The following table shows the proportion of Current Assets to Net Fixed Assets:

Table No. 9

Relationship between Current Assets and Fixed Assets

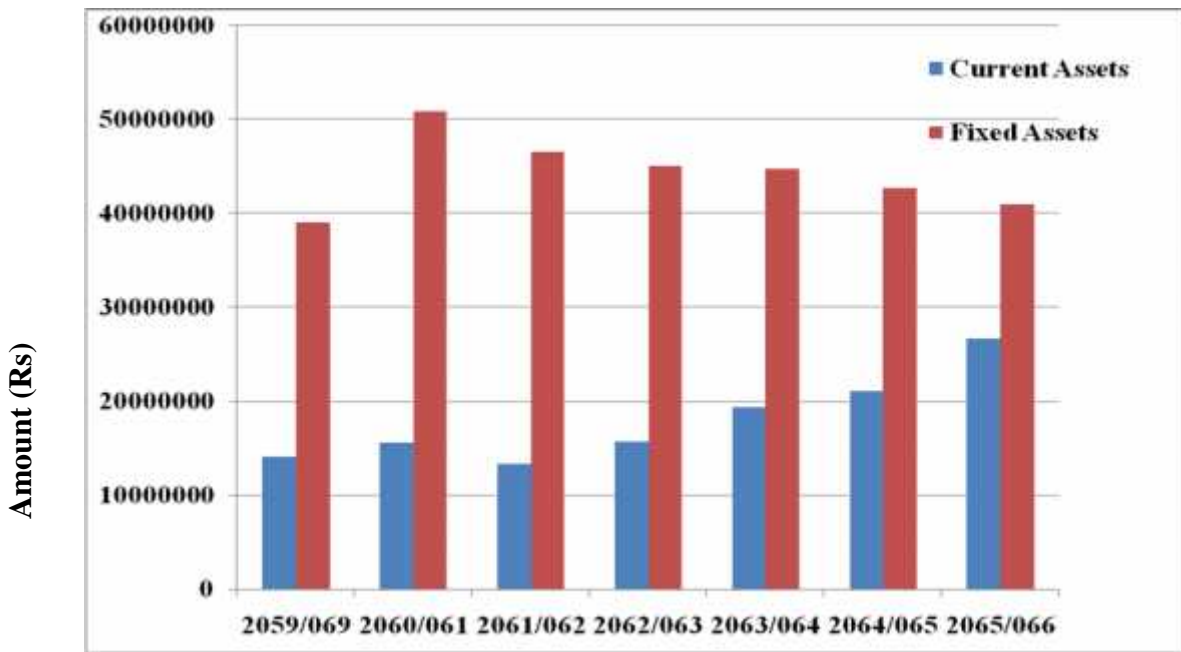
Year	Current Assets	Fixed Assets	CA/FA 100
2059/069	141165000	390787000	36.12%
2060/061	156160000	508856000	30.69%
2061/062	132945000	465345000	28.57%
2062/063	157222000	450563000	34.89%
2063/064	193169000	447784000	43.14%
2064/065	210270000	427187000	49.22%
2065/066	267167000	409171000	65.29%

Source: balance sheet of SH Ltd.

From above table we can see the current assets to fixed assets are quite fluctuating during the study period. CA to FA ratio does not follow any fixed assets. It has decreased from 36.12% to 30.69% in the FY 2060/061 then again decreased to 28.57% in the FY 2061/062. In the FY 2061/062 it was 34.89%, which is increased from previous year after year. And FY 2065/066 it was 65.29% which is highest proportion of CA during the 7 years study period.

Figure No.11

Relationship between current Assets to Fixed Assets



Fiscal Year

4.4 Net Working Capital

Net working capital refers the difference between current assets and current liabilities. Net working capital is calculated by deducting the current liabilities from current assets. Net working capital can be positive or negative. Positive net working capital indicates the firm has ability to pay its current obligations and the negative working capital indicates its inability to pay its current obligations.

Working capital has positive relationship with firm's prosperity. As the firm prospers, the need for working capital increases, conversely as it negatively prospers, the need for working capital declines. Generally, the prosperity of the firm is reflected by its increasing sales value, expansion of the operation and so on in order to analyze the growth of working capital of SH Ltd.

Table No. 10
Net Working Capital

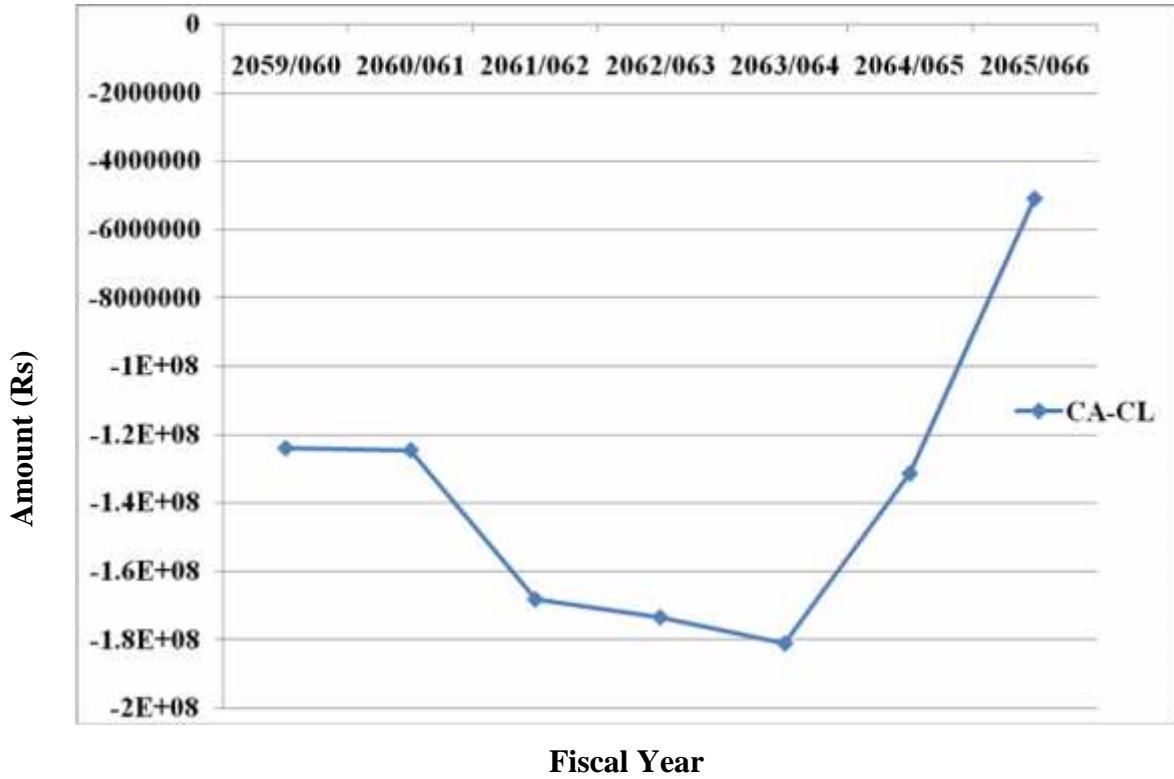
Year	Current Assets	Current Liabilities	CA-CL
2059/060	141165000	265206000	(124041000)
2060/061	156160000	280744000	(124584000)
2061/062	132945000	301157000	(168212000)
2062/063	157222000	330660000	(173438000)
2063/064	193169000	374335000	(181166000)
2064/065	210270000	341679000	(131409000)
2065/066	267167000	318211000	(51044000)

Source: balance sheet of SH Ltd.

The above table indicates Net working capital of seven years respectively. Net working capital position maintained by SH Ltd. is presented in the above table, which shows that net working capital was negative in the seven years study period. This suggests that it was unable to meet its current obligations during these periods.

Figure No.12

Relationship between current Assets to Current Liabilities



4.5 Liquidity Position

Liquidity refers to the ability of a concern to meet its current obligations when they become due. The short term obligations are met by realizing amount from current asset. The current assets should be either in liquid form or in near liquid form. The current assets should be convertible into cash for paying obligation sort term nature. The sufficiency and insufficiency of current assets should be assessed by comparing them with short-term liabilities. If current assets can pay current liabilities then liquidity position will be satisfactory and vice versa. Due to the above reason, it is necessary to analyze the liquidity position of SH Ltd. The following ratios have been calculated to evaluate the short-term financial solvency position of SH Ltd.

4.5.1 Current Ratio

Current Ratio is the quantitative relationship between current assets and current liabilities. Current assets represent those assets which can be converted into cash within an accounting cycle whereas current liabilities refer to those obligations which must be paid within an accounting cycle.

The current assets measure the ability of the firm to meet obligations due within one year. The ratio of 2:1 is considered standard of comparison. CA of 1 and less is typically considered very low and indicates financial difficulties. The current ratio of SH Ltd. is presented in the following table:

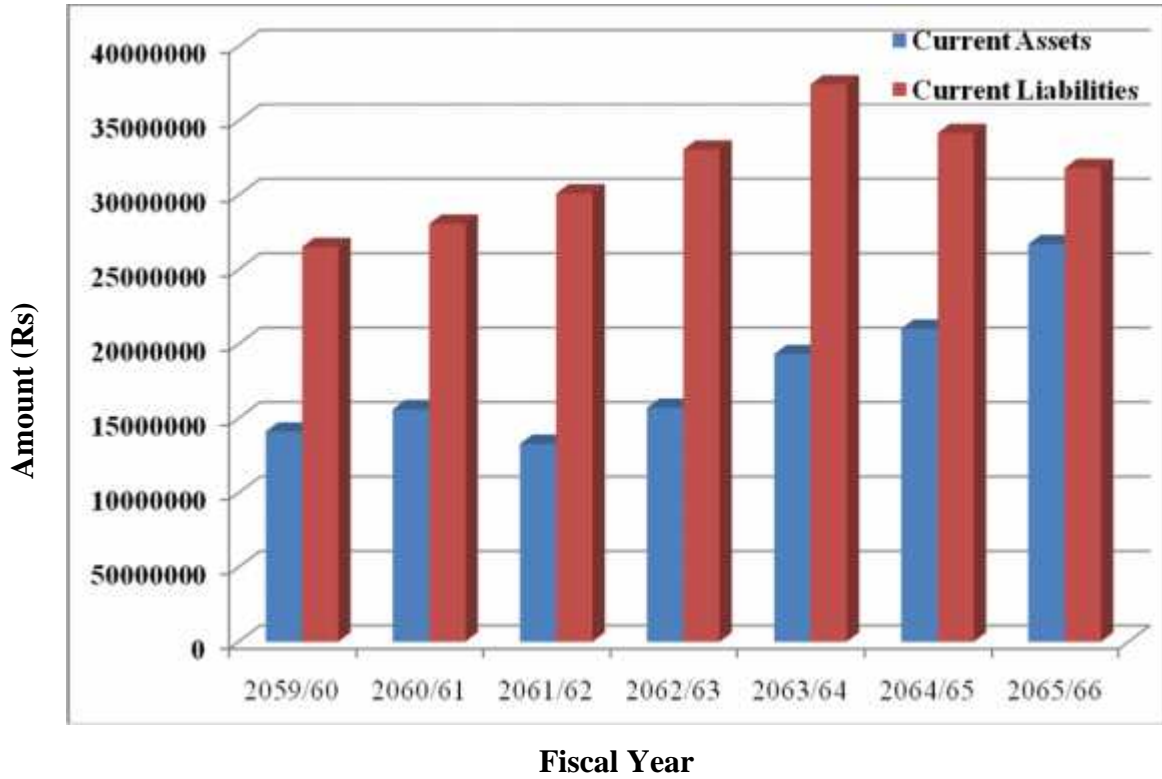
Table No.11
Current Ratio

Year	Current Assets	Current Liabilities	CA/CL
2059/060	141165000	265206000	0.54
2060/061	156160000	280744000	0.56
2061/062	132945000	301157000	0.44
2062/063	157222000	330660000	0.48
2063/064	193169000	374335000	0.52
2064/065	210270000	341679000	0.62
2065/066	267167000	318211000	0.84

Source: balance sheet of SH Ltd.

The above table shows the liquidity position of SH Ltd. Generally current ratio of SH Ltd. is less than 1 during the entire seven years study period. The highest current ratio is 0.84 in the FY 2065/066 and lowest ratio is 0.44 in the FY 2061/062. The low current ratio indicates that the firm was not in general considerable level.

Figure No.13
Proportion of Current Ratio



4.5.2 Quick Ratio

Quick ratio is the qualitative measures of short-term solvency of a firm. As a conventional rule, the ratio 1:1 is employed as a standard of comparison. The ratio below 1:1 is supposed to be the indicator of alarming short-term solvency. There is no strict rule that the ratio 1:1 or more must be performing well. It depends on the quality of debtors. If a company has high quality debtors, then even the poor ratio may do well in comparison to the good ratio.

Table No.12

Quick Ratio

Year	Quick Assets	Current Liabilities	QA/CL
2059/060	96958000	265206000	0.37
2060/061	102354000	280744000	0.36
2061/062	81103000	301157000	0.27
2062/063	107369000	330660000	0.32
2063/064	145083000	374335000	0.39
2064/065	160867000	341679000	0.47
2065/066	214081000	318211000	0.67

Source: balance sheet of SH Ltd.

The above table shows the Soaltee Hotel Limited's quick assets ratio. It has low quick ratio the study period. The highest ratio of 0.67 was maintained in the FY 2065/066, which means it had quick assets of 67% to pay its current obligations. Moreover, ratio has followed decreasing trend. The lowest ratio of 0.27 was maintained in 2061/062, which means it had quick assets of 27% to pay its current obligations.

4.6 Debt Management Ratio

A firm collects the required fund either by issuing shares or through long-term or short-term debt. Debt refers to the fund collected from the investors by paying them interest regularly. But, if a firm issues equity shares then it does not has to pay regular interest. The debt to management ratio affects the risk and return of a firm, so it should properly manage the proportion of debt and equity.

4.6.1 Debt to Equity Ratio

Debt to equity ratio evaluates the long-term solvency of a firm. It is used as a tool for analyzing financial risk both by creditors as well as by firm. A high debt equity ratio indicates greater contribution at a firms' financial by debt holders than those of equity holders.

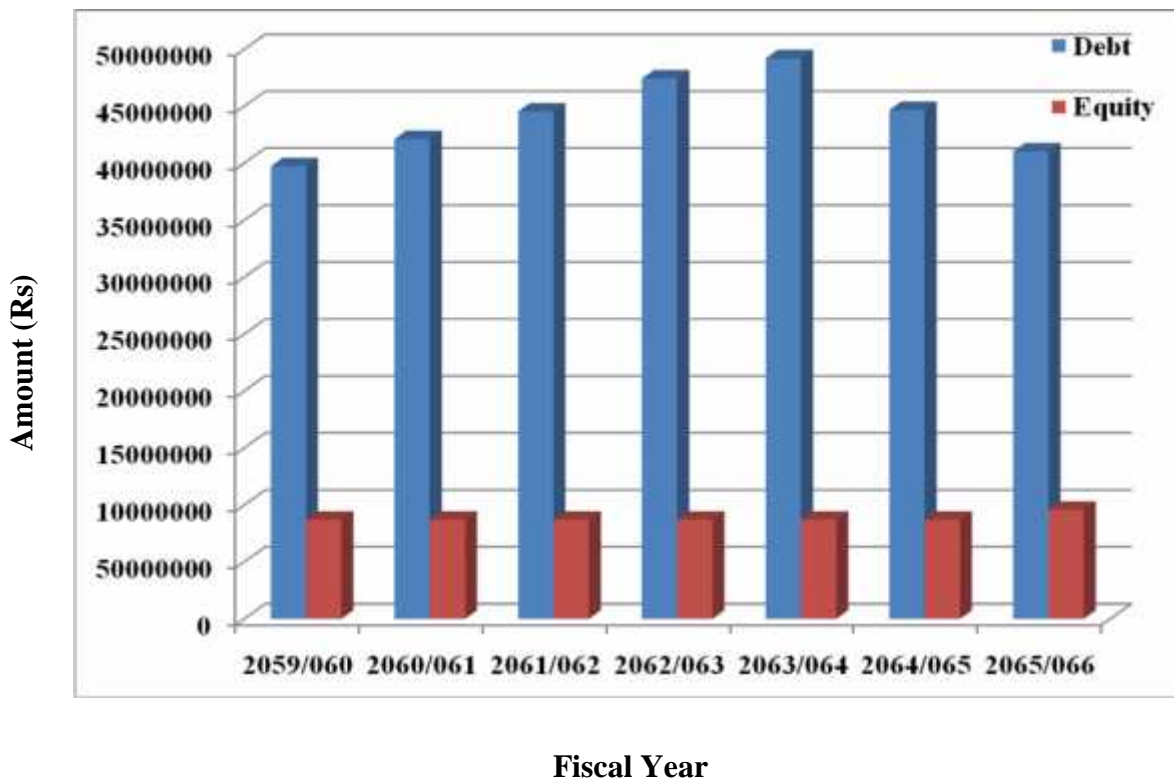
Table No.13
Debt to Equity Ratio

Year	Debt	Equity	Debt/Equity
2059/060	397314000	86969000	4.57
2060/061	421194000	86969000	4.84
2061/062	445407000	86969000	5.12
2062/063	474410000	86969000	5.45
2063/064	492032000	86969000	5.66
2064/065	446730000	86969000	5.14
2065/066	410223000	95668000	4.29

Source: balance sheet of SH Ltd.

The above table shows debt to equity ratio for seven years study period from 2059/60 to 2065/66. The maximum debt of Rs. 492032000 was collected in the FY 2063/64, which is 5.66 times greater than the equity. The lowest debt to equity ratio of 4.29 exists in the FY 2065/66. The study reveals that SH Ltd. was collecting more debts than equity to finance its requirement.

Figure No.14
Proportion of Debt to Equity Ratio



4.6.2 Short-Term Debt to Long-Term Debt Ratio

A firm can raise the required fund either from STD or LTD. Std is used to fulfill short-term fund requirement whereas LTD is used to fulfill long-term fund requirement. LTD is costlier than STD but on the other hand STD is more risky. The STD to LTD ratio show the firm's policy of raising funds.

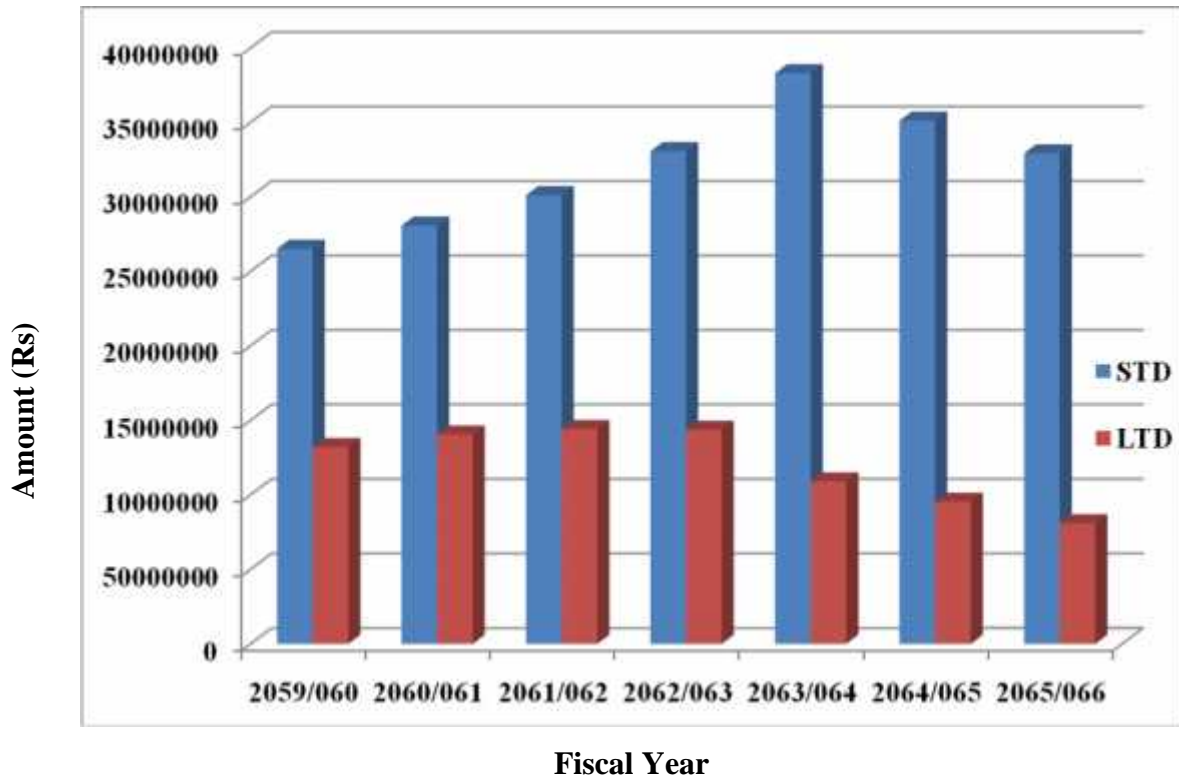
Table No.14
STD to LTD

Year	STD	LTD	STD/LTD
2059/060	265206000	132108000	2.01
2060/061	280744000	140450000	2.00
2061/062	301157000	144250000	2.09
2062/063	330660000	143750000	2.30
2063/064	383032000	109000000	3.51
2064/065	351219000	95439000	3.68
2065/066	329288000	80935000	4.07

Source: balance sheet of SH Ltd.

The above table shows that short term debt to long term debt ratio of Soaltee Hotel limited. The highest STD/LTD ratio existed in the FY 2065/066, which is 4.07 times more than LTD It had followed a risky policy this year. And the lowest ratio is in the FY 2060/061, which is 2.0 times only.

Figure No.15
Proportion of STD to LTD



4.7 Profitability Position

Profitability ratio measures the efficiency of the organization. It indicates the degree of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of the business enterprises. Through profitability ratios, the investors and lenders can decide whether to invest in a particular business is good or not. In addition, the adequate return, to its shareholders also depends on profitability. Generally, profit is also used as a source of internal financing. Therefore, profitability positions are used to analyze the financial strength and weakness of the firm.

4.7.1 Gross Profit Margin

This ratio expresses the relationship between gross profit and sales. It indicates the productivity and efficiency of the organization. A high gross profit margin ratio indicates better profitability position and also implies ratio that firm is able to produce

at low cost. A low gross profit margin may reflect higher cost of goods sold due to the firm's inability to purchase goods at favorable terms.

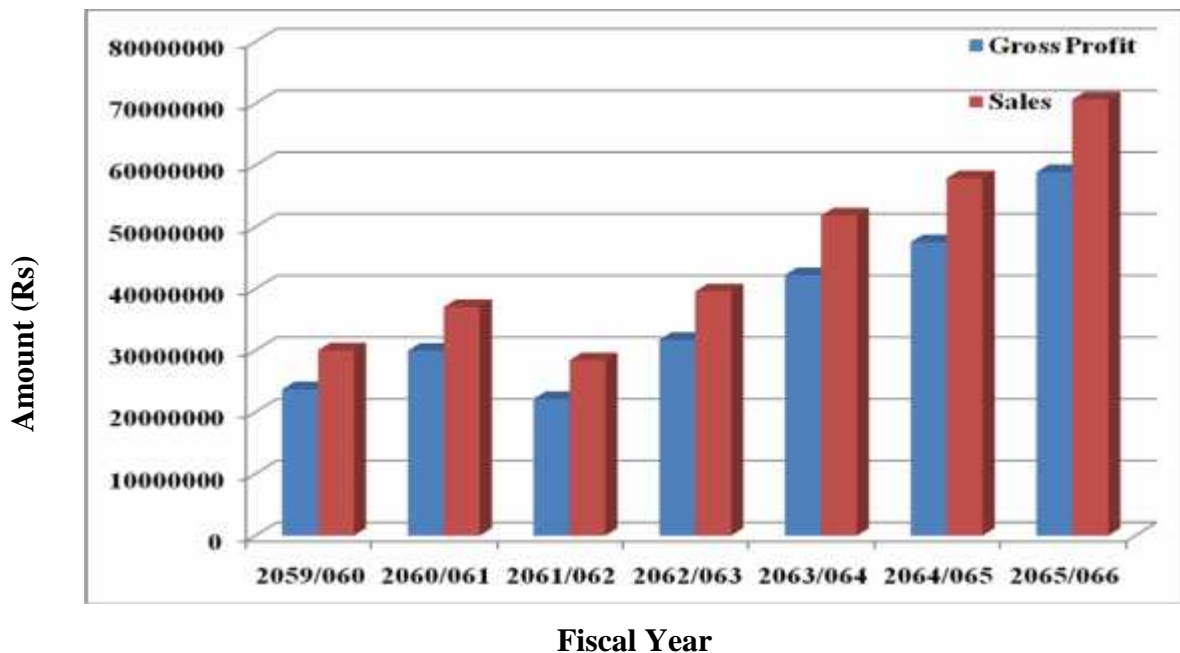
Table No.15
Gross Profit Margin

Year	Gross Profit	Sales	GP/Sales 100
2059/060	237282000	300325000	79.01%
2060/061	299849000	370533000	80.92%
2061/062	221761000	284226000	78.02%
2062/063	317564000	395769000	80.24%
2063/064	422512000	518815000	81.44%
2064/065	475658000	579437000	82.09%
2065/066	589025000	706920000	83.32%

Source: balance sheet of SH Ltd.

The above table shows that the gross profit margin ratio of Soaltee Hotel Limited. Soaltee Hotel Limited was able to maintain more or less a constant gross profit, the highest being 83.32% in the FY 2065/066 and the lowest is 79.01% in the FY 2059/060.

Figure No.16
Gross Profit Margin Ratio



4.7.2 Net Profit Margin

Net Profit Margin measures the overall profitability of firm's ability to earn net profit. It establishes a relationship between net profit and sales and indicates management efficiency. NP is obtained by deducting all the taxes and operating expenses from gross profit.

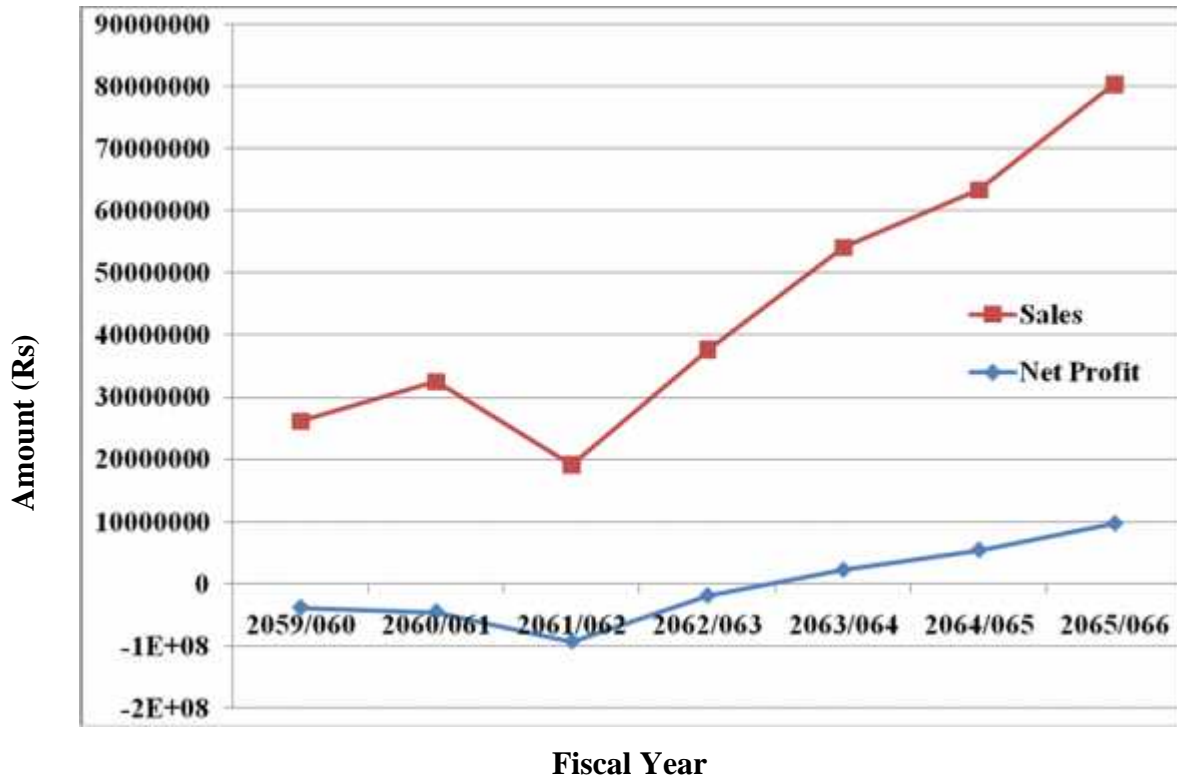
Table No.16
Net Profit Margin

Year	Net Profit	Sales	NP/Sales 100
2059/060	-37800000	300325000	(12.59%)
2060/061	-44437000	370533000	(11.99%)
2061/062	-92290000	284226000	(32.47)
2062/063	-18492000	395769000	(4.67%)
2063/064	22846000	518815000	4.40%
2064/065	54947000	579437000	9.48%
2065/066	97677000	706920000	13.82%

Source: balance sheet of SH Ltd.

The above table shows the relationship between the net profits to sales during the FY 2059/060 to 2065/066. The NP of SH Ltd. was positive in recent three years, which is satisfactory period than next four year's negative NPM. In FY 2065/066, it was 13.82% which is highest NPM of the study period. The highest negative NPM exists in the FY 2059/060, which is -12.59% and in the FY 2062/063, it is -4.67%. The negative NPM show that SH Ltd. has been facing loss in the due to Nepal's political crisis.

Figure No.17
Net Profit Margin Ratio



4.8 Correlation Analysis between Net Profit Margin and Liquidity

Correlation analysis is used to measure the degree of relationship or association between the variables. It describes the positive and negative relationship that exists between the variables. It can be used in two or more variables.

Table No.17

Simple Correlation Results of Net Profit Margin and Liquidity

Particulars	Coeff. of Corr. (r)	Relationship	Coeff. of Det. (r²)	Probable Error (PE)	Sig/Insig
NPM & CR	0.74	Positive	0.55	0.11	Significant
NPM & QR	0.81	Positive	0.66	0.09	Significant
NPM & ARTR	(0.17)	Negative	0.03	0.25	Insignificant
NPM & ITR	0.95	Positive	0.90	0.03	Significant

Above table represents the simple correlation results between NPM and liquidity position of SH Ltd.

The correlation of coefficient between liquidity position that is measured by CR and NPM is positive. The correlation coefficient (r) between CR and NPM is 0.74, which means increase in CR results increase in NPM SH Ltd. and vice versa. Similarly coefficient of determination (r²) is 0.55, which means 55% variation in NPM is explained by variation in CR. Coefficient of correlation (r) is greater than 6PE (i.e. 0.66). Therefore, relationship between these variables is significant.

Similarly, the correlation of coefficient between liquidity position that is measured by QR and NPM is positive i.e. 0.81. Therefore, positive relationship exists between these two variables. So, increase in QR leads increase in NPM and decrease in QR results decrease in NPM of SH Ltd. The coefficient of determination (r²) is 0.66 that indicates 66% variation in NPM is explained by variation in QR. The coefficient of correlation (r) is greater than 6PE(i.e 0.54) so the relationship between these two variables is significant.

Likewise, the coefficient of correlation (r) between ARTR and NPM is negative i.e - 0.17, which indicates existence of negative relationship between them. In other words decrease in ARTR lead to decrease in NPM. The coefficient of determination (r²) is 0.03 that indicates 3% variation in NPM is explained by variation in ARTR. The

coefficient of correlation (r) is less than 6PE (i.e 1.5) so the relationship between is insignificant.

And , the coefficient of correlation between liquidity position that is measured by ITR and NPM is positive i.e 0.95. So positive relationship exists between these two variables therefore, increase in ITR results increase in NPM of SH Ltd. and vice versa. The coefficient of determination (r²) between these two variables is 0.90, which indicates 90% variation in NPM is explained by variation in ITR. The coefficient of correlation (r) is greater than 6PE(i.e 0.18) so relationship between these two variables is significant.

4.9 Simple Regression Analysis

The regression analysis is the method for determining the nature of relationship that exists among two or more variables and for using that relationship to make prediction. The regression analysis is used to find out the estimation of unknown values or prediction of one variable from known values of other variables. Regression analysis is a mathematical measure of the average relationship between two or more variables in term of the original units of data.

Table No.18

Simple Regression Results of NI, NWC, ROE & STF/LTF and NI & STF

Particular	Constant (a)	Reg. Coeff.(b)	Coeff. of Corr. (r)	Relationship	Coeff. of dter. (r ²)	PE	Sig/Insig.
NI & NWC	113.64	0.85	0.57	Positive	0.32	0.17	Insignificant
ROE &STF/LTF	(2.12)	0.74	0.93	Positive	0.86	0.0 4	Significant
NI & STF	(302.88)	0.94	0.59	Positive	0.35	0.1 7	Insignificant

Above table represent simple regression of NI (dependent variable) & NWC (independent variable), ROE (dependent variable) & STF/LTF (independent variable) and NI (dependent variable) & STF (independent variable) respectively.

The coefficient of correlation (r) between NI & NWC is positive, so positive relationship exists between these variables. Similarly, regression coefficient (b) between NI & NWC is positive (i.e. 0.85), which means positive relationship exists between these two variables of SH Ltd. One million increases in NWC leads to average 0.85 million increase in NI. The value of constant (a) is (i.e. 113.64) million that results SH Ltd. can earn 113.64 million when the NWC is zero. Coefficient of determination (r^2) is 0.32, which means 32% variation in NI is explained by variation in NWC of SH Ltd. Coefficient of correlation (r) is less than 6PE (i.e. 1.02), of the relationship between these two variable is insignificant. The coefficient of correlation (r) ROE & STF/LTF is 0.93. It indicates that positive relationship exists between these variable. Similarly, regression coefficient (b) between ROE & STF/LTF is 0.74, which shows positive relationship exists and it indicates increase in STF/LTF increases ROE and vice versa, so one million increase in STF/LTF leads to 0.74 million increase in ROE. The value of constant (a) is negative i.e. (2.12) million so it indicates SH Ltd. will suffer loss of 2.12 million when value of STF/LTF is zero. Likewise the coefficient of determination (r^2) is 0.86 which means 86% variation in ROE is explained by variation in STF/LTF. Value of coefficient of correlation (r) is more than 6PE (i.e. 0.24), so the relationship between these variables seems significant.

The coefficient of correlation (r) between NI and STF is positive i.e. 0.59, so positive relationship exists between them. Similarly, value of regression coefficient (b) i.e. 0.94 indicates one million increase in STF leads to increases in NI by 0.94 million of SH Ltd. Likewise the value of constant (a) (302.88) million and it indicates SH Ltd. will suffer loss of 302.88 million when value of STF is zero. The coefficient of determination (r^2) is 0.35, which indicates 35% variation is explained by variation and

value of coefficient of correlation (r) is less than 6PE (i.e. 1.02) so, the relationship is defined as insignificant.

Financial record of FY 2066/067 is not presented in this study because it is not published until date of study period. This record will publish only on July 2011. The data I have presented in above is the combined data of Soaltee Limited and Soaltee Crown Plaza. Until during my study period they have maintained individual data of both companies only on digital copy. They must combine the data of both companies to publish. They are studying and analyzing the data and will publish only in July 2011. Thus I couldn't able to publish the data of FY 2066/067.

4.10 Analysis of Primary Data

Primary data are those data, which are collected form primary sources. This provides first hand and accurate information of a related field. The data are collected through structured interview and questionnaires. The questionnaires distributed to basically, the requirement of the working capital is influenced by the nature of its business. The success or the failure of the enterprises largely depends upon management of the working capital.

WC is the fund required for day-to-day operation of business such as wages, freight, raw materials etc. WC management is concerned with the problems that arise in attempting to manage the CA, the CL and the inter-relationships that exist between them. Both excessive and insufficient level of WC can lead to failure of business thus efficient management of WC is an integral part of every business.

The Questionnaire about the working capital management of Soaltee Hotel Limited asked with finance manager and some their related personnel. Thus, question about parties involved in formulation of WC policies was asked. We found that the head of finance department along with executive chairman and other department head formulate such policies which are approved by the board of directors and also

involved in the management of working capital and hotel operation management plays the major role in the management of WC.

Basically, there are three approaches to finance WC i.e. moderate, aggressive and conservative. Aggressive is the riskiest approach whereas conservative is the least risky. The adoption of such policy depends on the types of business and decision of management. SH Ltd. has been following the moderate approach, which attempts to achieve a trade-off between risk and return.

As the question is asked about the performance role of working capital of SH Ltd. It is found that the performance role of working capital management of SH. Ltd is very important. And also the question asked to does working capital policy have impact on profitability and risk of the company, it is found that working capital policy have impact on profitability and risk of the company.

Cash is more liquid and less productive CA of a firm. Cash, if remains idle, earns nothing but involves costing terms of interest payable to finance it. However, a firm has to hold a limited amount of cash for transaction, precautionary, and speculative motive. Thus, SH Ltd. was asked about the maximum, minimum and average cash balances of Rs. 6000000, minimum cash balance of Rs. 1000000 and average cash balance of Rs. 3000000 including different foreign currency.

In response to the question asked about the process that SH Ltd. is using for collecting and disbursement of cash, it was found that it was using negotiable instruments like a/c payee cheques, a/c transfer from corporate clients, cash, credit cards from national and foreign individual customers etc. and bank transfers for both purposes, the question if it is using the excess cash in marketable securities was not applicable to the company.

In today's competitive world, a firm has to sell in credit for better business though credit sale involves more cost. Credit sales result receivables that is another

component of CA. The firm's objective of receivable management is not only to collect receivables promptly, but also to give an outlook to the benefit cost trade-off involved in various aspects of accounts receivable management to set up credit policies. A firm's credit policy provides guidelines for determining whether to extend credit to a customer and how much credit to extend. A firm's credit policy decision includes three dimensions: credit standard, credit terms and collection policy. It was found that the average collection period of receivable of SH Ltd. depends on the volume of daily credit sales and daily credit collection amounts of the industry but the normal trade credit period is 50 to 75 days.

The Soaltee hotel is using cash discounts for more focus for the collection of outstanding balance over the defined credit limit, outstanding balance over 61 days and all high balance over 1 million of current period i.e 60 days and immediate payment and aggressive follow up with clients for reducing collection period. It has also been providing credit terms to its clients, which depends on the 30 days credit policy of company. However its regular clients, corporate business houses, airlines and travel agencies are enjoying credit facility upto 90 days depend on the high volume of business they give the company. Since the hospitality business is not in "WIN WIN" situation due to low movement of guests, clients and tough competition, and the company has to practically relax its credit facility beyond 31 days in case of selected clients. The company is not use factoring of its receivable.

The company however outsources collection agent for the collection of critical outstanding balances. The receivables are categorized depending on the type of clients; the debts, which have no chance of being collected like any individual and proprietor passes away and his/her family members could not pay outstanding balance, the company losses the case of its claim from the court of laws and clients all of sudden shut down its business operation and flee away remains out of contact over considerably long time, say over 10 years. But they emphasize that much of the over dues are collected by follow up. The hotel has been ranking its customers credit worthiness on the basis of prompt payment, past payment history, volume of

business, regularity and business profile of the customer generated and good credit terms.

Inventory constitutes one of the important items of CA, which permits the production and sale process of a firm to operate smoothly. Both under and over estimation of inventories are bad. If there is under-estimating of inventories, there would be production hold ups and the company fails to meet delivery commitments. If there were over-estimation of inventories, there would be more funds tied up in inventories, which would results in more stock of goods and higher carrying costs. Therefore, inventory must be managed efficiently to avoid unnecessary investments. So, the respondent was asked about the average size of the inventory of SH Ltd. and it was found that it ranges from 2 weeks to 2 months of approximate 25million. The volume however varies depending on confirmed booking guests stay, conferences, meeting to be held within next one month. The lot size of inventory for making new order of perishable items determined by the estimated consumption in near future i.e confirmed booking of guests stay and meeting conference within following 10 days to 15 days for local items and about 2 months for imported ones.

The respondent was asked, how, how the safety level of inventory is calculated. It was revealed that such calculation is done based on the consumption pattern of the inventory items. The inventory safety level of SH Ltd. varies according to items for instance room linen, three sets of linen based on average occupancy per room is safety margin. The inventory conversion period deepens on reason and business scenarios. The hotel reduces chances of inventory risk through perpetual inventory system, regular market research to ensue and maintain regular supply chain of high quality of inventory and procurement of adequate insurance policies. The respondent was also asked about the proportion of wastage of inventory during production. It was revealed that it is about 5% on raw food items in the course of preparation. Otherwise for general items there is no wastage. It was also found from the questionnaire that the FIFO method is used for issue of inventory whereas the valuation of inventory is done in weighted average method.

4.11 Major Findings of the Study

Success or failure of an organization greatly depends on its proper management of working capital. In order to study the working capital management of SH Ltd. both primary and secondary data has been collected. Various financial ratios and statistical tools have been used to analyze those data.

The major findings of the study were as follows:

1. A sundry debtor of SH Ltd. holds highest proportion in the composition of CA. During seven years study period it has highest proportion of 53.80% during FY 2063/064 and minimum proportion of 35.27% in FY 2060/061. The average of sundry debtors is 42.02. Similarly, averages of inventories, cash & bank balances and Prepaid, Advances Loan and Deposits are 29.24%, 11.88% and 16.85% respectively.
2. Sundry creditors, loan and advances, provision for taxation and miscellaneous CL and provision are major component of CL of SH Ltd. and holds an average investment of 21.92%, 50.69%, 0.64% and 26.75% respectively. Loan and advances holds highest proportion during seven years study period. i.e. 3.45%, 58.38%, 56.52%, 54.62%, 50.76%, 45.05% and 26.04% respectively. Similarly, CV of sundry creditors, loan and advances, provision for taxation and miscellaneous CL and provision are 14.19%, 22.51%, 40.62%, and 39.30%.
3. Current assets turnover ratio measures firm's ability to generate sales based on its CA. The current assets turnover ratio for seven years study period is 2.13, 2.37, 2.14, 2.52, 2.69, 2.76 and 2.65 respectively. During the FY 2064/065, it has highest current assets turnover ratio of 2.76 times and lowest of 2.13 times during 2059/060.
4. Inventory turnover ratio shows how efficiency firm is using its inventory. Inventory turnover ratio of SH Ltd. for seven years study period is 6.79, 6.89, 5.48, 7.94, 10.79, 11.73 and 13.31. Similarly, the average ratio is 8.99 times.

5. ARTR measures number of times the firm collects its account receivable per year. The ARTR is more or less constant during seven years study period i.e.5.55, 6.73, 5.90, 6.52, 4.99, 5.61, and 6.20 respectively. During FY 2060/61 it has highest ratio of 6.73 times.
6. CA to TA ratio shows the proportion of CA in TA. The seven years CA to TA ratio is 19.72%, 22.53%, 21.24%, 24.76%, 28.96%, 31.04% and 36.73% respectively. During FY 2065/066 SH Ltd. holds highest proportion i.e 36.73% and lowest proportion during FY 2059/060 i.e. 19.72%.
7. SH Ltd. has invested proportionately less amount in CA compared to FA. During FY 2065/066 CA has highest proportion of 65.29% of FA and lowest proportion of 28.57% during FY 2061/062.
8. Net working capital of SH Ltd. during seven years study period is negative i.e. (124041000), (124584000), (168212000), (173438000), (181166000), (131409000) and (51044000) respectively. Which shows SH Ltd. is not able to meet its current obligation.
9. CR of SH Ltd. for seven years study period is very less than widely accepted standard of 2:1 ratio i.e. 0.53, 0.56, 0.44, 0.48, 0.52, 0.62 and 0.84 times respectively. The ratio in the FY 2065/066 is only 0.84 and which is highest among seven years.
10. During FY 2065/066, QR of 0.67 times is highest and QR of 0.27 times during 2061/062 is the lowest ratio among seven years study period.
11. SH Ltd. is using more debt financing than equity financing. The debt to equity ratio is highest during FY 2063/064 i.e. 5.66 times, which corresponds to Rs. 492032000. Similarly, lowest debt to equity ratio is 4.29 times during FY 2065/066.

12. SH Ltd. is using more STD for collecting required funds. The STD/LTD ratio during seven years study period is 2.01, 2.00, 2.09, 2.30, 3.51, 3.68 and 4.07 times respectively. During FY 2065/066, SH Ltd. has highest STD/LTD ratio of 4.07 and lowest STD/LTD ratio 2.00 times in FY 2060/061.
13. SH Ltd. is able to earn more or less uniform rate of GP during seven years study period. During FY 2065/066 it has highest GP margin of 83.32% and during FY 2061/062 it has lowest GP margin of 78.02%.
14. NPM of SH Ltd. for FY 2059/060, 2060/061, 2061/062 and 2062/063 is negative i.e (12.59%), (11.99%), (32.47%) and (4.67%) respectively. SH Ltd. is able to earn highest rate of NPM of 13.82% during FY 2065/066.
15. The simple correlation analysis between NPM & CR, NPM & QR, and NPM & ITR has positive relationship and NPM & ARTR has negative relationship. The coefficient of correlation of above calculation is 0.74, 0.81, 0.95 and (0.17) respectively.
16. Simple regression analysis between NI & NWC, ROE & STF/LTF and NI & STF has positive relationship. Increase in NWC leads to increase in NI, increase in STF/LTF leads to increase in ROE and increase in STF leads to increase in NI and vice versa. The coefficient of correlation between NI & NWC, ROE & STF/LTF and NI & STF is 0.57, 0.93 and 0.59 respectively.

CHAPTER –5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter attempts to summarize the whole study. In this chapter, the effort has been made to present summary, conclusion, and recommend some concrete suggestions for improvement based on the analysis made.

5.1 Summary

Working capital management is the crucial aspect of the financial management. It is the life –blood controlling nerve center for any types of business organization because without the proper control upon it no business can run smoothly. The management of current assets and current liabilities is necessary for day- to day operations of any organizations. Thus, it plays the crucial role in the success and failure of an organization as it deals with the part of assets, which are transformed from one form to another form during the course of manufacturing cycle. Therefore, the role of working capital management is more significant for every business organization irrespective to their nurture. There have been done a numbers of studies on working capital management from different experts in various enterprises. This covers the all current assets and liabilities of the firm.

The Soaltee Hotel Limited, Kathmandu is the premier hotel of the kingdom and is located in the green suburbs of Tahachal in the neighborhood of Swayambhunath Stupa, just fifteen minutes away from the Airport and ten minutes away from the city center. Three kilometers to the nearest fair site (Bhrikuti Mandap), three kilometers to City Center, Sixty minute walk to the nearest Bus Stop, eight kilometers to the nearest Airport

(Tribhuvan International Airport). This living legend carries on the legacy of superiority it acquired four decades ago.

It is spread over 11 acres of space and surrounded by manicured gardens and with views of the mountain ranges, the SH Ltd. offers a resort atmosphere for both business and leisure travelers. It offers 283 Superior, Deluxe and Crowne Plaza Club rooms, eight executive suites and seven regal suites, as well as non-smoking rooms etc.

The main aim of this study is to analyze the working capital management of SH Ltd. For fulfillment of the objective, both primary and secondary data were used. Primary data was collected through structured questionnaires and interview whereas annual reports were the sources of secondary data. Data thus collected has been presented in tabular and graphical form. Moreover, various statistical tools and financial ratios have been used to analyze the collected data.

The CA of SH Ltd. comprises of inventories, sundry debtors, cash & bank balance and miscellaneous CA. Sundry debtors occupy the highest proportion of CA and cash & bank has the least. The CV of sundry debtors is 15.40% and cash and bank is 33.08%. The miscellaneous CA includes prepaid, advances, and loan & deposits. The highest CA of RS 267167000 existed in the FY 2065/066. On the other hand CL includes sundry creditors, loan & advances, provision for taxation and miscellaneous etc.

The highest proportion of CL is occupied by loan and advances. Its CV is 22.51%. The NWC of SH Ltd. is negative during seven years study period indicating its inability to pay off its current obligation. The highest negative NEC is of Rs. (181166000) in the FY 2063/064.

The ITR was highest in FY 2065/066 of 13.31 whereas the lowest ITR of 5.48 existed in the FY 2061/062. The average ratio is ITR is 8.99 times. CATR has increasing and decreasing trend from 2.13 to 2.65 indicating that the hotel has not been able to utilize its CA effectively in the recent years. The proportion of CA in TA was less than 50%

during the study period. Whereas its proportion in FA is highest in the FY 2065/066 of 65.29%.

During FY 2060/061, SH Ltd. had highest ARTR of 6.73%, which means it turns its receivables roughly 6.73 times per year. And the lowest ARTR ratio of 4.99 times exists in the FY 2063/064.

Liquidity ratio i.e CR and QR do not meet generally accepted standard indicating inability to fulfill its short-term commitments out of current or liquid assets. The highest CR is 0.84 in FY 2065/066 and QR of 0.67 is the highest during the study period. DER of 5.66% is the highest ratio during seven years study period, which means SH Ltd. collected 5.66 times more debt than equity to finance its requirement. The highest STD/LTD ratio existed in the FY 2065/066, which is 4.07 times more than LTD. Thus, SH is using more STD to fulfill its requirements. During FY 2065/066, SH Ltd. has the highest GPM of 83.32% whereas the least GPM of 78.02% exists in the FY 2061/062. The NPM is positive in recent three years of study period and negative in other four years, which shows that hotel has been increasing in getting profit. The greatest positive NPM is 13.82% in the FY 2065/066, which is best profitable year of study period.

CR, QR, and ITR have positive relationship with NPM and ARTR has negative relationship with NPM. Except ARTR, other relationships are significant. NI & NWC, ROE & STF/LTF and NI & STF have positive relationship and NI & NWC and ROE & STF relationship is insignificant and NI & STF/LTF is significant.

The head of finance, executive chairman are responsible to manage the working capital and working capital plays a vital role in the performance. The firm is adopting moderate working capital financing policy and working capital investment policy. The working capital policy has impact on the profitability and risk of the company. Average cash balance in daily Rs 3000000, receivable are categorized depending on the type of clients and inventory constitutes one of the important items of CA.

5.2 Conclusion

Working capital is the capital required for day to operation of a business. It is the lifeblood of an organization. Excessive investment in WC affects profitability, as idle investment yields nothing. Similarly, inadequate investment in WC makes it difficult to carry out the day to day operation of the business smoothly. It also threatens the solvency position of the business. Thus the role of working capital management is to maintain WC at a satisfactory level. It is one of the most challenging and time consuming jobs for every financial managers.

The major components of CA are inventories, sundry debtors, cash & bank balance and miscellaneous CA. sundry debtors hold the maximum proportion of CA i.e 42.02% in average whereas cash & bank has the least proportion of 11.88% in average. CL of SH Ltd. consists of sundry creditors, loan & advances, provision for taxation and miscellaneous CL. Loan & advances comprises the highest proportion in CL whereas provision for taxation the least.

The ITR of 13.31 times in the FY 2065/066 is the highest for the study period. The highest CATR of 2.76 exists in FY 2064/065 and the least ratio is 2.13 in the FY 2059/060. In average the proportion of CA in TA 21.18%. The investment in CA is less than in FA. CA to FA ratio was highest in the FY 2065/066 of 65.29%. ARTR is highest during FY 2060/061, which was 6.73 times and lowest of 4.99 times during FY 2063064.

The firm is using moderate policy to finance its working capital. The CR and AR the study period is less than the standard ratio of 2:1 & 1:1 respectively. In average, the CR is 0.5 and QR is 0.4 for the study period.

Correlation analysis reveals that CR, AR and ITR have positive relation and ARTR has negative relation with NPM. With exception of ARTR, all others have significant relation with NPM. The ITR explains the highest 90% variation in NPM whereas

ARTR explains only 0.3 % of variation. Thus ITR is a major factor and ARTR is a minor factor.

Similarly, positive and an insignificant relationship exists between NI & NWC and the regression coefficient (b) between them is 0.85, which means one million increases in NWC leads to average 0.85 million increases in NI. The value of constant (a) is 113.64 i.e SH Ltd. can earn 113.64 million when NWC is zero. Similarly, coefficient of determination (r^2) is 0.32, which shows that 32% variation in NI is explained by variation in NWC of SH Ltd.

Likewise, positive and significant relation exists between ROE and STF/LTF. Regression coefficient (b) between them is 0.74, which means one million increases in STF/LTF leads to 0.74 million increase in ROE. The value of constant (a) is (2.12), which indicates that SH Ltd. will suffer a loss of 2.12 million when the value of STF/LTF will be zero. 86% variation in ROE is explained by variation in STF/LTF.

There is positive and an insignificant relation between NI & STF. The regression coefficient (b) between them is 0.93 which shows that one million increases in STF leads to increases in NI by 0.93 million. Likewise, constant (a) is (302.88) that means SH Ltd. will suffer as loss of Rs. 302.88 million when STF is zero and 35% variation in NI is explained by STF.

5.3 Recommendations

Based on finding and conclusion of primary and secondary data of the study, some recommendations are forwarded for the improvement of the working capital management of the company.

- Sundry debtors occupy the highest proportion of current assets so; SH Ltd. should manage its debtor's efficiency. Therefore, it should introduce efficient policies and techniques, which leads to prompt collection of its debts.

- The liquidity ratio of SH Ltd. is less than the standard, which means it is unable to meet its short-term commitments. Moreover, its new working capital is also negative. Thus, SH Ltd. must try to maintain considerable liquidity position.
- SH Ltd. has to hold perishable nature of inventories also so, proper care must be provided for sound inventory management. Holding large quantities of such inventories leads to high risk for the company. Therefore, it should adopt good store keeping system, better material handling and timely inspecting.
- The simple correlation analysis between net profit margin and liquidity i.e current ratio, quick ratio and inventory turnover ratio has positive relationship, so SH Ltd. should try to use less current liabilities to increase current ratio and quick ratio. Similarly, it should try to increase sales to increase inventory turnover ratio.
- Simple regression analysis between net working capital and net income is positive. It indicates higher amount of net working capital leads to higher amount of net income. Therefore, SH Ltd. should try to increase net working capital to increase net income.
- Credit policy helps company to operate with lower level of working capital. Normal trade credit provided for its customers is 50 to 75 days and SH Ltd. is also providing discount on cash sales but even if company is able to reduce its credit period without affecting in sales. SH Ltd. is advised to reevaluate its credit policy.

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APPENDIX – 1

Dear Sir / Madam,

I am MBS final year student of Nepal Commerce Campus, preparing thesis on "working capital management of Soaltee Hotel Limited" to fulfill partial requirement of my study. I therefore would humbly like to request you to fill this-questionnaire and help me to conduct my study. Your valued responses will be very helpful for me to conduct my study.

Working Capital Management:

- 1) Who formulates the working capital financing policies in your organization?
- 2) Mention the parties involved in the management of working capital?
- 3) Which of the following policy has adopted by your organization?
 - a) Aggressive
 - b) Moderate/ average
 - c) Conservative
- 4) Whether the company is practicing the same policy?
 - a) Yes
 - b) No

If no, why?.....

5) What role does working capital management play in the performance of your organization?

- a) Very Important
- b) Important
- c) Not So Important

6) Does working capital policy influences profitability?

- a) Yes
- b) No

7) Does working capital policy have impact of risk of the company?

- a) Yes
- b) No

8) Which working capital investment policy is the company using?

- a) Relaxed
- b) Moderate
- c) Restricted

Cash Management:

1) What is daily average level of cash balance of your organization?

(Mention in the range of your convenience)

2) What if daily maximum level of cash balance of your organization?

(Mention in the range of your convenience)

3) What is daily minimum level of cash balance of your organization?

(Mention in the range of your convenience)

- 4) For cash collection which policy company is using and why?
- 5) Which policy the company is adopting for disbursement of cash?
- 6) Does the company use its excess cash balance in marketable securities?
 - a) Yes
 - b) No

Receivable Management:

- 1) What is the average collection period of receivables of the company?
- 2) For reducing collection period which types of collection policy the company is using?
- 3) Has company provided the credit terms to its customers to reduce collection period?
- 4) Does the company use factoring of its receivables?
- 5) When the receivable is declared as bad debts?
- 6) Whether the company has practice of ranking its customers for credit worthiness?
 - a) Yes
 - b) No
- 7) If yes, then on which basis?
- 8) If no, why?.....

Inventory Management:

- 1) What is the average size of the inventory of the organization?
- 2) What is the lot size of inventory for making new order?
- 3) How company calculates the safety level of the inventory?
- 4) What is the inventory conversion period of your organization?
- 5) How company manages the chances of inventory risk?
- 6) What is the proportion of wastage of inventory during production?
- 7) Which method does the company for the valuation of inventory use?
 - a) LIFO
 - b) FIFO

APPENDIX – 2

Variables use in correlation analysis between CR and NPM

Fiscal Year	CR(X)	NPM(Y)
2059/060	0.53	(0.13)
2061/061	0.56	(0.12)
2061/062	0.44	(0.32)
2062/063	0.48	(0.05)
2063/064	0.52	0.04
2064/065	0.62	0.09
2065/066	0.84	0.14

N	=	7	r	=	0.74
X	=	3.99	r ²	=	0.55
Y	=	(0.35)	PE	=	0.11
XY	=	(0.11)	6PE	=	0.66
X ²	=	2.38			
Y ²	=	0.17			

Variables use in correlation analysis between QR and NPM

Fiscal Year	QR(X)	NPM(Y)
2059/060	0.37	(0.13)
2061/061	0.36	(0.12)
2061/062	0.27	(0.32)
2062/063	0.32	(0.05)
2063/064	0.39	0.04
2064/065	0.47	0.09
2065/066	0.67	0.14

N	=	7	r	=	0.81
X	=	2.85	r ²	=	0.66
Y	=	(0.35)	PE	=	0.09
XY	=	(0.042)	6PE	=	0.54
X ²	=	1.37			
Y ²	=	0.17			

Variables use in correlation analysis between ARTR and NPM

Fiscal Year	ARTR(X)	NPM(Y)
2059/060	5.55	(0.13)
2061/061	6.73	(0.12)
2061/062	5.90	(0.32)
2062/063	6.52	(0.05)
2063/064	4.99	0.04
2064/065	5.61	0.09
2065/066	6.20	0.14

N	=	7	r	=	-0.17
X	=	41.5	r ²	=	0.03
Y	=	(0.35)	PE	=	0.25
XY	=	(2.17)	6PE	=	1.5
X ²	=	248.23			
Y ²	=	0.17			

Variables use in correlation analysis between ITR and NPM

Fiscal Year	ITR(X)	NPM(Y)
2059/060	6.79	(0.13)
2061/061	6.89	(0.12)
2061/062	5.48	(0.32)
2062/063	7.94	(0.05)
2063/064	10.79	0.04
2064/065	11.73	0.09
2065/066	13.31	0.14

N	=	7	r	=	0.95
X	=	62.93	r ²	=	0.90
Y	=	(0.35)	PE	=	0.03
XY	=	(0.51)	6PE	=	0.18
X ²	=	617.82			
Y ²	=	0.15			

APPENDIX – 3

Simple Regression Variables of NI on NWC

Fiscal Year	NWC(X)	NI(Y)
2059/060	(124.041)	(37.8)
2061/061	(124.584)	(44.437)
2061/062	(168.212)	(92.29)
2062/063	(173.438)	(18.492)
2063/064	(181.166)	22.846
2064/065	(131.409)	54.947
2065/066	(51.044)	97.677

$$N = 7$$

$$X = (953.89)$$

$$Y = (17.55)$$

$$XY = 12611.13$$

$$X^2 = 141978.29$$

$$Y^2 = 25344.79$$

$$\text{Regression Constant (a)} = 113.64$$

$$\text{Regression Coefficient (b)} = 0.85$$

$$\text{Coefficient of Correlation (r)} = 0.57$$

$$\text{Coefficient of Determination (r}^2\text{)} = 0.32$$

Bivariate regression result of Net Income = $113.64 + 0.85 \text{ NWC}$

Simple Regression Variables of ROE on STF/LTF

Fiscal Year	<u>STF/LTF (X)</u>	<u>ROE (Y)</u>
2059/060	2.0	(0.43)
2061/061	2.01	(0.51)
2061/062	2.09	(1.06)
2062/063	2.28	(0.21)
2063/064	3.51	0.26
2064/065	3.68	0.63
2065/066	4.07	1.02

N = 7
 X = 19.64
 Y = (0.30)
 XY = 2.80
 X² = 60.03
 Y² = 3.12

Regression Constant (a) = (2.12)

Regression Coefficient (b) = 0.74

Coefficient of Correlation (r) = 0.93

Coefficient of Determination (r²) = 0.86

Bivariate regression result of ROE = -2.12 + 0.74 STF/LTF

Simple Regression Variables of NI on STF

Fiscal Year	<u>STF (X)</u>	<u>NI(Y)</u>
2059/060	265.21	(37.8)
2061/061	280.74	(44.437)
2061/062	301.16	(92.29)
2062/063	330.66	(18.492)
2063/064	383.03	22.846
2064/065	351.29	54.947
2065/066	329.29	97.677

N = 7
 X = 2241.38
 Y = (17.55)
 XY = 3808.29
 X² = 727733.22
 Y² = 25344.79

Regression Constant (a) = (302.88)

Regression Coefficient (b) = 0.94

Coefficient of Correlation (r) = 0.59

Coefficient of Determination (r²) = 0.35

Bivariate regression result of Net Income = -302.88 + 0.94 STF