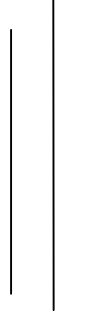


**A STUDY ON WORKING CAPITAL MANAGEMENT
OF
M M PLASTIC UDHYOG (PVT.) LTD., BIRATNAGAR**



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***In partial fulfillment of the requirement of the degree of
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Biratnagar, Nepal

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DECLARATION

I hereby declare that the work reported in this thesis entitled “A Study on Working Capital Management of M M Plastic Udhyog Private Limited, Biratnagar” submitted to the office of the Dean, Faculty of Management Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement of the Master Degree in Business Studies under the supervision & guidance of Prof. Dr. Khagendra Acharya in management, Post Graduate Campus, Biratnagar.

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.....
Parash Kumar Kamat
Researcher

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ABBREIATIONS

W/C	- Working Capital
TU	- Tribhuvan University
TCL	-Total Current Liabilities
TCA	-Total Current Assets
TA	- Total Assests
&	- And
%	- Percentage
B.S.	- Bikram Sambat
B/S	- Balance Sheet
CA	- Current Assests
CL	-Current Liabilities
Dr.	- Doctor
Etc.	- Etcetera
FA	- Fixed Assests
FY	- Fiscal Year
Ibid	- Ibidem
i.e.	- That is
Ltd.	- Limited
MBS	- Master of Business Studies
NIDC	- Nepal Industrial Development Corporation
NWC	- Net Working Capital
PEC	- Public Enterprises Company
Pvt.	- Private

CHAPTER-I

INTRODUCTION

1.1 Background

Nepal is a landlocked & underdeveloped country situated between China in the north and India in the east, west & south. It is Himalayan kingdom rich in water resources & bio-diversity. It occupies the total area of 1, 47,181 sq. km which includes 0.03% area of world and 0.3% area of the Asia continent. Nepal extends from east to west with a length of 885 km. & average width of 193 km. It is 22 times smaller than India & 65 times smaller than China. Nepal is a sovereign, independent, democratic, republican country which lies between 80⁰ 4' and 88⁰ 12' east longitudes and 26⁰ 22' & 30⁰ 27' north latitude. The country is divided into three main geographical regions as Himalayan which covers 15% of the total area, Hilly region which covers 68% area and 17% with Terai region.

Nepal is one of a least developed country in the world. Approximately 42% of all Nepalese live in absolute poverty. There is lack of basic infrastructure in rural and semi- urban communities. Majority of people have not been accessible with modern medical, education, transportation facilities. Nepalese government has not succeeded in providing even the essential requirements to the public like clean drinking water, electricity and sanitation facilities.

Nepalese economy is heavily characterized by predominant agriculture sector. Approximately 42% of GDP is diving from agriculture and 80% of the people are employing in these sectors. Nowadays, the overall performance of this sector has been declining.

Industrial development is the backbone of the nations. It plays an important role in enhancing the economy of the country. It makes higher living standard and comfortable life of the people by increasing wealth of the nation and provides essential as well as luxurious goods and services. Industrial development provides employment opportunities to the common public and also increases the government revenue from the taxes paid by the business enterprises. So, industrial development can be regarded as the life blood of the economy of any nation approaching towards the pace of globalization and liberalization.

This is 21st century, the age of scientific, discovery, innovation and globalization. Every moment, the world is changing in a drastic and dramatic way. Technology has changed the face of world. Today, market is not homogeneous, it's heterogeneous which has brought high level of competition in

every sectors. Product differentiation is needed to satisfy the changing need and tastes of the consumers.

There is keen competition between the customers, sellers, distributors, brand, price and services. Therefore, a business firm has to provide durable goods and services at reasonable price in order to exist in the market. However, every business firm has their own certain pre-determined goals and objectives to obtain in a specific time period. To obtain these pre-determined goals and objectives, they have to efficiently mobilize the resources like man, money, machine, material, time etc. which are limited.

M. M. Plastic Udhyog (Pvt.) Ltd. is a business firm established for the production of different kinds of plastic materials since 2042 B.S. It is situated in Biratnagar-18. The firm was established with authorized capital of Rs. 10, 00,000/- and paid up capital of Rs.4, 00,000. At present, it has the authorized capital of Rs. 20, 00,000/- , issued capital of Rs. 10, 00,000/- and paid up capital of Rs. 39, 48,500/-. The company's management is fully directed by the Board of Directors of the Company.

The main goal of the M.M. Plastic Udhyog (Pvt.) Ltd.is to earn maximum profits as well as customer satisfaction. Since the dream of success could not be obtained in absence of good management, the company has been managing to exist in the long run. The company has been producing different kinds of plastic Jars, Cans and containers for household use and packing purpose to other industries.

1.2 Focus of the study

Industries and business enterprises are the infrastructure for the rapid economic development of a nation. Without industrial and commercial revolution, the foundation of economic development of a nation cannot be established. These sectors are required to meet the public needs of goods and services, to create employment opportunities and lead the country to develop in the era of globalization.

In early days, there was not sufficient number of large scale industries in Nepal. After the restoration of democracy in 2007 B.S., industrialization has been taken into consideration in the planned way in order to develop the nation. The 5 years economic plan was stated from 2013 B.S. where it made committed efforts towards development planning. Some public enterprises and private firms were also encouraged to establish during the plan period. In the 2nd 3 years economic

plan period, company Act 2021 was issued. Under this company Act, various types of industries were established. But after the people's movement of 2046 B.S., now the company Act 2053 is in effect in place of company Act 2021. Till now, various types of industries are established under this company Act 2053.

Finance is a most necessary requirement for the establishment and operation of any business organization.

The main focus of the study is about the working capital management of M.M. Plastic Udhyog (Pvt.) Ltd. Working capital management means the management of funds or capital in day to day business operation. Working capital is one of the components of financial administration. So it is lifeblood for the business firms. The success of business firm is dependent on how well the working capital is utilized. If working capital is utilized properly, then it will get success if not, get failure. Thus, this study is focused for utilization of funds. Is the fund moving properly or not? It has done by taking 5 years data of M.M. Plastic Udhyog (Pvt.) Ltd.

This is done for the study, whether business firms are profitable in context of Nepalese business environment or not? It is just like a framework for their study.

Role of working capital is more in manufacturing industries because they need sufficient cash to pay wages, bills, and cost of raw materials. It must have capacity of grant credit to its customers.

However, the excess of working capital is not favorable for an enterprise. It is the sign of poor management and destroys the turnover ratio commonly used in conducting an efficient business. Thus working capital is considered as life blood of a business firm because it controls the nerve system of business. The excess and inadequate both volume of working capital is harmful for business firm. When money cost rise, capital expenditure usually become a primary target of cutbacks. Financial manager often overlook the area of working capital, where effective cost saving control can be applied.

Plastic industries have greater prospects nowadays in most of the industrial and household products because of its durability, cost convenience. The high demand of plastics product has provided prosperity to this business in comparison to other business.

However, because of its undestroyable nature, it brings environmental pollution. That is why the government and other social organizations are encouraging the general public to minimize the use of plastic products as far as possible.

1.3 Statement of Problems

Working capital management refers to the proper management of firm's current assets and current liabilities recognizing the interrelation and interactions that exist between them. It is concerned with all decision and acts that influence the determination of the appropriate level of current assets and their efficient use as well as the choice of methods of financing them keeping in a view of liquidity. The working capital of enterprise is that portions of its total capital which is put to variable operative purpose and has the characteristics of greater liquidity, profitability and turnover which influence the types and terms of financial management.

M.M. Plastic Udhyog has been facing several problems since it was established. These problems are regarding with production management, financing, working capital etc. There may be various other causes of problems. Financial management consist the specific task that are assigned to the financial staffs and that sort of tools and techniques that are available to it for improving firm's performance. Financial management provides guidelines to a firm for its efficiency. Financial management helps to identify problems and provides various tools and techniques to solve such problems. Among them, working capital management decision making is one of them. The available financial statement of M.M. plastic Udhyog (Pvt.) Ltd. has shown a huge amount of losses year by year and on the other hand, the investment in working capital is in increasing trend. So, by a tentative observation, it is seemed that there are some problems in working capital management. So, in order to analyze the overall aspect of working capital some important research questions are forwarded as under:

- a. What is the size of investment in each type of current assets?
- b. What is the significance of current assets management?
- c. What is variability in the size of investment in current assets?
- d. Is there any need to control over investment in current assets?
- e. How difficult are current assets of M. M. Plastic Udhyog (Pvt.) Ltd. to manage?
- f. Which of the current assets are more problematic?
- g. What are the motives for holding cash?

1.4 Objectives of the Study

The basic objectives of this study are to examine and measure the working capital structure of M.M. Plastic Udhyog (Pvt.) Ltd. The objectives of this study are to obtain a true insight into the working capital position of M.M. Plastic Udhyog (Pvt.) Ltd. and to make certain concrete recommendations for necessary improvement. It seeks to study the changes that have taken place there in over a given period of time. Besides these, the major objectives of this study are listed as under:

- a. To highlight the working capital trend of M.M. Plastic Udhyog (Pvt.) Ltd.
- b. To identify the basic reasons of losses.
- c. To find out whether the available funds are adequately utilized or not.
- d. To recommend measure as guideline to M.M. Plastic Udhyog (Pvt.) Ltd. and to take decisions related to their own spheres of interest.
- e. To provide constructive or reformative suggestions for better result for the future of M.M. Plastic Udhyog (Pvt.) Ltd.
- f. To evaluate the size, growth, structure, liquidity, efficiency, payable and productivity of working capital position of M.M. Plastic Udhyog (Pvt.) Ltd. on the basis of ratio analysis.

1.5 Scope of the Study

Working Capital is a circulating capital which is compared to life blood of the human beings. Without working capital, business enterprises can't run satisfactory. It is the main things, can be called as nerve of a business.

Working capital is the side investment in each type of current assets. Each of these current assets should be managed efficiently and effectively. It is because decision regarding working capital not only affects profitability of the firm in the short run but also affects the survival of the firm in the long run.

In this way, this research is very useful to a number of concern parties like consumers, owners, employees, creditors, government etc. This study is expected to provide a useful feedback to the policy maker of the company and also to other concerned fields.

The need of this study is to find out M.M. Plastic Udhyog (Pvt.) Ltd.'s internal position of working capital under the financial problems as well as give opportunities for correcting its shortcomings. The above statements show that the position of the industry is not satisfactory as it should be. It had to bear heavy losses during the study period. For this, Production manager is more responsible because there is not sufficient machinery and on the other hand sales manager is also responsible because the volume of sales is also not at satisfactory level.

So, our study always focuses to analyze the situation of working capital management and give suitable suggestions for improving the efficiency of the firm to obtain maximum profit.

1.6 Limitations of the study

A researcher always attempted to get into the depth of the fact; however there exists some loopholes in the practical life that are considered as limitations of the study. Limitation is also referred as an assumption of the study. The limitations of the study can be categorized under the following headings:

- a) The data taken for this study from the company and other related information are assumed to be correct.
- b) This study is based on only 5 years published accounting statements from the year 2064/65 to 2068/69.
- c) Since the analysis of data has been performed with the help of published accounts of the company, the research is mainly based on the secondary data and not free from the limitations.
- d) Information regarding material and verbal answer given by the manager of the company are insufficient for the study.
- e) Since the data collected from the company are not in an organized form, they are organized according to need of this study.
- f) Working days of the industry is assumed to be 360 days per year.
- g) The trend of variable is assumed 100 and percentage trend are calculated.

1.7 Organization of the Study

The scheme or the structure of the study is known as the organization of the study. This research of working capital management of M.M. Plastic Udhog (Pvt.) Ltd. has been organized into five major chapters namely:

Chapter-I: Introduction

This chapter highlights the basic objectives of the study. A brief introduction of the company and structure of the study are given. Problems are identified and arguments for the study are justified. Introduction part includes focus of the study, statement of the problem, scope of the study, objectives of the study, limitation of the study, research questions and important terms which are frequently used in the courses of the study are defined.

Chapter-II: Review of Literature

A brief presentation of literature related to the theory of working capital and its management is done in this chapter. For this purpose, review of literature, past findings, theoretical framework and review of related studies are presented. In this chapter, the major topics regarding with the theory of working capital, nature of working capital, policy of working capital, types of working capital, and approaches of working capital are reviewed.

Chapter-III: Research Methodology

In this chapter an appropriate methodology is designed to operate the study systematically and to make the research meaningful and result oriented. In research methodology, mainly research design, source of data collection, procedures, nature of data and analysis procedure are involved clearly.

Chapter-IV: Presentation and Analysis of Data

This is the main and most important chapter of this study because the analysis of collected information is done in this chapter. Firstly, all the collected data are tabulated according to necessity of the study and analyzed using different tools and techniques of analysis. Ratio analysis, its interpretations, graphics presentation and interpretation, trend analysis and interpretation, statistical analysis and so on are involved.

Chapter-V: Summary, Conclusions and Recommendations

The last chapter includes summary, conclusion and recommendations of the study. In this chapter, a summary of overall analysis is drawn and meaningful conclusions are given.

1.8 Important terms used in this Study

Following terms are frequently used in this study.

a. Total Funds:

Total funds imply the total of long term debts as well as short term debt.

b. Current Assets:

Current assets are those operating assets which can be converted into cash within one year or one accounting period. Some current assets are as cash in hand and bank, advance payment, government and other marketable securities, stock, raw materials, working capital, finished goods, bills receivables, treasury bills, short term investment, sundry debtors etc.

c. Quick Assets:

Quick assets are assets which can be converted into cash whenever desired or required without any material and capital losses. To put it in the form of equation,

Quick assets= Current assets- Stock of all types

d. Current Liabilities:

A short term obligation generally due and payable within one year is described as current liabilities. Current liabilities are account payable, notes payable, short term public deposit, outstanding expenses, creditors, bank over draft (but not bank loan), amount payable to subsidiaries, tax payable , unclaimed dividend etc.

e. Net Working Capital:

Net working capital means the difference between current assets and current liabilities.

f. Fixed Assets:

Fixed assets are those assets which are acquired for the purpose of using them in the conduct of business operation and not for resale to earn profit. Fixed assets are mainly used to construct the infrastructure of the business organization. Some examples of fixed assets are land, building, machinery, heavy furniture and fixture, equipments, vehicles, leasehold improvements etc.

g. Fiscal Year:

Fiscal year is the period of 12 months from 1st of Shrawan to 31st Ashad.

h. Inventory:

Inventory is types of current assets which are necessary for production and sales. The aggregate form of inventory is stock of raw materials, finished goods, work in progress and other assertive items.

i. Collection Period:

It is total debtors dividing by net credit sales multiplied by the number of days.

j. Creditors:

Creditors represent that side of business environment from whom the organization has made a purchase of raw materials on credit. This is types **of current liabilities.**

k. Debtors:

Debtors are the people or organization to whom the organization has sold its finished goods on credit.

l. Equity:

It is a part of total net worth. It is paid up ordinary common share capital when preference share capital is included in capital employed.

CHAPTER –II

2. REVIEW OF LITERATURE

2.1 Introduction

This chapter is important for the description of theories related to working capital and its management. In this segment some important and essential topics related to working capital management are involved in discussion. For this, an attempt is made by taking the help of various books, literature, journals, and research papers and so on.

2.2 Role of finance for business organization

Finance is the backbone of a business organization. For the successful operation of an organization, significant attention should be given to financial sector. In other words, the success of business depends upon the successful carrying out of financial function. Furthermore the success and failure of an industry is measured generally in terms of financial condition. So it is the central theme of the business organization. “Managers cannot make sound decisions in a vacuum; they need to base their decision on relevant concept and realistic framework.”¹ In this regard, financial management of finance matter occupies a predominant place at every stage of operation, production, marketing, and distributions. Thus, it is key input in the production marketing and profit management.

Both types of business organizations either they are public or private have to realize the need of the finance to operate the business cycle for the achievement of certain goal as well as functional objectives. The importance of finance functions depend mostly on the size of the business. In small scale business firms, the functions of finance are generally performed by the accounting department. As a firm grows the importance of a separate financial department increases.

¹ Pradhan, Surendra, **Basic of Financial Management**, Educational Enterprises (P) Ltd. Kathmandu 1996, p-3

2.3 Financial Management

Financial management is that managerial activity which is concerned with the planning and controlling of the firm's financial resources. As an important part of business management, financial management is relatively a new field because till 1980, it was a branch of economics. Thus it can be viewed as a form of applied economics concepts and principles. Today's financial management is intricately interwoven in the management of business enterprises as oxygen in the atmosphere. It is one of the functions of management sub-system in the total organizational setup. Finance interfaces with other management functions like production, marketing and personnel. All the functions interact with each other and with the forces in the external environment to accomplish desirable goals. "The function of financial involves three interrelated decisions that a firm makes the investment decision, the financing decisions and the dividend decisions. An optimal combination of three will maximize the value of the firm to its owners."² Likewise "Emphasis to what function a financial manager is expected to do can be grouped under two headings i.e. (a) Basic finance functions and (b) Incidental finance functions. Included with the scope of basic finance functions are keeping the corporation supplied with enough funds to accomplish its financial planning objectives and utilizing these funds in various categories of assets by means of far sighted and effective control techniques. The incidental functions involve ability of financial manager to meet hard time through intelligent work to push up the basic finance functions."³ In this way the modern thinking in financial management gives greater importance to management decision making and policy. That is why the subject of financial management is not only a full-fledged discipline at present but it is the central part of the overall corporate management today. Because of the importance of financial management it is given a top priority in the business operation and financial manager assume the responsibility of ensuring optimal financial outcomes.

² Van Horne, James C., **Financial Management and Policy**, Prentice Hall of India (Pvt.) Ltd. 1974, P-10

³ Shrestha, Manohar Krishna., **Financial Management (theory & Practice)**, C.D. Center, Tribhuvan University, Kathmandu, 1990, PP-31-32

Therefore, for achieving success in the business enterprises, proper financial management is of great essence. Financial management has got various aspects. Among other aspects, the role of financial management remains insignificant without the proper understanding of management of working capital.

2.4 Working Capital

No business can survive and operate without working capital. Working capital is one of the major components of financial administration. It is the lifeblood and nerve of a business organization. It is essential to accommodate the smooth operation of a business concern because no business can run successfully and hopefully in the absence of proper amount of working capital. Working capital may be regarded as the lifeblood of a business. Its effective provision can do much in ensuring the success of business.

Funds invested for short term obligation are mainly for working capital of operational purpose. Towards day to day operation of a firm will have to provide money towards the purchase of raw materials, payment of wages and salaries, to extend credit to buyers of goods as well as meet day to day obligation. However the firm can secure a part of these requirements of funds through the credit. It can be obtained from its own supplier of materials and other needed suppliers. Therefore for the total requirement funds for operational purpose of the credit of the firm can be obtained from others is deducted, the difference would be the amount of money, the firm requires against working capital requirements.

Working capital administrations consists of two terms. So, the idea of synthesis is better to specify some of remarks made by different pioneers and authorities of finance as regard of working capital.

2.5 Nature of Working Capital

The nature of working capital is described with the help of nature of operating cycle of the firm. Current assets are usually converted into cash within the current accounting cycle or one accounting period. Conversion of current assets into cash is the subject matter of cash cycle. The process of cash or operating cycle starts when a firm uses cash to purchase raw materials and pay

for other manufacturing cost of produced goods. These goods are carried as inventory for sometime till they are sold. These goods are either sold on cash or account receivables are created. Account receivables are collected from debtors. This brings cash into the firm. In this way a cash cycle complete and new process of cash cycle starts other again.”⁴ The major current assets are cash marketable securities, account receivable and inventory. Current liabilities are those liabilities which are intended at their inception to be paid in the ordinary course of business within a year. The basic current liabilities are accounts payable, bills payable, bank overdraft and outstanding expenses.”⁵

The value represented by current assets circulates from one working capital to another i.e. from cash account to purchase account; from purchase account to cost of goods manufacturing account; from inventory accounts to sales account and sales account to cash account. This is described as circulation in nature.”⁶ The speed of circulation of working capital or the turnover of current assets is an indicator of degree of efficiency of the management. The faster the turnover, the higher the degree of efficiency.

Another aspect of nature of working capital is that level or size of net working capital which is long term functions of sales turnover. Working capital has a volatile nature. This nature represents some problems and contents in financing working capital needs. The volatile nature of working capital refers to the change in total current assets.”⁷ Thus the nature of capital is not fixed; it is changeable at different times on the basis of transaction of goods.

⁴ Upadhaya, K.M., **Financial Management**, Kalyani Publisher, New Delhi, 1984, P-4

⁵ Khan, M.Y. & Jain P.K., **Financial Management- Tax and Problems**, Tata Mcgraw Hill Publishing Ltd., New Delhi, 1992, P-603

⁶ Upadhaya, K.M. Opcit p-47

⁷ Ibid P-48

2.6 Concept of Working Capital

A business organization needs not only fixed assets but also working capital. The working capital is the capital needed to conduct day to day operation of business. For a good management of working capital current assets should be more than current liability. Working capital management is concerned with the management of current assets and current liabilities. Working capital is an important aspect of financial management. The working capital is the capital needed not only fixed capital but also of working capital management of working capital has been regarded as one of the contributing factors in decisions-making issues. If business enterprises managers have clear-out concept of working capital, liquidity crises can be avoided in business enterprises. There are two concepts of working capital. They are:

- i. Gross Concept of Working Capital
- ii. Net Concepts of Working Capital

2.6.1 Gross Concept of Working Capital

In the broad sense, the working capital refers to the gross working capital concept and represents the amount of funds invested in current assets. Thus, the gross working capital is the capital invested in total current assets of the enterprises.”⁸ Current assets are those assets which in the ordinary course of business can be converted into cash within a short period of normally one accounting year.”⁹

Current Assets include

- a. Cash in hand and bank balance
- b. Bills receivables
- c. Sundry debtors
- d. Short term loan and advance
- e. Inventories
 - Stock-Raw materials
 - Working in progress

⁸ Sharma, P.K. and Gupta S.K., **Management Accounting Principle & Practice**, Kalyani Publishers, Ludhiana, 7th edition, 1996 P-21.1

⁹ Ibid P-21.3

- Stores and spares
- Finished goods

- f. Prepaid expenses
- g. Accrued expenses
- h. Marketable Securities
- i. Assure income

2.6.2 Net Concept of Working Capital

Net working capital is the difference between the sum of current assets and the current liabilities. Since the long term finance isn't required to pay back within a year, the net working capital is determined as the excess of current assets over current liabilities, which are required to be paid back within a period of less than one year. In other words, net working capital is the portion of current assets financed by long term sources.

The term of net working capital can be defined in two ways:

- a. The most common definition of net working capital is the difference between current assets and current liabilities; and
- b. Alternative definition of net working capital is that portion of firm's current assets, which is financed with long term funds.

We have already discussed about the CA in gross concept of WC. So, here we discuss only about current liabilities. Current liabilities are those liabilities which are intended to be paid in the ordinary course of business within a short period normally one accounting year.

Current liabilities include:

- a. Bills payable
- b. Sundry creditors and account payables
- c. Outstanding expenses
- d. Short term loan
- e. Dividend payable
- f. Bank overdraft
- g. Provision for taxation

The gross concept is financial or going concern concept where as net working capital concept is as accounting concept of working capital. These two concept emphasis that excessive investment in CA affects profitability as idle investment in CA makes it difficult to carry out day to day operations of the business smoothly.

At last, it is concluded that both gross and net working capital are important aspects of WC management because the net working capital is suitable for proprietary form of organizations i.e. sole trading and partnership business but gross WC isn't suitable for proprietary form of organization, it is only suitable for company where there is diversion between ownership, management and control.

2.7 Need Objectives and principles of Working Capital

Working capital is the lifeblood or nerve system of every business concern. It is needed to run the day to day business activities. Working capital must be still at a certain level for the daily business operation. The needs for WC arise due to the time gap between production and realization of cash from sales. WC is needed for the following purposes.”¹⁰

- a. For the purchase raw materials, components and spares.
- b. To pay wages and salaries.
- c. To maintain day to day expenses and overhead costs such as fuel power and office expenses.
- d. To meet the costs like packing, advertising
- e. To provide credit facilities to the customers
- f. To maintain the inventory of raw materials, work in progress, stores, spares and finished stocks etc.

¹⁰ Sharma, P.K. and Gupta S.K., **Management Accounting Principle & Practice**, Kalyani Publishers, Ludhiana, 7th edition, 1996 P-21.1

Principles

The following are the general principles of WC management policy.”¹¹

- a. Principle of risk aversion
- b. Principle of cost of capital
- c. Principle of equity position
- d. Principle of maturity of payments

The 1st principle refers to the risk associated with amount of WC employed. The 2nd principle is concerned with the problem of determining the ideal level WC. The 3rd principle is concerned with the risk directly to the type of capital used for financing, WC requirement and debt equity ratio and the 4th principle is concerned with maturity dates relatively more important for risk of insolvency.

2.8 Policy of Working Capital:

“The broader concept of working capital looked from the view point of sources of finance attached to it based on sources of finding working capital. There are three main concepts include (a) Conservative policy (b) Coverage policy (c) Aggressive policy. IN each of these concepts enterprises consider the impact of capital in the financing of both permanent and fluctuating current assets.¹²

Conservative policy depends more on long term funds for financing needs. The larger the percentage of funds obtained from long term capital policy. This policy has adopted the principle of high liquidity and low risk. In conservative policy the profitability is also low because of the low risk. In this case the cost of capital would be more than all other policy. It is because the firm should pay interest keep on for that long term fund also which is actually not needed.

In an aggressive policy a firm finances a major part of its permanent current assets with short term financing. Moreover, extremely aggressive company may even finance a part of fixed assets with short term financing. In this policy, the business organization may be able to enjoy higher rate of return with low cost of capital. But in this policy the risk is high and position of liquidity may not be so strong. The aggressive policy of liquidity may not be so strong. The aggressive policy may adopted by the firm which is more risk taker.

¹¹ Sharma, P.K. and Gupta S.K., **Management Accounting Principle & Practice**, Kalyani Publishers, Ludhiana, 7th edition, 1996, P-22.3

¹² Shrestha, Manohar Krishna., **Working Capital in Public Enterprises. A Study on Financial Result and Constraints**. ISDOC Bulletin, Kathmandu, Vol No-8, July 1982 to June 1983 P-2

The coverage policy is known as the average policy also. In other word, it is the average view of conservative policy and aggressive policy. This policy can solve the problem of conservative policy like high cost of capital and idle fund and the problem of aggressive policy like high risk and low liquidity to some extent. It is the appropriate combination of short-term and long term fund in financing working capital needs. This approach refers to financing mix, which is neither too risky profitability nor high liquidity low profitability. It aims to achieving a trade of between profitability and liquidity.

From the above discussion, it is clear that higher the liquidity lowers the risk and lowers the profitability and vice versa .Working capital management therefore ultimately aims at achieving some sort of a risk return trade off. Moreover this of trade off would fundamentally be a matter of management attitude towards risk.

2.9 Types of Working Capital:

Working capital can be classified into two ways:

- i) On the basis of concept
- ii) On the basis of time

2.9.1 On the basis of concept:

The first classification is based upon the gross concept and net concepts of working capital which is discussed already in the course of concept of working capital. Classification is important since it categories the various area of financial responsibility. For example funds invested in cash, inventories and receivables require careful planning and control if the company is to maximize its return on investment but this classification does not take into account the time elements.

2.9.2 On the basis of time:

On the basis of time working capital is divided into two categories:

- i) Fixed permanent working capital
- ii) Variable temporary working capital

i) Fixed permanent working capital:

Permanent working capital is the minimum amount which requires ensuring effective utilization of fixed facilities and for maintaining circulation of current assets. This is always a minimum level of current assets which is continuously required by the company to carry out its normal business operation. “Permanent capital is similar to the firm’s fixed assets in two important aspects. First the dollar invested in both of these assets group in long term. Therefore, supplier of capital to the firm needed to realize that he funding needs for permanent current assets is long term despite the seeming contradiction that the assets being financed are ‘current’. Second, for a growing firm, the level of permanent working capital is needed will increase overtime in the same way that a firm’s assets will needed to increase overtime. However, permanent working capital is different from fixed assets in one very important respect it is constantly changing.”¹³

“Thus permanent working capital doesn’t consist of particular current assets staying permanently in place, but is a permanent level of investment in current assets; whose individual’s items are constantly turning over viewed still another way permanent working capital is similar to the level of water that you find in a bay at low tide.”¹⁴ We can be clearer about it through an example. For example, every corporation has to maintain a minimum level of raw materials, work in progress, finished goods and cash balance etc. this minimum level of current assets is known as permanent blocked in current assets. As the firm grows, the requirement of this capital also increases due to increment in current assets. The permanent working capital can be classified into reserve and regular working capital. Regular working capital is required to ensure circulation of current assets from cash to inventory, from inventory to receivable and from receivable to cash again. Reserve working capital is the excess amount over tehe requirement for regular working capital which may be provided for contingencies that may arise at unstated period such as strike, risk in price, depression etc.

¹³ Van Horne, James C., **Fundamental of Financial Management and Policy**, Prentice Hall of India (Pvt.) Ltd. 1974, P-208

¹⁴ Ibid P-20

ii) Variable temporary working capital:

Working capital which is converted as per the sales volume is termed as temporary working capital. In each and every business concern, temporary working capital is also provisioned side by side with permanent working capital. “The extra working capital needed to support the changing production and sales activities is called fluctuation or variable or temporary working capital. Both kinds of working capital (permanently & temporary) are necessary to facilitate production and sales through the operating cycle but temporary working capital is created by the firm to meet liquidity requirements that will last only temporary.”¹⁵

Temporary or variable working capital is the amount of working capital which is required to meet the seasonal demands. “Any amount of working capital which is over and above the permanent level of working capital is temporary, fluctuating or variable working capital.”¹⁶

The variable working capital can be classified as seasonal and special. Most of the business firm has to provide additional working capital to meet the seasonal needs. So, the capital required to meet the seasonal needs is known as seasonal working capital. And special working capital is that part of temporary working capital which is managed to meet special exigencies (crises) such as launching of extensive marketing company for counting research etc.

¹⁵ Van Horne, J.C. Wachowicz J.M. Opcit P-209

¹⁶ Joy, O.M., **Introduction of Financial Management**, Home wood Richard D. Irvin, 1977 P-407

2.10 Approaches of working Capital:

Working capital management has been looked as a driving seat of financial management. We need to look for working capital funds to solve the series of questions which are how to use? In the view point of nature, the component of theory and the dimension of management of working capital financial policy may be formulated and implemented with any one or more than one of the following:

- i) Matching Hedging Approach
- ii) Conservative Approach
- iii) Aggressive Approach

2.10.1 Matching of Hedging Approach

If the firm attempts to match assets and liabilities maturities, then the working capital financing policy is termed moderate policy. Hedging approaches “A method of financing instrument of the same approximate maturity.”¹⁷ With a hedging approach short term or seasonal variations in current assets would be financed with short term debt, the permanent component of current assets and all fixed assets would be financed with long term debt or with equity with a hedging approach to financing, the borrowing and payment schedule for short term financing would be arranged to correspond to the expected swing in current assets.”¹⁸

In this approach, assets are categorized into three categories.

- i) Funds requirements for seasonally current assets or variable working capital.
- ii) Funds requirements for regularly needed current assets or permanent working capital.
- iii) Funds requirement for fixed and long term assets.

According to this categories, in this approach variables and short term working capital are financed from current liabilities or short term debts and fixed and permanent types of working capital are financed form long term fund.

¹⁷ Van Horne, J.C. Wachowicz J.M. Opcit P-209

¹⁸ Ibid

2.10.2 Conservative Approach

“The financing policy of the firm is said to be conservative when it depends more on long term funds for financing needs. Under a conservative plan the firm finances its permanent assets and also a part of temporary current assets with long term financing. In the periods, when the firm has no need for temporary current assets, the idle long term funds can be invested in the tradable securities to conservative liquidity.”¹⁹ This approach is relies heavily on long term financing as a result firm has less possibility of facing the problems of shortage of fund but due to low risk the profitability is also low. “A conservative approach would be to use long term capital to finance all fixed assets and some to the temporary current assets.”²⁰

In conclusion, in this approach the use of short term fund is restricted to the emergency situation when there is necessary to incest current assets. Otherwise the long term fund should be used as far as possible in financing of investment of current assets. However the cost of investment in this approach will be more and liquidity will be relatively greater as the result the risk will be lower. Conservative policy depends more on long term funds for financing needs. The larger the percentage of funds from long term sources the more conservative the firm’s working capital policy.

2.10.3 Aggressive Approach

A firm can follow aggressive policy in finance its assets. Under an aggressive approach the firm finances a part of its permanent current assets with short term financing. “The relatively more use of short term financing makes the firm more risky.”²¹ In contrast with conservative policy more short term funds will be used to finance the current assets in aggressive policy. Permanent and temporary requirement of working capital is financed through short term sources. In aggressive policy the liquidity position will be low and risk will be high, consequently their rate of return is high.

¹⁹ Pandey I.M., **Financial Management**, 7th edition, 1995, P-7547

²⁰ Weston & Brigham, **Essential of Managerial Finance**, 11th edition, 1996, P-418

²¹ Pandey I.M. Opcit P-751

2.10.4 Review of Related Studies:

2.10.4.1 Review of Journals / Articles

Articles, Journals and bulletins are of great significances for thesis writing. So, various publishers, articles by different management experts and Journals/ Bulletins relating to working capital management have been considered.

The research work done by Dr. Manohar K. Shrestha is an article, “Working Capital management in selected public enterprises.” In this study Dr. Shrestha found that the proper management of working capital is a neglected factor in most of the enterprises. They are suffering from inefficient cash management, defective inventory policy and lack of account receivable management. Due to the improper working capital policy, the enterprises fail to determine the liquidity position and appropriate sources of financing them. The liquidity position of selected PES differ widely in view of the difference in their nature, but the liquidity position maintained by most of the individuals enterprises is less than satisfactory. Similarly, due to lack of improper plans and policies, most of the enterprises on the one hand are facing serious financial crises and on the other hand are showing poor turnover. This also demonstrates operational inefficiency of PES. It is seriously undermined and this has brought unfavorable implication in the overall management of working capital. He also stated that the profitability of the most of the PES is positive, but not satisfactory. The employment of working capital in terms of returning is not sufficient to justify in current assets. Lastly, low capacity utilization is the direct result of ineffective working capital policy bringing less return on net working capital; turnover and profitability ratios were also calculated. In this analysis, he found that four PES had maintained adequate liquidity position, two PES had negative working capital turnover, four had adequate turnover, one had high turnover and the remaining three had not satisfactory turnover on working capital. He had also found that out of ten PES, six public enterprises were at operational losses while only four were getting some percentage of profits with references to those findings. He had found certain policy issues such as lack of suitable financial planning, negligence of working capital management, deviation between liquidity relationship between turnover and return in net overcome from the above policy issues, viz. identification of needed funds, regular check of accounts, development of management information system, positive attitude towards risk and profit and determination of right combination of short- term sources of funds to finance working capital needs.

Dr. Manohar K. Shrestha has conducted an empirical observation of twelve selected PES. In this article, he has described the conceptual ingredients concerning the working capital, such as conceptual setting source of working capital and types of working capital. For the analysis, he found that the liquidity position of selected PES differ widely in view of the differences in their nature of business. There were also above normal acid-test ratio. While analyzing the turnover of those selected PES shows wide deviation. Based on the sales value, four out of seven PES had normal inventory turnover, the other three had not been satisfactory maintained. In some of them inventory had exceeded sales. The collection period relating to the selected PES exhibited marked difference ranging from 32 days to 775 days. Profitability position was analyzed return on net working capital which was positive for eight PES, negative for two PES and the rest two had not any return, since they were in established phase.

During the analysis, he observed some problems like the lack of criteria to ascertain the satisfactory maintenance of acid test ratio and working capital needs. Large blockage of capital in inventories and low capacity utilization. All these were due to inefficient management of working capital in that PES.

Another articles relating to working capital management is by Dr. R.S. Pradhan. He studied on the demand for working capital by Nepalese corporations for the analysis. Nine manufacturing public corporations were selected with the twelve years data from 1973 to 1984. From the analysis, the regression equation has been adopted. From the study he calculated that:

The earlier studies concerning the demand for cash and inventories by business firms did not report unanimous findings. A lot of controversies exist with respect to the presence of economies of scales, role of capital cost and capacity utilization rates and inventories respectively. The polled regression results show the presence of economies of scale with respect to demand for working capital and its components is a function of both sales and capital costs. The estimated results show that the contributed to the demand function of cash and net working capital only. The effects of capacity utilization on the demand for inventories, receivables and gross working capital are doubtful working capital only. The effects of capacity utilization on the demand for inventories, receivables and gross working capital are doubtful.

2.10.4.2 Review of Related Literature

Under this topic, different pioneers conclusion of research works are presented which help the study to carry on the better and scientific result. Some of the

research outcomes performed by different pioneers under the heading of working capital and others are presented below:

Dr. Khagendra Acharya has concluded about the working capital management of public enterprises. Some major outcomes of this study are²²

i) Inventory constitutes the most important and largest element of working capital in NIDC. The overall adequacy of inventory in NIDC discloses that the growth of working capital and inventory in the corporation are negatively correlated.

ii) The breakeven analysis of NIDC reveals that due to insufficient working capital, the corporation has been selling the products at a far below rate than its break even.

iii) The credit policies, which is not clear in itself has not been followed by the corporation while collecting the overdue accounts.

iv) NIDC is expected to improve its prevalent system of inventory management regarding the planning and purchasing of spare parts, manures, insecticides, fuels etc.

v) Receivables are growing rapidly than the corresponding growth on sales volume.

Mr. Bharat Raj Pokhrel had studied about “Marketing Activities of Nepal Plastic Pvt. Ltd.” He had given the following suggestion and recommendations.²³

i) The company should diversify the product lines. Hardened pipes, consumer goods such as kitchen ware and other general container can give more profitability.

ii) Research and development activities should be performed to bring efficiency in production and reduction of operating cost.

iii) Lastly, the company should improve itself by the help of sales representative and displays.

²² Acharya, Khagendra, **Working Capital Management of Manufacturing Public Enterprises in Nepal** with special Reference to NIDC, unpublished PhD Thesis submitted to Allhabad University, 1986, P-108 as quoted in the thesis of Nischal Subedi.

²³ Pokhrel, Bharat Raj, **Marketing Activities of Nepal Plastics**, 2007, P-98, term paper submitted to Trivuvan University for the partial fulfillment of Master Degree in Business Administration.

Similarly, Mr. Keshav Prasad Gadtaula has researched on working capital management of NIDC as partial fulfillment of Master's Degree of Management. He concluded that²⁴

- i) Risk, liquidity and return policy are the factors that determine the level of current assets. Heavy amount of current assets create more liquidity. So, the firm cannot maximize its profit.
- ii) Growth in production and sales makes growth in raw materials, inventories, which must require more working capital financing.
- iii) The correlation between working capital and total assets and working capital and net sales of NIDC is perfectly co-related.

Similarly, Mr. Roshan Kumar Dutta had also performed a research work on working capital management of Himalaya Soap and Chemical Industry Pvt. Ltd. The conclusion of this study is written as under²⁵

- i) Cash and Bank balance of Himalaya Soap and Chemical is minimum in comparison with the investment made on current assets.
- ii) The investment on inventory is decreased which is better for the company.
- iii) The level of current assets depends upon its risk liquidity position and return policy because more investment in current assets indicates more liquidity position but it can minimize profitability.
- iv) The current assets turnover ratio of Himalaya Soap and Chemical Pvt. Ltd. are in fluctuating trend, which indicates unfavorable condition of the company because this ratio is less than average current assets turnover of Nepalese profit manufacturing concern. This also shows unsold management of current assets in comparison to sales.
- v) The current ratio of Himalaya Soap and Chemical Pvt. Ltd. during the study period is more than 2:1. This indicates the company is in a position to pay Rs.1 current obligation out of Rs.2 investment in current assets. The overall position of the firm is somehow appropriate.

²⁴ Gadtaula, Keshav Prasad, **Working Capital Management of NIDC**,2007, P-87 unpublished Master Degree Thesis submitted to T.U.

²⁵ Dutta, Roshan Kumar, **Working Capital Management of Mimlaya, Soap and Chemical Pvt. Ltd.** unpublished thesis of partial fulfillment of Master Degree 2005 P-107

vi) The quick ratio of Himalaya Soap and Chemical Pvt. Ltd. during the study period is higher than the standard 1:1. This indicates that to pay Rs. 1 current obligation from more than Rs.1 investment in quick assets. It is better for creditor's point of view but over investment in quick assets would not be increase profitability of the firm. So, it is not better for Himalaya Soap and Chemical Pvt. Ltd.

vii) Return on assets shows negative trend during first four years and positive in final year.

viii) Net profit margin ratio shows the negative during the first four year of study period but suddenly positive in final year which is better for the company to get the profit in the final year.

CHAPTER-III

3. RESEARCH METHODOLOGY

3.1 Introduction

Research methodology may be defined as a systematic process that is adopted by a researcher in studying a problem with certain objectives in view. In other words, research methodology describes the methods and process applied in the entire aspect of the study. A systematic research study needs to follow a proper methodology to achieve the predetermined objectives. Research methodology is a sequential procedure and methods to be adopted in a systematic study.²⁶

The main objective of this study is to evaluate (examine) the performance of working capital management of M.M. Plastic Udhyog. Therefore, a definite course of research methodology has to be followed to achieve the mentioned goals of this study. Hence, this chapter deals with the distinguished methodology for research design, nature and sources of data, population & sampling, data collection procedure, data processing procedure and financial statistical tools and techniques used for analyzing of the collected data of M.M. Plastic Udhyog. The collected data from M.M. Plastic have been presented and analyzed through appropriate tools and techniques in the chapter four.

3.2 Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In other words, research design is a systematic planning, structure and strategy for conducting a particular research work. It provides the frame work of the study. This study is based on past phenomena of M.M. Plastic udhyog. Therefore, the past information have been collected, evaluated, verified and analyzed systematically to accomplish the mentioned goals. It also attempts to explore certain facts; the research design for this study is historical as well as exploratory types.

²⁶ Kothari, C.R., “**Quantitative Technique**” Vikash Publishing House Pvt. Ltd., New Delhi, 1992, P-19

3.3 Nature & Sources of Data Collection

Generally, the data are classified into two categories as primary data & secondary data. Primary data are those, which are originally collected for an investigation & generated by survey or inquiries conducted by researcher. In the other hand, secondary data are not originally collected rather obtained from published or unpublished sources. But in this study only secondary data are used to analyze the working capital management of M.M. Plastic Udhyog which are already published by M.M. Plastic Udhyog as an annual audited financial statements from the financial year 2064/65 to 2068/69 and other necessary

Data and information relating to this study are collected from the manager and accountant of this company.

3.4 Population & Sample of Data:

The term population means whole of universe, the total observation, which is related with the study. In other word, population is the total unit which is going to be studied or researched. In the other hand sample is the number of representatives, which are going to be studied. In other words, sample refers to a part chosen from the population. Thus, the process of selecting a sample from population is called sampling.

The life period of M.M. Plastic Udhyog Pvt. Ltd. is the universe of the study. In order to conduct this study of M.M. Plastic Udhyog Pvt. Ltd. as financial from starting to current financial year is the population of the study and the selected five years from 2064/65 to 2068/69 are sample of the study.

3.5 Data Collection Procedure

Secondary types of data are used for this research work, which are directly collected from concerned department of the M.M. plastic Udhyog. Therefore, it should be said that the main source of collecting data is the administrative office of M.M. Plastic Udhyog.

3.6 Data processing procedure

The collected data are arranged in accordance with the requirement of the study. In other word, the published are reclassified, rearranged, re prepared and re tabulated systematically as per the necessity of the study. As and when

necessary, simple statistical analysis such as percentage, mean etc. are calculated and these are presented and analyzed in descriptive way.

3.7 Tools and Techniques used for analysis

The appropriate financial & statistical tools & techniques are used to analyze and interpret the present research work.

3.7.1 Ratio analysis

An arithmetical relationship between two figures is known as ratio. It is computed by dividing one item of relationship with other & the ratio analysis is a technique of analysis and interpretation of financial statement of the company. Ratio is computed to evaluate the performance of an organization by creating the ratios from the figures of different accounts consisting in balance sheet & income statement.

Various types of ratios are employed and grouped for analyzing the composition of working capital, turnover position, liquidity position & profitability position of the company and some of them are briefly described below:

3.7.1.1 Turnover Position (Activity Ratio)

To know the company's turnover position, the various types of turnover ratios are used. They measure how effectively the firm is using its resources. Thus, these ratios measure the degree of effectiveness in using resources or funds by a firm. The following common ratios of turnover ratios have been employed in this research work.

i) Current Assets Turnover Ratio (CATR)

It shows the efficiency of utilizing current assets. This ratio shows the number of times the current assets are converted into sales during the year. It is calculated by dividing sales by current assets or gross working capital.

$$\text{CATR} = \frac{\text{Sales}}{\text{Current Assets}}$$

Interpretation

Increase in the ratio indicates the improvement of current assets utilization and vice-versa.

ii) Net Working Capital turnover (NWCT)

It is calculated by dividing sales by net working capital (difference of current assets & current liabilities)

$$\text{NWCT} = \frac{\text{Sales}}{\text{Net Working Capital}}$$

Interpretation

A high ratio shows the efficient utilization of net working capital and vice-versa.

iii) Cash Turnover Ratio (CTR)

It means the speed with which cash moves through and enterprises operation. It is computed by dividing sales by cash balance.

$$\text{CTR} = \frac{\text{Sales}}{\text{Cash Balance}}$$

Interpretation

This ratio shows the number of times the average cash balance is turned into sales during the year.

iv) Debtor Turnover Ratio (DTR)

Debtor turnover ratio is the test of the liquidity of the debtor of a firm. It shows how quickly receivables or debtor is converted into cash. In other words, it indicates the velocity of debt collection of a firm. It is computed by dividing sales by the total amount of receivables.

$$\text{DTR} = \frac{\text{Sales}}{\text{Receivables}}$$

Interpretation

The higher the ratio the more efficient is the management of collecting the debtors. It indicates that within a short period, the firm is collecting the cash from debtors. A low ratio shows that debts are not being collected rapidly.

v) Average Collection period (ACP)

It represents the average number of days for collecting the cash from debtors. It can be calculated as follows:

$$\text{Average Collection Period} = \frac{\text{Days in a year (365 days)}}{\text{Debtor Turnover}}$$

Or

$$\text{Average Collection Period} = \frac{\text{Debtors x Days in a year (365 days)}}{\text{Credit Sales}}$$

Interpretation

The result of this ratio will be in a number of days and minimum days are preferable which shows that the firm is collecting from the debtors within a short period.

vi) Inventory Turnover Ratio (ITR)

It is also known as stock turnover ratio. It is calculated as follows:

$$\text{ITR} = \frac{\text{Sales}}{\text{Closing Inventory}}$$

Or

$$\text{ITR} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}}$$

Interpretation

This ratio shows the number of times inventory is replaced during the year. Higher inventory turnover indicates the good inventory management and lower turnover suggests the management should manage its inventory properly.

3.7.1.2 Liquidity Position

The ability of a firm to meet its obligation in the short term is known as liquidity. It shows the company to pay its current obligations. The liquidity positions of M.M. Plastic Udhyog have been known by using the following ratios:

i) Current Ratio (CR)

It is the relationship of current assets and current liabilities. Current assets are those assets which can be converted into cash within short period of time, normally not exceeding one year. Current liabilities are those obligations which are payable within a short period.

This ratio is calculated by dividing current assets by current liabilities.

Thus,

$$\text{Current Ratio (CR)} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Interpretation

Higher the current ratio better is the liquidity position. For various types of business, 2:1 is considered to be an adequate ratio. If the current ratio of a firm is less than 2:1, the solvency position of the firm is not supposed to be good. The cash may not be available to pay current liabilities. If the current ratio is more than 2:1, the company may have an excessive investment in current assets that do not produce a return.

ii) Quick or Acid Test of Liquid Ratio (QR)

This ratio measures the firm ability to convert its current assets quickly into cash in order to meet its current liabilities or immediate cash needs. It is calculated as follows:

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

$$\text{Quick Assets} = \text{CA} - (\text{Inventory} + \text{Prepaid Exp.})$$

Interpretation

Higher the current ratio better is the liquidity position & vice-versa. It's standard ratio is 1:1 and the standard value shows the sound liquidity position of the company.

3.7.1.3 Profitability Position

Various types of profitability ratios are used to know the profitability position of M.M. Plastic Udhog. It shows the overall efficiency of the business concerns. The relation of return of the firm to either its sales or its equity or its assets is known as profitability ratio.

Following profitability ratio are analyzed to known the profitability position of M.M. Plastic Udhog.

i) Gross Profit Margin (GPM)

It expresses the relationship between gross profit and sales. It is calculated as:

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

Interpretation

A higher ratio is a sign of good management. A low gross profit may reflect higher cost of goods sold due to the firm's inability to purchase & process at favorable terms.

ii) Net Profit Margin (NPM)

It is also known as net margin, which measures the relationship between net profit and sales of the company and indicates management's efficiency in manufacturing administrating and selling the products. It is calculated as follows:

$$\text{NPM} = \frac{\text{Net Profit}}{\text{Sales}} \quad \text{or} \quad \frac{\text{Gross Profit}}{\text{Sales}}$$

Interpretation

A higher ratio is an indication of the higher overall efficiency of the business and better utilization of total resources. Poor financial planning and low efficiency is the indication of lower ratio.

iii) Operating Ratio (OR)

This ratio measures how much sales receipts are consumed in total operating expenses. It is derived as:

$$\text{OR} = \frac{\text{Cost of goods sold} + \text{Operating expenses}}{\text{Sales}}$$

Interpretation

Higher ratio indicates the lower efficiency of the company and vice-versa. Higher operating ratio means small amount of operating income available to meet interest dividend etc.

iv) Return on total Assets (ROA)

It is useful measures of the profitability of all financial resources invested in the company's assets. It evaluates the use of total funds without any regards to the source of funds. It is calculated as:

$$\text{ROA} = \frac{\text{Net Profit before tax}}{\text{Total Assets}}$$

Interpretation

The increase in the ratio indicates the profitability is also increased.

v) Return on working Capital (RWC)

This ratio measures the profit with respect to total current assets. It is the relationship between Net Profit before Tax & working capital. It is derived as:

$$\text{RWC} = \frac{\text{Net Profit before tax}}{\text{Working Capital}}$$

Interpretation

The increase in ratio indicates the efficient use of working capital to earn profit.

3.7.2 Statistical Tools

The following statistical tools are used to support this study.

i) Arithmetic Mean (Average)

The arithmetic mean is the most popular and commonly used statistical average, which represents the entire data by a single value. The arithmetic mean of the values of a variable is defined as the ratio of the total values to the number of values.

$$\text{Arithmetic Mean} = \frac{\text{Sum of values}}{\text{Number of values}}$$

ii) Correlation Analysis

Correlation analysis deals with the statistical techniques, which measures the degree of relationship or association between two or more variables. In other words, it helps in analyzing the co variation of two or more variables. (K.N. Shrestha, Math & Stat for Mgmt. 2048. P-148) Thus, for analyzing the relationship between two variables, Karl pearson's correlation coefficient has been used, which measures the degree of association between the two variables say X & Y.

Symbolically, it is calculated by using the relation,

$$r = \frac{\sqrt{N \sum XY - \sum X \cdot \sum Y}}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Where,

r=coefficient of correlation

X= say the first variable

Y= say the next variable

N= no. of years

ΣXY = sum of product of XY

Interpretation of Correlation coefficient, r:

The value of r lies always between +1 to -1. When r=1, then it implies that there is perfect positive correlation between the two variables and vice-versa. In other words, when r= -1, then it implies that there is perfect negative correlation) and where r=0 then, it denotes there is no correlation at all; i.e. the relationship between two variables is independent.

iii) Probable Error (PE)

Probable error is a traditional measure of ascertaining the reliability of the value of Pearson's coefficient of correlation, r.

If r is the calculated value of correlation coefficient in a sample of N pair of observations then symbolically.

$$\text{Probable Error (PE)} = \frac{0.6745 (1 - r^2)}{\sqrt{N}}$$

If r is less than its PE, it is said that r is not significant at all and if r is more than PE, then there is correlation between two variables. Similarly, if r is more than its 6 times of probable error and greater than +/- 0.50, then is considered as significant.

3.7.3 Common Size & Index Analysis:

It is useful to express balance sheet & income statement items in percentages. If the percentages are related to some total figures of the period such as total assets or total sales, it is common size analysis. If the percentage is related to some base year for studying an item/s occurring in several periods, it is known as indexing. The evaluation of percentage of financial statement over time gives an insight into the underlying improvement stability or determination in financial condition and or performance of the firm.²⁷ Since the study is confined to the working capital management of M.M. Plastic Udhog Pvt. Ltd. and it is attempted to evaluate the percentage of balance sheet and income statement item/s to highlight the effectiveness of working capital of the firm.

3.7.4 Funds Flow Analysis

Funds flow analysis is one of the most crucial techniques of financial analysis which determines the financial consequences of business operations. Thus, the funds flow statement enables the management to ascertain whether the magnitude and type of commitments pertaining to various sources of raising funds are in conformity with the type of commitment required for their corresponding applications. Due to the above mentioned reasons, the fund flow analysis is adopted to know the performance of the working capital management of M.M. Plastic Udhyog Pvt. Ltd. for five years i.e. from the financial year 2064/65 to 2068/69.

²⁷ Poudel, Sudhir, Capital Structure Management of M.M. Plastic Udhyog Unpublished thesis, TU, 2058 B.S. P-38

CHAPTER-IV

4. PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

Presentation and analysis of data are the chief task of this study. All the analysis of working capital has been done in this chapter. According to the objectives of this study, this chapter has carried the study towards its goals. In this chapter the collected financial information is arranged in proper style with the help of tabulation method and they are analyzed applying appropriate tools and techniques. As per the nature of this study, mainly ratio analysis is used for the analysis of working capital and beside co-relation, is also used as per requirements. At last trend analysis of various item related with working capital is performed using graphic representation.

4.2 Position of current Assets

Current assets and current liabilities are the crucial aspects of any corporation. Not only fixed assets but also currents are realized to be essential by a business firm. In order to run business activities daily in effective way the firm invest its optional funds in short term assets is known as current assets or gross working capital.

Table No.-4.1
M.M. Plastic Udhyog Pvt. Ltd.
Position of current Assets
From 2064/65 to 2068/69

Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
Deposit	112665	117012	180311	145711	120011
% on Total C.A.	2.58	2.44	1.47	1.15	0.60
Advance	533428	1669580	3097238	1701032	4239366
% on Total C.A.	12.22	34.82	25.24	13.47	21.17
Debtors	2195544	2416450	4221453	9129533	11421472
% on Total C.A.	50.28	50.39	34.39	72.30	57.03
Cash and Bank Balance	408924	546858	1230634	1202004	1705247
% on Total C.A.	9.37	11.40	10.03	9.53	8.51
Inventory	1115553	45287	3138596	368801	1826336
% on Total C.A.	25.55	2.95	25.57	2.93	9.12
Prepaid expenses	-	-	404798	-	-
% on Total C.A.	-	-	3.30	-	-
Share Investment	-	-	-	15000	715000
% on Total C.A.	-	-	-	0.12	3.57
Miscellaneous	-	-	-	64567	-
% on Total C.A.	-	-	-	0.51	-
Total Current Assets	4366114	4795187	12273030	12626648	20027232
% of C.A. on Total Assets	24.10	27.65	44.51	40.86	40.91
Total Assets	18116560	17342298	27573485	30902062	48957432

Sources: Appendix-A

The above table shows the investment of M.M. Plastic Udhyog Pvt. Ltd. in current assets and the share percentage of total current assets on total assets. According to the above presented table the major share percentage of total current assets is occupied by debtors. The debtors have covered 52.87% part of total current assets in an average. In first 2nd years, the percentage of debtors is about constant and in 3rd year it is decreased but in 4th year, it is increased rapidly and again in 5th year decreased. It indicates that the collection of debtors and investment in debtors is not in a set trend rather it is in fluctuating trend.

Advance has occupied the second major position in total current assets.

During the five year study period, it has covered 21.384% average on total current assets. It indicates that the firm is interested to work with its parties in advance. But the trend of advance is not also in a certain order. It is fluctuating between 12% to 26%.

The third position, in total current assets is occupied by inventory. The average share percentage of inventory during 5 study period is 12.82% which is not so better for the firm because the inadequate volume of inventory creates problems in production operation and in time delivery of finished products. There is very nominal volume of inventory in 2064/65 and 2066/67 the highest percentage of inventory is in 2065/66 and 2066/67 i.e. 25.55% and 25.57% respectively. Cash and bank balance has occupied 4th position in total current assets of M.M. Plastic Udhog Pvt. Ltd. in the study period. In average, 9.76% part of total current assets has been covered by cash and bank balance. In first two years, the percentage is in increasing way but from 2066/67 it is slowly decreased. Deposited has occupied 5th major post in total current assets. Besides this period, expenses share investment and miscellaneous current assets are in existence but they are not in each year. Prepaid expenses are only in 2066/67 (3.30), share investment is in 2067/68 and 2068/69 and miscellaneous current assets is in 2067/68, their share percentage in total current assets is almost nominal.

The overall position of current assets on total assets is lower than 50% in average. The average of current assets on total assets is 35.606%, in first three years. The trend has caught an increasing way but in 2067/68 and 2068/69 the percentage has fallen down slightly.

4.3 Position of Current Liabilities

The management of working capital is concerned with the management of the relationship between current assets and current liabilities. So, the study of current liabilities is also essential side by side with current assets for the purpose of studying working capital.

Table No.-4.2
M.M. Plastic Udhyog Pvt. Ltd.
Position of current Liabilities
From 2064/65 to 2068/69

Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
Welfare Fund	62389	124551	215585	215585	298005
% on Total C.L.	0.90	1.74	1.46	1.50	1.31
Provident Fund	327338	433421	608918	823438	807825
% on Total C.L.	4.72	6.06	4.13	5.72	3.55
Bonus Provision	-	78492	195428	156236	248892
% on Total C.L.	-	1.1	1.06	1.08	1.10
Income Tax Provision	18206	141286	156304	6028	94433
% on Total C.L.	0.26	1.94	76.42	0.04	0.41
Short Term Loan	3474027	3374212	11260889	11924192	17634500
% on Total C.L.	50.011	47.17	76.42	81.78	77.49
Creditors	2956749	2669438	1748794	1001515	2627580
% on Total C.L.	42.65	37.32	11.87	6.95	11.55
Accrued Expenses	94625	331526	179896	277727	1040431
% on Total C.L.	1.36	4.64	1.22	1.93	4.57
Miscellaneous C.L.	-	-	369360	-	4531
% on Total C.L.	-	-	2.51	-	0.02
Total Current Liabilities	6933334	7152926	14735174	14404721	22756197
% on Total Liabilities	38.27	41.24	53.44	46.61	46.48
Total Liabilities	18116560	17342298	27573485	30902062	48957432

Sources: Appendix-A

The above table has presented a clear picture of M.M. Plastic Udhyog Pvt. Ltd. from 2064/65 to 2068/69. By the observation of above table, we can easily say that the major part in total current liabilities is occupied by short term loan. In an average, 66.594% share has been covered by short loan during the study period. The highest percentage share of short term loan is in 2067/68 which is 81.78%. Generally, the trend of this item is increasing during the study period. In 2065/66 it has decreased slightly but in 2066/67, it has increased rapidly and in 2067/68, it reached to 81.78%. But in 2068/69, it decreased slightly.

The second major items having highest coverage on total current liabilities are creditors. But the share percentage is very lower as compare to short term loan. The average percentage share of creditors during 5 years study period is 22.068%. The highest share of percentage of creditors is seemed in 2064/65 i.e. 42.65% and it is decreasing rapidly from 2065/66 to 2067/68. In 2068/69, it has increased slowly. The lower volume of creditors shows that the firm is interested to do transaction in cash with its parties as the firm can. In order words, the payment schedule is fast.

The 3rd major item in total current liabilities is provident fund. The average of the item is very lower i.e. 4.836% during the study period. Besides this, the bonus provision, income tax provision, welfare fund, accrued expenses, miscellaneous current liabilities are in existence but their share percentage is very lower in comparison to above mentioned 1st, 2nd and 3rd major items.

4.4 Position of Net Working Capital

Generally net working capital is that amount of current assets which is access over the current liabilities. But in practical field, some cases are quite separate. They may be excess of current liabilities over current assets. This type of condition may come, if the short term fund is applied also in fixed assets. As a result, the current liabilities may be higher than current assets which create negative net working capital. A negative sign in net working capital indicates a poor position of liquidity. In our case, the net working capital is also negative due the higher volume of current liabilities than current assets. In each year, the amount of net working capital is in negative.

Table No.-4.3

**M.M. Plastic Udhyog Pvt. Ltd.
Position of Net working Capital
From 2064/65 to 2068/69**

Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
Current Assets (a)	4366114	4795187	12273030	12626648	20027432
Current Liabilities (b)	6933334	7152926	14735174	14404721	22756197
Working capital (a-b)	-2567220	-2357739	-2462117	-1780573	-2728765

Sources: Appendix-A

The above table shows that the firm has not thought seriously about the net concepts of working capital. It shows the poor picture of liquidity. In above table, there is negative net working capital each year. In first two year, the negativity of net working capital is in decreasing trend but in 2066/67 it is increased by a very little percentage. In 2068/69 it is increased again. The overall position of net working capital in M.M. Plastic Udhyog Pvt. Ltd. from 2064/65 to 2068/69 has shown that the liquidity of the firm is very poor. So, the firm should reconsider in its financing short term fund in current assets.

4.5 Ratio Analysis

Ratio analysis is an important and very popular tool of showing relationship between two items. This tool is very popular in measuring liquidity, efficiency, structure, profitability etc. of a firm. So in this segment, the following aspects of working capital management and financial management are observed by the help of ratio analysis.

1. Size of working capital
2. Structure of working capital
3. Efficiency of working capital
4. Profitability of working capital
5. Payable management of working capital
6. Liquidity management of working capital

4.5.1 Size of Working Capital

Total current assets are known as working capital on the basis of gross concepts of working capital. So in this segment the size of current asset with other items is measured with the help of ratio. In the course of analyzing size of current assets, the following essential ratios have been computed and interpreted.

1. Current assets to total assets
2. Current assets to fixed assets
3. Current assets to sales
4. New working capital to current assets

Current assets to total assets

This ratio is used to show the relationship between current assets and total assets and the percentage share of current assets on total assets.

Table No.-4.4
M.M. Plastic Udhyog Pvt. Ltd.
Current Assets to Total Assets Ratio
From 2064/65 to 2068/69

Amount in '0000'

Years	Total Current Assets	Total Assets	Ratio in %	Change
2064/65	436	1811	24.07	-
2065/66	479	1734	27.62	3.55
2066/67	1227	2757	44.50	16.88
2067/68	1262	3090	40.81	-3.66
2068/69	2002	4895	40.89	0.05
Average (mean)	1081.2	2857.4	35.584	

Sources: Appendix-A

The average size of current assets is 35.58% on total assets during the study period. It indicates that most of the part of total assets (i.e. approximately two third parts) is covered by fixed and semi fixed assets. The above computed ratio clears that a remarkable increment in the ratio of current assets is in 2065/66 only. In 2067/68, it is decreased but the figure of ratio in 2067/68 and 2068/69 is expressing that the amount of current assets and total assets both are in increasing trend.

Current assets to fixed assets

This ratio observes the relationship between current assets and fixed assets and the size of current assets on fixed assets.

Table No.-4.5
M.M. Plastic Udhyog Pvt. Ltd.
Current Assets to Fixed Assets Ratio
From 2064/65 to 2068/69

Years	Amount in '0000'			
	Total Current Assets	Total Fixed Assets	Ratio in %	Change
2064/65	436	1091	39.96	-
2065/66	479	991	48.33	-8.37
2066/67	1227	1365	89.89	-41.56
2067/68	1262	1717	73.50	-16.39
2068/69	2002	2712	73.82	-0.32
Average (mean)	1081.2	1575.2	65.10	

Sources: Appendix-A

As per the above computed ratio, the average size of current assets on fixed assets is 65.10%. From 2064/65 to 2066/67 the percentage of current assets on total fixed assets is in increasing trend. In 2067/68 and 2068/69 it is decreased because the amount of current assets is not increased with the proportion of total fixed assets. The amount of current assets and fixed assets is in increasing trend during the study period and the overall trend of ratio is not in a set order rather it is highly fluctuated.

Current assets to sales

Current assets are one of the main influencing factors of sales because there is very close relation between inventory and sales. Inventory has a major share in total current assets. So, this ratio shows the relationship between current assets and sales.

Table No.-4.6

M.M. Plastic Udhyog Pvt. Ltd.

Current Assets to Sales Ratio

From 2064/65 to 2068/69

Amount in '0000'

Years	Total Current Assets	Total Sales	Ratio in %	Change
2064/65	436	1843	23.66	-
2065/66	479	3230	14.83	-8.83
2066/67	1227	3868	31.72	16.89
2067/68	1262	4503	28.02	-3.7
2068/69	2002	7226	27.70	-0.32
Average (mean)	1081.2	4164	25.186	

Sources: Appendix-A & B

By the observation of above computed ratio, we can easily say that the current assets are not changing as the proportion of sales. Sales are in increasing trend where as the ratio of current assets is in fluctuating trend. The ratio is increased only in 2066/67 and from 2067/68; it is again in decreasing order slowly. The average size of current assets to sales is 25.186%. However observing the changes of ratio, it can be said that increasing rate is some higher than decreasing rate.

Net working capital to current assets

This ratio expresses the relationship between net working capital and current assets. In other words, it is the relationship between gross working capital and net working capital.

Table No.-4.7
M.M. Plastic Udhyog Pvt. Ltd.
Net Working Capital to Current Assets
From 2063/64 to 2067/68

Amount in '0000'

Years	Net Working Capital	Current Assets	Ratio in %	Change
2064/65	-256	436	-58.72	-
2065/66	-235	479	-49.06	9.43
2066/67	-246	1227	-20.05	20.01
2067/68	-178	1262	-14.10	5.95
2068/69	-272	2002	-13.58	0.52
Average (mean)	-273.4	1081.2	-31.102	

Sources: Appendix-A & Table No. 4.3

By the observation of above table, it is found that the position of the working capital is not better rather it is poor. The figure of net working capital is negative due to excess volume of current liabilities than current assets. It indicates that the firm has not completely invested the short-term fund in current assets. So, it signifies that the firm has not followed the concepts of net working capital completely. According to the above computed ratio, -31.102% is the average ratio. But the overall trend of the ratio in 5 years shows the firm is trying to reduce the negative figure of net working capital because the negative ratio is in decreasing trend with yearly increment of current assets. The highest figure of negative ratio is in 2064/65 (-58.72%) and the lowest figure is in 2068/69 (-13.58%). So, we can say that there is remarkable improvement in net working capital. However the net working capital should be positive from the liquidity view point. So, on the basis of accounting concepts the firm should try to make strong position of net working capital to increase the efficiency of a firm.

4.5.2 Structure of working capital

Under this sub topic, the major items involved in the overall structure of working capital are analyzed by the help of ratio analysis. In this section mainly cash, inventory, receivable are examined on the basis of total current assets is observed in this section of analysis. Under this, the following ratios are computed.

1. Inventory to Current Assets
2. Cash and Bank Balance to Current Assets
3. Receivables to current Assets

4.5.2.1 Inventory to Current Assets

This ratio observes the role of inventory in the overall structure of current assets.

Table No.-4.8

M.M. Plastic Udhyog Pvt. Ltd.

Inventory to Current Assets Ratio

From 2064/65 to 2068/69

Amount in '0000'

Years	Inventory	Current Assets	Ratio in %	Change
2064/65	111	436	25.46	-
2065/66	4	479	0.83	-24.63
2066/67	313	1227	25.51	24.68
2067/68	36	1262	2.85	-22.66
2068/69	182	2002	9.09	6.24
Average (mean)	129.2	1081.2	12.748	

Sources: Appendix-A

The above table shows the position of inventory on total current assets. In an average 12.748 part has been covered by inventory in total current assets during the study period. The average of inventory is lower and not in satisfactory level because the ratio of 2065/66 and 2067/68 are very lowers i.e. 0.83% and 2.85% respectively. The ratio shows that the firm has not followed a proper policy for inventory management. The high rate of fluctuating in ratios signifies that a

scientific system of inventory control is not established. The trend of current assets is in increasing where as the inventory is in fluctuating trend.

4.5.2.2 Cash and Bank Balance to Current Assets

This ratio shows the relationship between cash and bank balance and current assets.

Table No.-4.9
M.M. Plastic Udhyog Pvt. Ltd.
Cash & Bank Balance to Current Assets Ratio
From 2064/65 to 2068/69

Amount in '0000'

Years	Cash & Bank Balance	Current Assets	Ratio in %	Change
2064/65	40	436	9.17	-
2065/66	54	479	11.27	2.1
2066/67	123	1227	10.02	-1.25
2067/68	120	1262	9.51	-0.51
2068/69	170	2002	8.49	-1.02
Average (mean)	101.40	1081.2	9.692	

Sources: Appendix-A

According to the above table the average percentage of cash & bank balance during the study period is 9.692%. The ratio shows that there is increment in ratio only in 2065/66. From 2066/67 it is decreasing slowly. The participation of cash and bank balance in total current assets is not so remarkable from the point of view of liquidity. The volume of cash & bank balance is increased in 2066/67 but the ratio is decreased. In 2067/68 volume of cash and ratio are decreased but in 2068/69 again the volume of cash is increased where as ratio is decreased. It signifies that the proportion of cash is not changed as the proportion of current assets is changed.

4.5.2.3 Receivables to Current Assets

This ratio observes the position of receivables in total current assets.

Table No.-4.10

M.M. Plastic Udhyog Pvt. Ltd.
Receivables to Current Assets Ratio
From 2064/65 to 2068/69

Amount in '0000'

Years	Receivables	Current Assets	Ratio in %	Change
2064/65	219	436	50.22	-
2065/66	241	479	50.31	0.09
2066/67	422	1227	34.39	-15.92
2067/68	912	1262	72.27	37.88
2068/69	1142	2002	57.04	-15.23
Average (mean)	587.2	1081.2	52.846	

Sources: Appendix-A

From the above computation we are clear that the major part of total current assets is occupied by receivables. The average ratio of receivable is 52.846%. The highest figure of this ratio is observed 72.27% in 2067/68. The increment is very rapid. In 2068/69 again, it is fallen down with fast motion. The volume of receivable shows a gradually increasing nature but the trend of ratio is not so. It is due lack of consistency between the proportion of changes in receivables and current assets. In 1st two years the ratio is constant approximately. In 3rd year it is decreased but in 4th year it is increased with very fast motion.

4.5.3 Efficiency of Working Capital

Efficiency of working capital is measured through the analysis of activities ratio. Activity ratio observes the efficiency of each items involved in total current assets on the basis of sales. In other word, this ratio examines the efficiency of current assets to increase the sales. On the basis of limitations of our study, the following important ratios are analyzed.

1. Inventory turnover ratio
2. Cash & bank balance turnover ratio
3. Receivable turnover ratio
4. Total current assets turnover ratio

5. Net working capital turnover ratio
6. Average collection period

4.5.3.1 Inventory turnover ratio

This ratio examine whether there is over investment in inventory or inadequacy of inventory to run smooth operation. It measures the capacity of management in utilizing its inventory efficiently. Beside this the inventory turnover ratio shows the frequency of the inventory changing into sales.

So this ratio is also measured in ‘Times’

Table No.-4.11

M.M. Plastic Udhyog Pvt. Ltd.

Inventory Turnover Ratio

From 2064/65 to 2068/69

Amount in ‘0000’

Years	Average Inventory	Sales	Ratio in Times	Change
2064/65	79.5	1843	23.18	-
2065/66	57.5	3230	56.17	32.99
2066/67	158.5	3868	24.40	-31.77
2067/68	174.5	4503	25.88	1.48
2068/69	109	7226	64.29	40.41
Average (mean)		4134	39.184	

Sources: Appendix-A & B

The average of turnover shows 39.148 times which is better for the firm. In first year, the ratio is 23.18 times. In 2065/66 it is increased rapidly but in 2066/67 again it has decreased very fast. After a slight increment in 2067/68 again it has taken fast pick-up of increment in 2068/69. So, the fluctuating in ratio is heavy during the study period. The volume of sales is in increasing trend each year but the volume of average inventory is in fluctuating trend.

In spite of a heavy fluctuating in turnover ratio the average figure provides a satisfaction to the firm in inventory turnover.

4.5.3.2 Cash & bank balance turnover ratio

The essential of this ratio is to measure the capacity of cash and bank balance for the improvement of sales. This ratio examines the frequency of cash and bank balance changing into sales.

Table No.-4.12
M.M. Plastic Udhyog Pvt. Ltd.
Cash & Bank Balance Turnover Ratio
From 2064/65 to 2068/69

Amount in '0000'

Years	Cash & Bank Balance	Sales	Ratio in Times	Change
2064/65	40	1843	46.07	-
2065/66	54	3230	59.81	13.74
2066/67	123	3868	31.44	-28.37
2067/68	120	4503	37.44	6.08
2068/69	170	7226	42.50	4.98
Average (mean)	101.4	4134	43.468	

Sources: Appendix-A & B

The average of cash and bank balance turnover ratio throughout the study period is 43.468 times which is good turnover of cash. In first two years the ratio is high and in increasing trend but in 2066/67 it is decreased very fast. From 2067/68 the ratio has caught again increasing trend slowly. So in overall the ratio is seemed well. The fluctuating of this ratio depends upon the frequency of cash and bank balance changing and vice-versa. If the utilization of cash is slow the cash becomes idle and the frequency changing into sales will be low. So from the point of view of business firm it is better to try to increase the frequency of cash turnover ratio as possible.

4.5.3.3 Receivable turnover ratio

Receivable is made when the firm sells its goods and services to customer on credit for a certain period. The time to be given for credit to the customer is dependent upon the credit policy of the firm. However, the receivable turnover ratio reflects the velocity of receivable changing into new sales volume. So, if the collection is past, the receivable turnover ratio is high and the high volume of this ratio is better from the firm's view point. The fastness of receivable turnover ratio impact on the profitability improvement of a firm.

Table No.-4.13

**M.M. Plastic Udhyog Pvt. Ltd.
Cash & Bank Balance Turnover Ratio
From 2064/65 to 2068/69**

Amount in '0000'

Years	Receivables	Sales	Ratio in Times	Change
2064/65	219	1843	8.41	-
2065/66	241	3230	13.40	4.99
2066/67	422	3868	9.16	-4.24
2067/68	912	4503	4.93	-4.23
2068/69	1142	7226	6.32	1.39
Average (mean)	587.2	4134		

Sources: Appendix-A & B

The overall position of receivable turnover ratio shows that the average turnover is 8.44 times during the study period. This ratio is increased only in 2065/66 and 2068/69. In 2065/66 the trend is good but from 2066/67 the ratio is in decreasing trend. In 2068/69 the ratio is increased but the rate of increment is nominal. So the overall trend of this ratio is not so better. The volume of sales is in increasing trend but the receivable turnover ratio is in fluctuating trend. It may be due to the slow collection of receivable from customer or loose credit policy.

4.5.3.4 Total current assets turnover ratio

The current assets are managed for the successful daily operation of the firm. Without current assets the firm cannot operate the daily transactions of business. The main components of current assets are cash, inventory, marketable securities, receivables, short term-loan, prepaid expenses, advance paid etc.

The contribution of current assets on sales is very important because the main objective of current assets management is to update the sales in market according to the demand of consumer. The current assets turnover ratio expresses the relationship between total current assets and total sales. The high rate of this ratio indicates to the well utilization of current assets in the target of sales improvement.

Table No.-4.14

**M.M. Plastic Udhyog Pvt. Ltd.
Current Assets Turnover Ratio
From 2064/65 to 2068/69**

Amount in '0000'

Years	Total Current Assets	Sales	Ratio in Times	Change
2064/65	436	1843	4.23	-
2065/66	479	3230	6.74	2.51
2066/67	1227	3868	3.15	-3.59
2067/68	1262	4503	3.56	0.41
2068/69	2002	7226	3.61	0.05
Average (mean)	1081.2	4134	4.258	

Sources: Appendix-A & B

By observation of above table it is found that current assets and sales both are increasing each year but the ratio is not in a set trend. Some time it is increasing and some time decreasing. The highest turnover is happened in 2065/66 (i.e. 6.74 times) and lowest is in 2067/68 (i.e.3.56 times). From 2066/67 the ratio is decreased. In 2068/69 it is increased but the rate of increment is nominal (i.e.0.05 times).This types of fluctuating in the ratio is due to the lack of proportionate increment in current assets and sales.

4.5.3. 5 Net working capital turnover ratio

Net concept of working capital says clearly that working capital is the excess amount of current assets over amount of liabilities in general. In other word, the difference between current assets and current liabilities is working capital on the basis of net concepts. In case of M.M. Plastic Udhyog Pvt. Ltd , the firm has not considered about the net concept of working capital seriously because by the

general observation of comparative balance sheet, it can easily be said that the volume of total current liabilities is excess than the total current assets each year. So the status of net working capital is negative due to the excess volume of current liabilities. The excess of current liabilities over current assets indicates that the fund procured through short-term creditor is not utilized in current assets completely rather a major part of short term fund is invested in fixed of other concurrent assets.

The net working capital turnover ratio shows the relationship between net working capital and sales. In other word it examines the capacity of net working capital on the basis of sales. The increment of this ratio indicates to the high frequency of net working capital changing into sales.

Table No.-4.15

M.M. Plastic Udhyog Pvt. Ltd.

Net Working Capital Turnover Ratio

From 2064/65 to 2068/69

Amount in '0000'

Years	Total Working Capital	Sales	Ratio in Times	Change
2064/65	-256	1843	-7.199	-
2065/66	-235	3230	-13.74	-6.541
2066/67	-246	3868	-15.72	-1.98
2067/68	-178	4503	-25.29	-9.57
2068/69	-272	7226	-26.57	-1.27
Average (mean)	-237.4	4134		

Sources: Appendix-A & B

The net working capital of M.M. Plastic Udhyog Pvt. Ltd is in negative status each year during the study period which is due to the excess volume of current liabilities than current assets. The negative status each year during the study period which is due to the excess volume of current liabilities than current assets. The negative status of net working capital has impacted on its turnover ratio. Consequently the ratios are also in negative status each year. The trend of negative ratio is not same. The highest negative turnover is in 2068/69 and lowest is in 2064/65.

4.5.3.6 Average collection period

The collection period determined for receivable collection can play major role in working capital management of a business firm. Because a major part of gross working capital has been occupied by receivable, receivable is one of the major sources of liquidity. The collection period is depends upon the credit policy of the firm. If the firm has followed strict credit policy the collection period may be in a set trend and short. On the other hand if the policy is liberal the period may be uncertain and long.

Average collection period presents the average number of days for collecting the cash from debtors. It is calculated by dividing days in a year by receivable turnover ratio. The ACP observes the average collection trend of the business firm and on the other hand it examines the quality of debtors. The shorter the ACP better will be the quality of debtors because it ensures a prompt payment from debtors.

Table No.-4.16

M.M. Plastic Udhyog Pvt. Ltd.

Average Collection Period

From 2064/65 to 2068/69

Amount in '0000'

Years	Days in year	Receivable Turnover Ratio	ACP in Days	Change
2064/65	365	8.41	43	-
2065/66	365	13.40	27	-16
2066/67	365	9.16	40	13
2067/68	365	4.93	74	34
2068/69	365	6.32	57	-17
Average (mean)	365	8.44	48.2	

Sources: Table No. 4.13

The average collection period of M.M. Plastic Udhyog Pvt. Ltd. is in fluctuating trend. There is no any set trend of days in cash collection. The highest ACP is in 2067/68 (i.e.74 days) and lowest is in 2065/66 (i.e.27 days). Observing the overall trend of ACP in M.M. Plastic Udhyog Pvt. Ltd., it doesn't look like better.

4.5.4 Profitability of working capital

Each and every business firm should earn sufficient profit for successful handling its day to day operations and long run survival. The financial manager should continuously evaluate the efficiency of it. It may eager in measuring its operating efficiency. The operating efficiency and its ability to ensure adequate return to its investors ultimately depend upon the profit earned by it. Thus the profitability is a measure of efficiency and an incentive to achieve efficiency. So, the profitability ratio may be helpful to examine the operating efficiency of the firm.

Under this segment of analysis the following ratios related to profitability are analyzed.

1. Return on Inventory
2. Return on Receivable
3. Return on Net Working Capital
4. Return on Current Assets or Gross Working Capital

4.5.4.1 Return on Inventory

This ratio shows the relationship between profit after tax and inventory. This ratio helps to observe how well the inventory is moving and to which extent it is helpful to improve profitability. In other word this ratio examines the contribution of inventory of inventory on profit.

Table No.-4.17

M.M. Plastic Udhyog Pvt. Ltd.

Return on Inventory Ratio

From 2064/65 to 2068/69

Amount in '0000'

Years	Profit After Tax	Inventory	Ratio in%	Change
2064/65	(230)	111	(207.21)	-
2065/66	(209)	4	(5225)	-5017.79
2066/67	(114)	313	(36.42)	-5188.58
2067/68	34	36	94.44	-158.02
2068/69	197	182	108.24	-13.8
Average (mean)	(64.4)	129.2		

Sources: Appendix-A

In the above table 1st, 2nd and 3rd years has negative ratio and only 4th and 5th years has positive. In 2065/66 the negative ratio is very high to the low volume of inventory and negative earning. The main cause of negative ratio from 2064/65 to 2066/67 is negative earnings or losses of each year. In 2066/67 the investment in inventory is high but earning is negative and in 2065/66 inventories is too low and earning is negative. This indicates that too high and too low both volume of inventory is not favorable for business. There should be a proper balance in the volume of inventory. The negative ratios indicate that the firm has not followed scientific techniques to manage inventory.

4.5.4.2 Return on Receivable

This ratio helps to examine the capacity of receivable to contribute on net profit. Receivable can play a major role in the increment of profitability, if it is managed properly. So, this ratio can be helpful to solve the questions like how well the receivable is changing into cash and contributing to net profit?

Table No.-4.18
M.M. Plastic Udhyog Pvt. Ltd.
Return on Receivable Ratio
From 2064/65 to 2068/69

Amount in '0000'				
Years	Profit After Tax	Receivable	Ratio in%	Change
2064/65	(230)	219	(105.02)	-
2065/66	(209)	241	(86.72)	1.83
2066/67	(114)	422	(27.01)	-59.71
2067/68	34	912	3.73	-76.72
2068/69	197	1142	17.25	-13.52
Average (mean)	(64.4)	587.2		

Sources: Appendix-A

Even in this ratio the same status like return on inventory ratio is repeated in 1st three years. It is due to negative earning. But comparatively the position of this ratio is better than return on inventory ratio. In spite of negative status the negativity is decreasing yearly and in 2067/68 it is seemed in positive and the Positive ratio is also in increasing trend. So the increase trend of ratio is also in increasing trend. The increase trend of ratio signifies that the yearly increasing volume of receivable has played a positive role for the increment of this ratio.

4.5.4.3 Return on Net Working Capital

This ratio expresses the relationship between net working capital and net profit after tax. In other word, this ratio examines how the net working is successful to contribute in net profit.

Table No.-4.19

M.M. Plastic Udhyog Pvt. Ltd.

Return on Net Working Capital Ratio

From 2064/65 to 2068/69

Amount in '0000'

Years	Profit After Tax	Net Working Capital	Ratio in%	Change
2064/65	(230)	-256	89.84	-
2065/66	(209)	-235	88.93	0.91
2066/67	(114)	-246	46.34	-42.59
2067/68	34	-178	-19.10	64.44
2068/69	197	-272	-72.42	53.32
Average (mean)	(64.4)	-237.4		

Sources: Appendix-A

The above table has shown that net working capital of 5 study years is in negative status and the net profit of 1st year us also negative. So the ratio of 1st three years are in positive. Through the overall observation of this ratio it can be said that net working capital is in very poor condition and due to this it is not able to contribute in net profit positively.

4.5.4.4 Return on Current Assets or Gross Working capital

It is already stated that current assets is also known as gross working capital on the basis of gross concepts. Current assets are the main sources of day to day operation of business. Without current assets the operating cycle cannot be in motion and without operating cycle no return can be expected. So this proves that there is very deep interrelationship between current assets and profit. This observes the relationship between current assets and net profit after to infinity.

Table No.-4.20

M.M. Plastic Udhyog Pvt. Ltd.

Return on Current Assets Ratio

From 2064/65 to 2068/69

Amount in '0000'

Years	Profit After Tax	Total Current Assets	Ratio in%	Change
2064/65	(230)	436	(52.75)	-
2065/66	(209)	479	(43.63)	91.2
2066/67	(114)	1227	(9.29)	34.34
2067/68	34	1262	2.69	11.98
2068/69	197	2002	8.94	6.25
Average (mean)	(64.4)	1081.2	18.808	

Sources: Appendix-A

The above table no. 4.20 shows the return on current assets ratio on M.M. Plastic Udhyog Pvt. Ltd. In the beginning of study period, there is negative ratio in 2064/65 and 2065/66. These results are due to the negative profit of those years. But due to the decreasing trend of negative profit, the negative ratio is also in decreasing trend in 2064/65, 2065/66 and 2066/67 which is better trend from the firm's view point. In 2067/68 the profit is in positive. From 2067/68 the trend of positive profit and the ratio is in increasing trend. By the overall observation it is concluded that in spite of negative status in ratio for the beginning, it is in improvement continuously during the study period. On the other hand there is a gradual improvement in profit as per the increment of current assets yearly.

4.5.4.5 Operating Ratio

Operating ratio is the ratio of sales and various operating expenses. It is the ratio of income and operating expenses. That is why the lower ratio is better for the firm's view point. Operating ratio is a yardstick of operating efficiency. It indicates the average aggregate variation in expenses.

Table No.-4.21

M.M. Plastic Udhyog Pvt. Ltd.

Operating Ratio

From 2064/65 to 2068/69

Amount in '0000'

Years	Operating Expenses	Sales	Ratio in%	Change
2064/65	23	1843	1.24	-
2065/66	60	3230	1.86	0.62
2066/67	130	3868	3.36	1.5
2067/68	110	4503	2.44	-0.92
2068/69	202	7226	2.79	0.35
Average (mean)	105	4134	2.338	

Sources: Appendix-B & D

According to the above computed operating ratio the firm has an average of 2.338% during the study period. In first year of the study period the ratio is lower than other 4 years. From 2nd year it is in increasing trend up to 2066/67. In 2067/68 it is slightly decreased. But the ratio after decreasing is not lower than the ratio of base year in 2068/69. The ratio is again increased.

4.5.5 Payable management of working capital

Payable management of working capital indicates the replaying capacity of its trade creditors within an accounting period. In this part of analysis, the following essential ratios are analyzed.

1. Short term loan to total current liabilities
2. Total creditors to total current liabilities
3. Average payment period

4.5.5.1 Short term loan to total current liabilities

This ratio observes the relationship between current liabilities and short term loan. It expresses the position of short-term loan in total current liabilities. Higher the ratio indicates that the short term loan has occupied major part of total current liabilities. Too much high figure of this ratio is not favorable from the company's point of view.

Table No.-4.22

M.M. Plastic Udhyog Pvt. Ltd.

Short term Loan to Current Liabilities

From 2064/65 to 2068/69

Amount in '0000'

Years	Short Term Loan	Current Liabilities	Ratio in%	Change
2064/65	247	693	50.07	-
2065/66	337	715	47.13	-2.94
2066/67	1126	1473	76.44	29.31
2067/68	1192	1440	82.77	6.33
2068/69	1763	2275	77.49	-5.28
Average (mean)	953	1319.2	66.78	

Sources: Appendix- A

Observing the above computation it is found that the short term loan has occupied major part of total current liabilities. The increasing trend of ratio signifies that the increment of short term loan is very high than repayment. In 2068/69 it is slightly decreased. In 2064/65 the ratio is 50.07% whereas after three years (i.e. in 2067/68) it is 82.77% which is extremely high. From 2067/68 to 2068/69 it is seemed that the firm is mostly depended upon short term loan.

4.5.5.2 Total creditors to total current liabilities

This ratio shows the relationship between total creditors and total current liabilities. In other word this ratio examines how the firm is able to repay its creditors. This checks the efficiency of creditor's payment of the firm.

Table No.-4.23

M.M. Plastic Udhyog Pvt. Ltd.
Total Creditors to Current Liabilities
From 2064/65 to 2068/69

Amount in '0000'

Years	Total Creditors	Current Liabilities	Ratio in%	Change
2064/65	295	693	42.56	-
2065/66	266	715	37.20	-5.36
2066/67	174	1473	11.81	-25.39
2067/68	100	1440	9.94	-4.87
2068/69	262	2275	11.51	4.57
Average (mean)	219.4	1319.2	22.004	

Sources: Appendix- A

Creditors are a kind of spontaneous sources of financing. Due to the cost of free nature of this source, it is more attractive sources of financing for any business firm. But in the case of M.M. Plastic Udhyog Pvt. Ltd. the gradually decreasing trend of ratio indicates that financing through the creditors is decreasing yearly. In 2064/65 the ratio is 42.56% but in 2068/69 it is increased slightly. The maximum speed of decrement is from 2065/66 to 2067/68.

4.5.5.3 Average payment period (APP)

Most of the business organizations don't purchase their all required entire raw materials in cash. Some of them may purchase on credit. This credit purchase is generally shown in balance sheet as trade creditors or sundry creditors. Firm's capacity for paying this sort of amount also gives information regarding liquidity position of the firm. The days taken by firm for settlement of credit purchase is generally called average payment period is computed by applying

different technique due to the application of various credit terms and credit standards. For out cases the following formula is applied for APP computation.

$$\text{APP} = \frac{\text{Creditors} \times \text{Days in years}}{\text{Sales}}$$

Table No.-4.24
M.M. Plastic Udhyog Pvt. Ltd.
Average Payment Period
From 2064/65 to 2068/69

Years	Total Creditors	Sales	Amount in '0000'	
			Days in year	APP in Days
2064/65	295	1843	365	58
2065/66	266	3230	365	30
2066/67	174	3868	365	16
2067/68	100	4503	365	8
2068/69	262	7226	365	13
Average (mean)	219.4	4134	365	

Sources: Appendix- A

From the firm's view point the short APP is not favorable because short APP means high frequency of payments. In 2064/65 the APP is high but it is gradually being shorter yearly.

The average payment of firm is seemed very fast. That is why the volume of creditors is decreasing yearly. In 2068/69 the APP is slightly increased. The very long period of average payment is also not favorable from the firm's view point because it creates a problem in the trust between suppliers and firm. There should be a balance among liquidity, average payment period and the trust of supplier.

4.5.6 Liquidity management of working capital

Liquidity is the capacity of a firm to meet its short term obligation. It is an ability of assets to be converted into cash without losing any value. Analysis of liquidity can be performed differently. Preparation of cash flow and funds flow

statements, computation of current and quick ratio etc. helps to find out the liquidity position of the firm. Among them liquidity ratio provide a quick measure of liquidity by establishing a relationship between cash and other current assets to current liabilities. In this part of analysis the liquidity position of the firm has been examined by the help of liquidity ratio. In liquidity ratio, mainly two ratios are calculated.

1. Current Ratio
2. Quick Ratio

4.5.6.1 Current Ratio

Current ratio is computed to show the relationship between current assets and current liabilities. It is one of the most general and frequently used measures of liquidity. It plays the firm's ability to cover its current liabilities with its available current assets. Conventionally current ratio of 2:1 is considered to be an optional. In other words Rs 2 of current assets should be available for each rupee of current liability.

Table No.-4.25
M.M. Plastic Udhyog Pvt. Ltd.
Current Ratio
From 2064/65 to 2068/69

Amount in '0000'

Years	Total Current Assets	Current Liabilities	Ratio	Change
2064/65	436	693	0.63:1	-
2065/66	479	715	0.67:1	0.04:1
2066/67	1227	1473	0.83:1	0.16:1
2067/68	1262	1440	0.87:1	0.04:1
2068/69	2002	2275	0.88:1	0.01:1
Average (mean)	1081.2	1319.2	0.78:1	

Sources: Appendix- A

The above computation of current ratio shows that the available current assets of M.M. Plastic Udhyog Pvt. Ltd. are not able to cover the available current liability. The current liability is excess than current assets that's why the ratio comes below 1 but the increasing trend of ratio indicates that there is a

continuous improvement in liquidity position. However the position of liquidity during the study period is not satisfactory.

4.5.6.2 Quick Ratio

Current ratio is a crude measure of liquidity. It is not a qualitative but quantitative index of liquidity. Thus the current ratio may not be a conclusive index of real liquidity position. Quick ratio serves as a supplement of current ratio in analyzing liquidity. It is defined as the ratio between quick current assets and current liabilities. In our analysis quick current assets includes all the items of current assets excluding inventory and prepaid expenses. Thus this ratio is a more rigorous and penetrating measure of the liquidity position of a firm. Conventionally 1:1 is considered as standard while interpreting the ratio. In other word, quick current assets and total current liabilities should be equal for optimum liquidity position.

Table No.-4.26
M.M. Plastic Udhyog Pvt. Ltd.
Quick Ratio
From 2064/65 to 2068/69

Amount in '0000'

Years	Quick Current Assets	Current Liabilities	Ratio	Change
2064/65	325	693	0.47:1	-
2065/66	474	715	0.66:1	0.19:1
2066/67	872	1473	0.59:1	-0.07:1
2067/68	1219	1440	0.84:1	0.25:1
2068/69	1820	2275	0.80:1	-0.04:1
Average (mean)	942	1319.2	0.68:1	

Sources: Appendix- A

On the basis of quick ratio the liquidity position of the firm is not better because the ratio has not met the standard of quick ratio. In 2064/65 the ratio is increased but in 2066/67 it is again decreased. In 2067/68 the ratio has reached near to 1 but in 2068/69 again it has fallen down. By observing the overall trend of 5 years it can be said that the liquidity position is in the way of improvement.

Trend Analysis

Under this topic, various data related to working capital have been analyzed in terms of trend percentage taking fiscal year 2064/65 as base year. In the course of analysis pairs of relative variables have been made and presented in graph. The pair of relative variables is presented below.

1. Total current assets and total current liabilities
2. Gross working capital & Net working capital
3. Cash and bank balance & Inventory
4. Sundry debtors & Sundry creditors
5. Inventory & Sales
6. Receivables & Sales

Computation of trend percentages assuming the fiscal year 2064/65 as the base year.

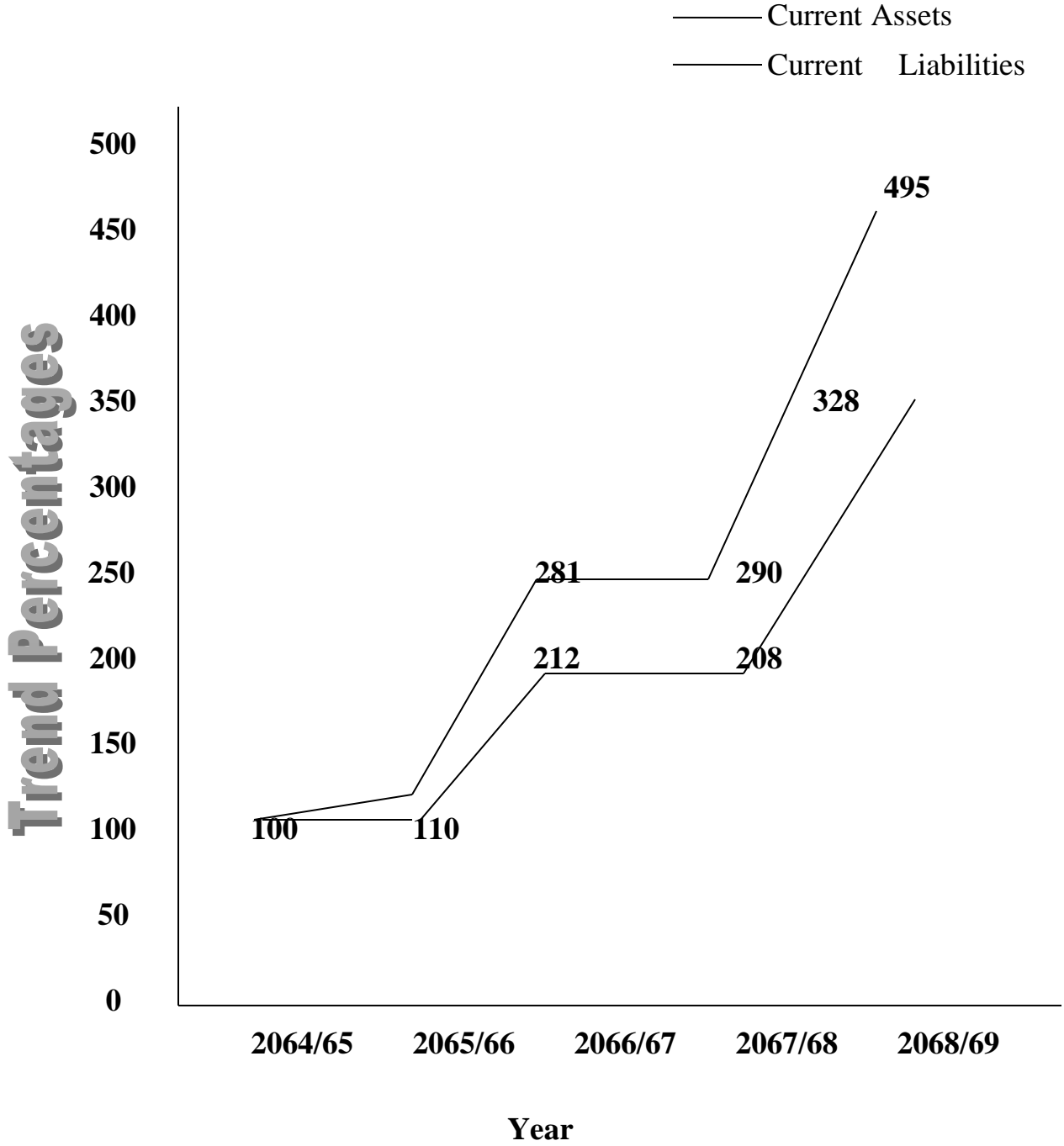
Table No.-4.27
M.M. Plastic Udhyog Pvt. Ltd.
Computation of Trend Percentages

Amount in '0000'

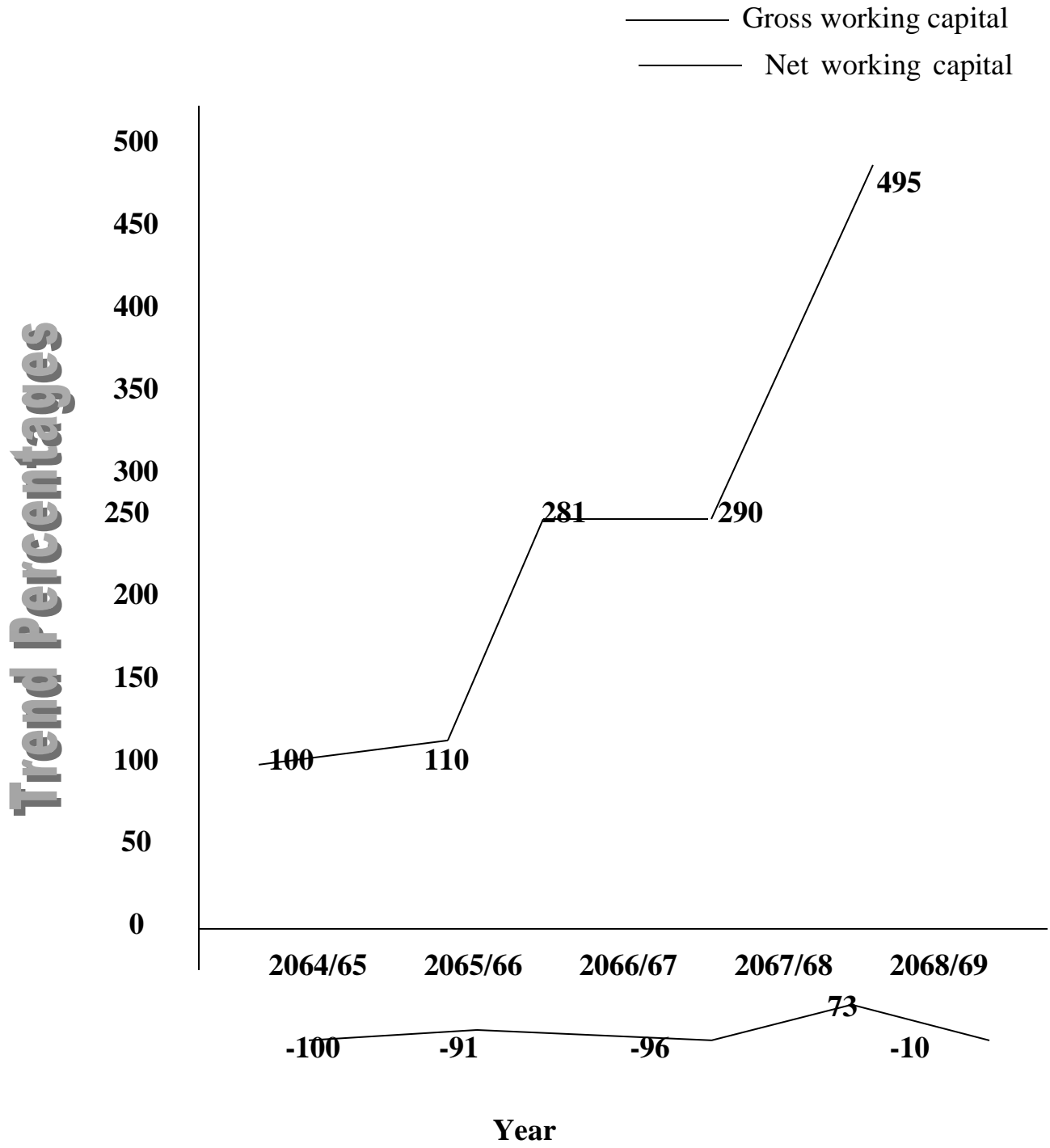
Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
Current Assets	436	479	1227	1262	2002
Trend %	100	110	281	290	495
Current Liabilities	693	715	1473	1440	2275
Trend %	100	103	212	208	328
Gross Working Capital	436	479	1227	1262	2002
Trend %	100	110	281	290	495
Net Working Capital	-256	-235	-246	-187	-272
Trend %	-100	-91	-96	-73	-106
Cash & Bank Balance	40	54	123	120	170
Trend %	100	135	307	300	425
Inventory	111	4	313	36	182
Trend %	100	3	281	32	164
Sundry Debtors	219	241	422	912	1142
Trend %	100	110	192	416	521
Sundry Creditors	259	266	174	100	262
Trend %	100	103	67	39	101
Sales	1843	3230	3868	4503	7226
Trend %	100	175	209	244	415

Sources: Appendix-A & B

Graph No.-1
Current Assets & Current Liabilities

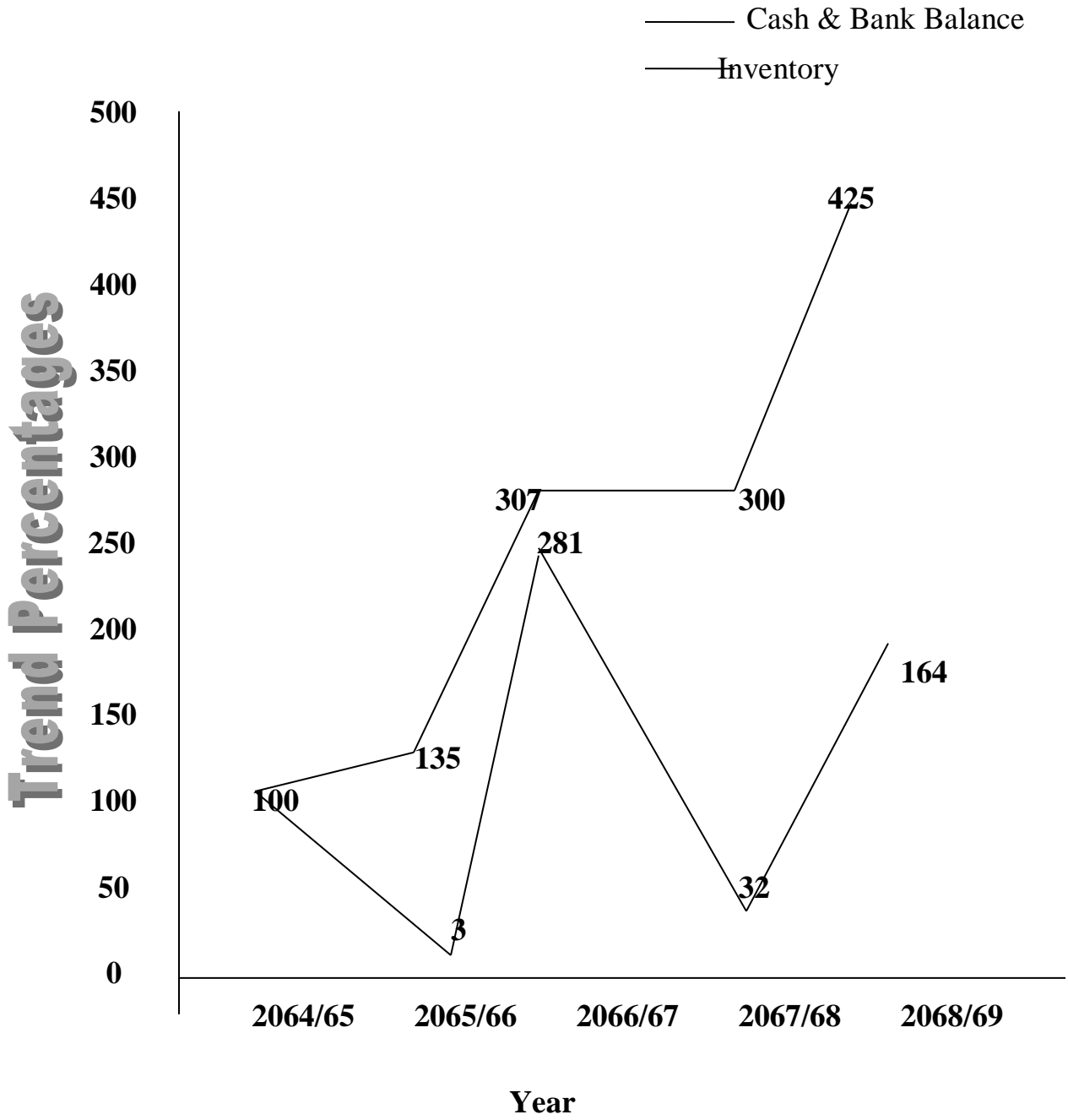


Graph No.-2
Gross Working Capital & Net Working Capital

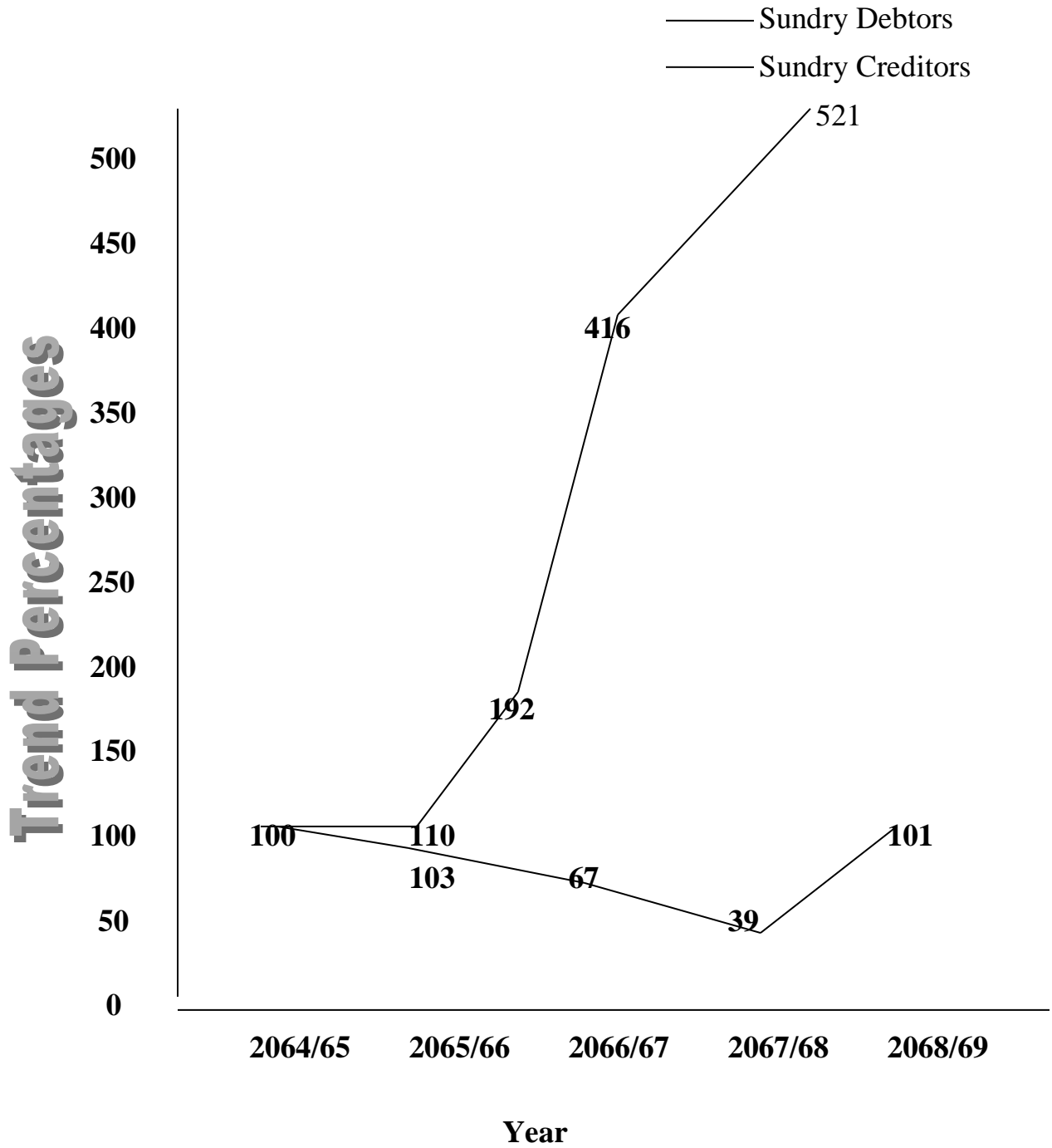


Graph No.-3

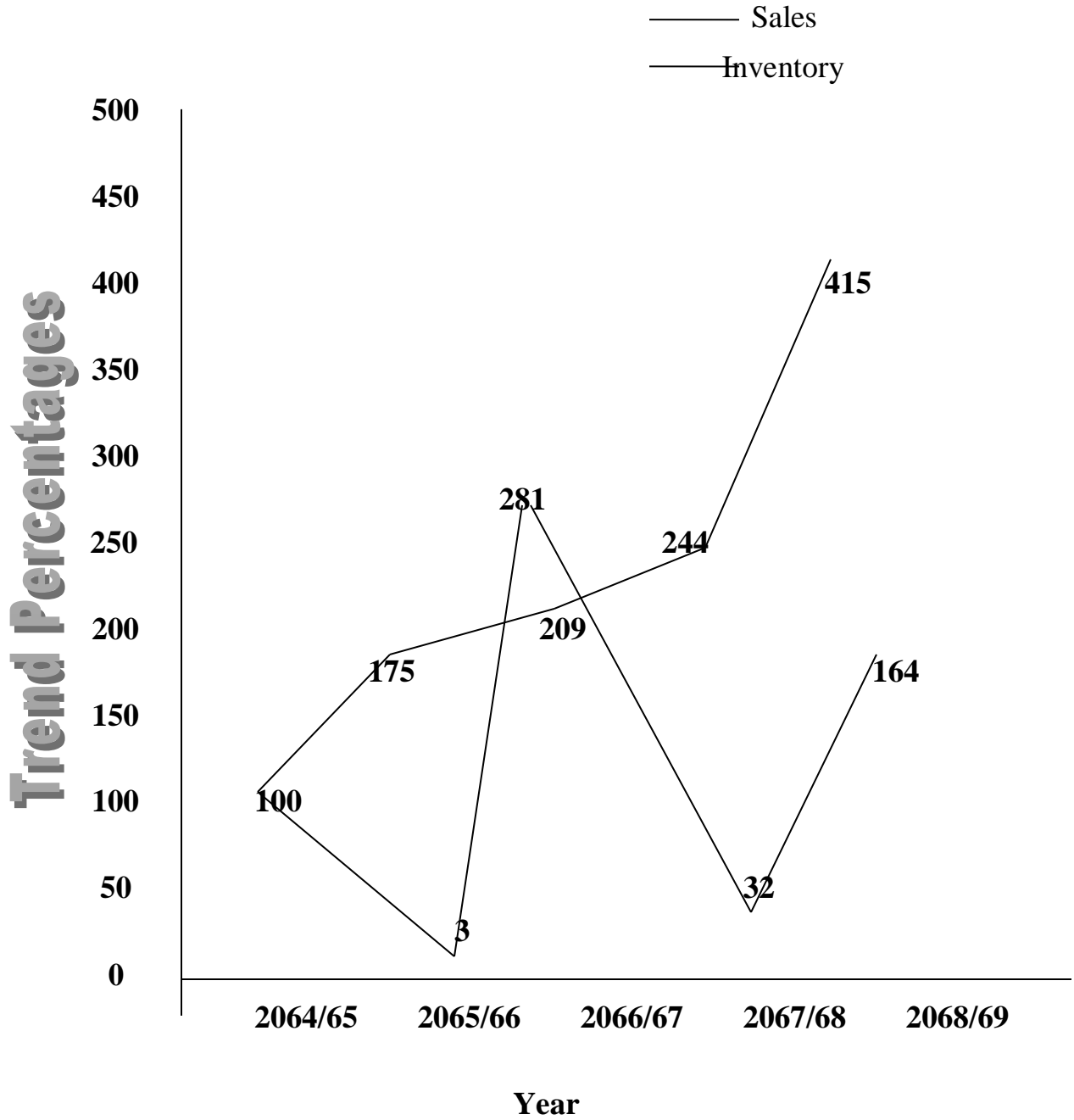
Cash & Bank Balance and Inventory



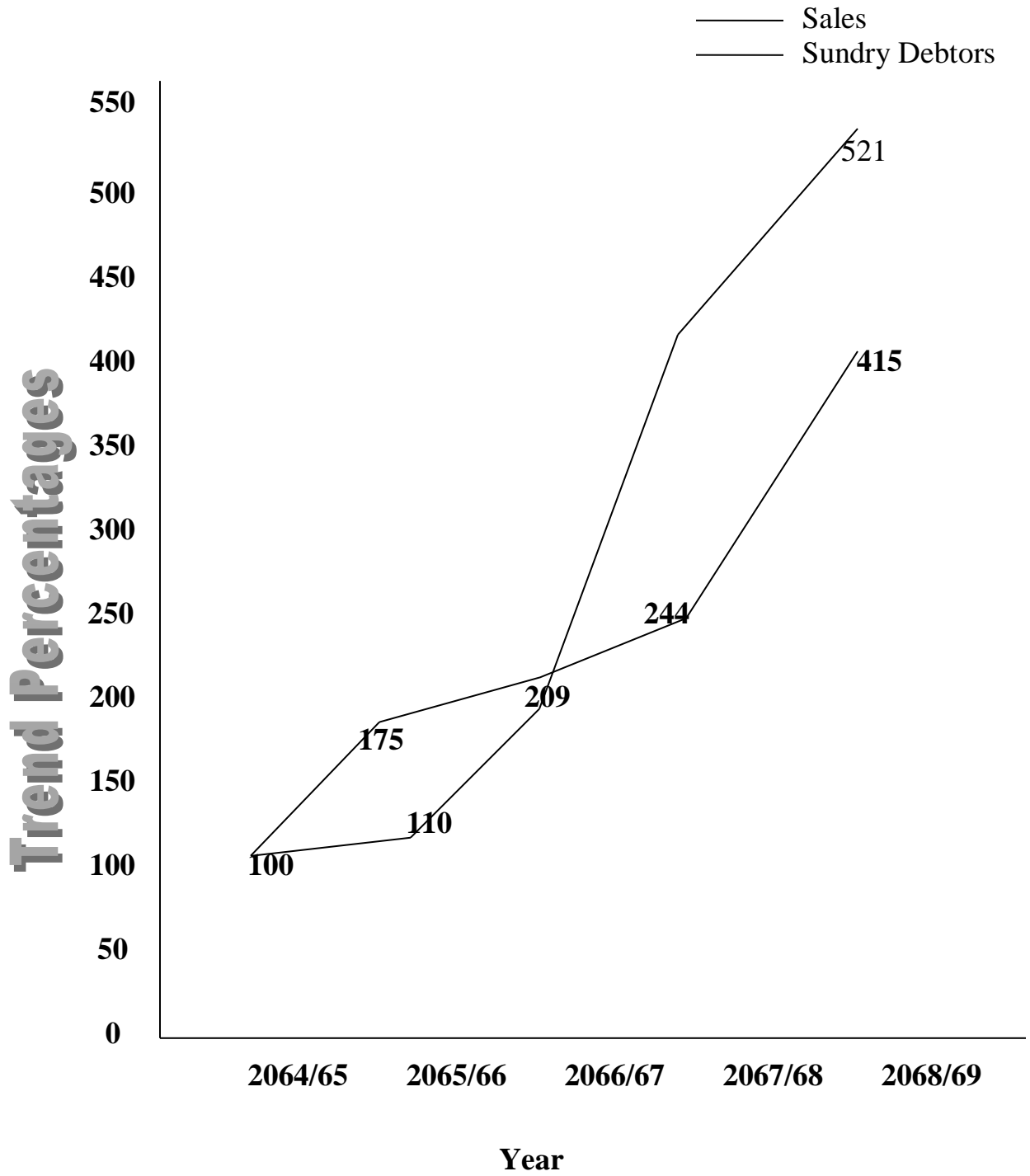
Graph No.-4
Sundry Debtors & Sundry Creditors



Graph No.-5
Inventory & Sales



Graph No.-6
Sundry Debtors & Sales



CHAPTER-V

5. SUMMARY, CONCLUSIONS & RECOMMENDATIONS

5.1 Summary

Industrialization is considered as prerequisite factors for overall economic development of a developing country like Nepal. In Nepal, after the period of Rana regime various efforts were made for the development of industries.

Various types of industries can operate and co-ordinate various type of activities like marketing, finance, production and so on. Among those finance activities are the most important factor and requirement. Finance is concerned with the task of raising funds and allocating them to various assets which provide the capability for production and other activities of enterprises. In this regard, financial management is undoubtedly occupying dominant role. Financial management is concerned with the acquisition, financing and management of assets with some overall goal in mind.

Working capital management is very closely related part of financial management. It is assumed as the life blood of a business. It is essential to an industry to meet its short term obligation, to pay out current operating expenses and to make full utilization of long term assets in which large investment is made.

The study of working capital management in private firm is very important to determine the adequacy of investment in current assets for selecting the types of current assets, to ascertain the turnover of current assets and to find out the appropriate sources of funds.

Working capital can be classified by two major way (i) On the basis of concept and (ii) On the basis of time. On the basis of concepts, it is classified into net concept and gross concepts. Gross concepts refer to the whole investment of funds in current assets as working capital. This concept ignores the current liability but net concepts of working capital refer to the excess amount of current assets over current liabilities. On the basis of time working capital can be classified into fixed or permanent working capital and variable and temporary working capital.

There are mainly three types of approaches for appropriate financial mix. If the firm attempts to match assets and liabilities in appropriate maturities then the working capital financing policy is known as hedging approach. In this approach short term requirements are covered by short term financing. In conservative approach all the requirements of both long term and short term financing are covered by long term fund. In aggressive approach the firm finances a part of its permanent current assets with short term financing.

The basic objectives of this study are to examine the working capital structure of M.M. Plastic Udhyog Pvt. Ltd., Biratnagar analyzing the financial data of 5 years (i.e. 2064/65 to 2068/69 B.S.).

This study is divided into 5 important chapters. First chapter highlights the basic objectives, limitation, focus of the study and statement of problem, needs of the study, and assumption of the study. In 2nd chapter various literature relating with working capital and its management are reviewed. In this chapter different aspects of working are described from different angle. In 3rd chapter a wide designed methodology for research is formulated. In 4th chapter the task of analysis is performed applying various financial and tactical tools as per requirements. In the course of analysis mainly ratio analysis is done. Beside this trend analysis is performed at last. In 5th chapter the summary of the study and different conclusions are made with an essential recommendation.

5.2 Conclusion

On the basis of presentation and analysis of data of M.M. Plastic Udhyog Pvt. Ltd. some major conclusions are picked out by the investigators. They are mentioned below:

- a) The position of current assets shows that debtors, advance and inventory have occupied the major part of total current assets (i.e.52.87%, 21.38% and 12.82% respectively).
- b) There is very heavy fluctuation in inventory of the five year (25.55%, 0.95%, 25.57%, 2.93% & 9.12%) respectively.
- c) Short term loan has occupied 66.57% share of total current liabilities which is burden to the company.
- d) The percentage of current liabilities on total liabilities shows that the current liabilities are in decreasing trend, which indicates to the firm's efforts in overcoming the current liabilities.
- e) Creditors are in decreasing way yearly which shows the firm's strength of liquid assets in purchasing materials.
- f) The position of net working capital is negative due to the excess of current liabilities over current assets.
- g) Total current assets to fixed assets ratio shows that the firm has trend to emphasize in current assets investment rather than fixed assets.
- h) The position of inventory on total current assets is not so good is 12.784% in average, which indicates that average of inventory is lower and not in satisfactory level.
- i) The position of cash and bank balance on current assets is 9.692% in average, which is not remarkable from the view of liquidity which signifies that the proportion of cash is not changed as the proportion of current assets are changed.
- j) The turnover of receivable is 52.864% in average, which shows a gradually increasing nature but there is lack of consistency between the proportion of changes in receivables and current assets.
- k) Average collection period of M.M. Plastic Udhyog Pvt. Ltd. is 48.2 days, which are in fluctuating trend.
- l) Since the company had to suffer heavy losses in the 1st three years, the profitability ratios are not looking better from the firm's liquidity view points.

- m) Financing over current assets of the firm depend mainly upon the short term loan. Spontaneous sources of financing short term loan like creditors are used in very lower figure.
- n) The liquidity position of the firm on the basis of current & quick ratio is 0.78:1 & 0.68:1 which are not of standard level.
- o) The trend analysis of the company over the five years data shows increasing trend having better future perspective.

5.3 Recommendations

On the basis of previously drawn conclusions some recommendations have been made by investigator for suggestions.

- a) The inventory management system should be kept optimal for minimizing the fluctuation in inventory.
- b) It will be better to treat the working capital on the basis of net concept for the liquidity viewpoint, so that the problem of negative working capital can be overcome.
- c) Average collection period should be reduced. It can be done by giving the cash discount to the debtors.
- d) The high operating expenses are adversely affecting the profitability. They should be minimized by reducing the expenses on several items like refreshment, travelling and turnover expenses and others.
- e) The negative net working capital indicates that the firm has not been successful to utilize the short term fund completely in current assets rather a major portion of short term loan is utilized on fixed assets. So, the firm should change its financing policy to maintain the positive net working capital.
- f) Training and development should be given to obtain the maximum output.
- g) Extrinsic as well as intrinsic motivation should be provided to reduce the labor turnover.
- h) Products should be marketised through advertising means to increase the sales volume.
- i) Customers, society and environmental interest should be taken into consideration for the long term survival of the company.
- j) Total current assets and quick current assets should be increased for improving the liquidity position of the company.
- k) The long term sources of financing should be increased in order reduce the dependency on short term loan.

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Appendix-A

A comparative Balance Sheet of M.M. Plastic Udhyog Pvt. Ltd.

From 2064/65 to 2068/69

Unpublished

Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
Capital & Liabilities					
1. Authorized Capital	20000000	80000000	80000000	80000000	80000000
2. Issued Capital	10000000	10000000	10000000	10000000	20000000
3. Paid Capital	3948500	3948500	9090000	9090000	10000000
4. Current Liabilities					
i. Welfare Fund	62389	124551	215585	215585	298005
ii. Provident Fund	327338	433421	608918	823438	807825
iii. Bonus Provision	-	78492	195428	156236	248892
iv. Income Tax Provision	18206	141286	156304	6028	94433
v. Short-term Loan	3474027	3374212	11260889	11924192	17634500
vi. Creditors	2956749	2669438	1748794	1001515	2627580
vii. Accrued Expenses	94625	331526	179896	277727	1040431
viii. Miscellaneous	-	-	369360	-	4531
Total Current Liabilities	6933334	7152926	14735174	14404721	22756197
5. Long Term Fund	5475000	3800000	3500000	15000000	8000000
6. Loans from Shareholders	1759726	2440872	248311	5562708	6222703
Net Profit	-	-	-	344635	1978533
Total Liabilities	18116560	17342298	27573485	30902062	48957432

Contd.

Unpublished

Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
Assets & Properties					
1.Current Assets					
i.Deposit	112665	117012	180311	145711	120011
ii.Advance	533428	1669580	3097238	1701032	4239366
iii.Debtors	2195544	2416450	4221453	9129533	11421472
iv.Cash and Bank Balance	408924	546858	1230634	1202004	1705247
v.Inventory	1115553	45287	3138596	368801	1826336
vi.Prepaid expenses	-	-	404798	-	-
vii.Share Investment	-	-	-	15000	715000
viii.Miscellaneous Current Assets	-	-	-	64567	-
Total Current Assets	4366114	4795187	12273030	12626648	20027432
2.Fixed Assets					
i.Loan	433524	433524	433524	433524	433524
ii.Machinery	6512546	5837202	9657555	13671341	20941815
iii.Building	3467004	3241649	2883641	2635371	5051584
iv.Furniture	34747	34798	79409	79036	165573
v.Vehicle	371808	297440	377420	140187	186733
vi.Office Equipment	92728	74180	223539	212278	346571
Total fixed Assets	10912357	9918793	13654888	17171737	27125800
3.Other Assets	534260	532390	869045	1103679	1804200
4.Net Loss	2303829	2095928	1149626	-	-
Total Assets	18116560	17342298	27573485	30902062	48957432

Sources: Annual Report of M.M. Plastic Udhog (Pvt.) Ltd.

Appendix-B

A comparative Trading A/C of M.M. Plastic Udhyog Pvt. Ltd.

From 2064/65 to 2068/69

Unpublished

Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
1.Sales Revenue	18439106	32303461	38688909	45037143	72263955
2.Add-Closing Stock	1115553	45287	3138591	368801	1826336
3.Add-Miscell. Income	350000	4300	-	84565	21517
4.Total	19904659	32353049	41827500	45490509	74111808
5.Less-Opening Stock	484891	1115533	45287	3158591	368801
6.Total Revenue (a)	19414768	31237496	41782213	42351918	73743007
7.Expenditure Details					
8.Purchase	16360013	23138541	28742385	30579519	54256691
9.Assistant Materials	54893	169750	910117	219188	641546
10.Wages & Allowances	493704	750088	154550	1360773	2231546
11.Packaging Exp.	5800	44180	362378	348330	583972
12.Fuel	2780	26773	242999	212144	288104
13.Water Supply Electricity	1385967	2371821	2467107	3117500	4457544
14.Transportation	-	-	-	-	-
15.Insurance	12299	64548	-	-	-
16.Machine Repair & Maintenance	415	59434	357331	259818	319403
17.Depreciation	817897	1474241	-	-	-
18.Production Materials	-	-	15860	1488	20231
19.Total expenditure (b)	19133758	28099376	34643727	36098960	62799097
20.Gross Profit (a-b)	281008	3138120	7138486	6552958	10943910

Sources: Annual Report of M.M. Plastic Udhyog (Pvt.) Ltd.

Appendix-C

A comparative Profit & Loss of M.M. Plastic Udhyog Pvt. Ltd.

From 2064/65 to 2068/69

Unpublished

Particulars	2064/65	2065/66	2066/67	2067/68	2068/69
Gross Profit	281008	3138120	7138486	6552958	10943910
Total Administrative Exp.	2063052	2247754	3697847	3451654	5159160
Depreciation	270582	325211	2329029	1976344	4002715
Total Expenditure	19133758	28099376	34643727	36098960	62799097
Net Profit (Loss) before tax	(2052626)	565155	1111605	1124910	17922035

Sources: Annual Report of M.M. Plastic Udhyog (Pvt.) Ltd.

Appendix-D
A comparative Operating Expenses Details of M.M. Plastic Udhog
Pvt. Ltd.

From 2064/65 to 2068/69

Particulars	Unpublished				
	2064/65	2065/66	2066/67	2067/68	2068/69
1.Repair & Maintenance	370	7929	105967	25364	32427
2.Labor Turnover	25000	58585	117686	30759	143464
3.Refreshment	-	-	40635	4315	447346
4.Fuel	1371	14686	84958	52915	71912
5.Stationary	851	7192	30588	14562	32499
6.Salary	170544	276446	533806	568676	923044
7.Travelling	-	60101	69230	16090	26770
8.Communication	31027	113241	111590	176969	247139
9.Tax	1373	3645	18108	6687	9353
10.Advertisement	959	3468	19750	41448	34615
11.Bank Commission	5459	7761	17864	18021	18751
12.Audit Fees	3000	3000	4000	4000	8000
13.Executive Allowance	-	36000	36000	36000	72000
14.Consultant's Fees	-	10000	-	-	-
15.Insurace	-	-	96729	103836	144389
16.Training & Development	-	-	10025	200	16500
17.Transportation	-	-	2557	270	2987
18.Membership Charge	-	-	2000	4000	3000
19.Security	-	-	-	-	90000
20.Meeting Allowance	-	-	-	-	2000
Total	239954	602054	1301493	1104112	2326196

Sources: Annual Report of M.M. Plastic Udhog (Pvt.) Ltd.