

CHAPTER - I

INTRODUCTION

1.1. General Background

The cash management plays an important role in overall management of business organization. All business works begin sufficient cash to do business. Cash as a means and ends of business operations must be held in optimum amount. Cash is a very rare resource. Managing it effectively has become a key to the profitability of each company and for some company it may even be a question of their ultimate survival. "These are the functions of cash management, managing collection and transferring funds, concentration banking, lock-box system and other procedures, control of cash disbursements, zero balance account, electronic fund transfer, balancing cash and marketable securities, compensating balance and fees, model for determining optimal cash, inventory model and stochastic model". (Van Horne, 2002: 315-389)

"Cash management is one of the key areas of working capital management. Apart from this fact, the most liquid current assets, cash is the common denominated to which all current assets can be reduced because the major liquid assets i.e. receivable and inventory get eventually converted in the cash." (Khan & Jain, 2003: 644- 700)

"Cash is the basic input needed to keep the business running on continuous basis that so the cash should be managed efficiently in order to keep sufficient liquid in a firm. The firm should held sufficient cash neither more nor cash shortage will dispute the firms operation, while excessive cash will simply remain idle, without contributing anything towards the firm's profitability. Thus, a major function of the financial manager is to maintain a sound cash position." (Pandey, 1997: 837-841)

Cash flow management is the process of monitoring, analyzing, and adjusting business' cash flows. For businesses, the most important aspect of cash flow management is avoiding cash shortages caused a gap between cash inflows and outflows. Business won't be able to stay in market if it can't pay its bills for any extended length of time.

Therefore, business need to perform a cash flow analysis on a regular interval and use cash flow forecasting so they can take the steps necessary to head off cash flow problems. Many software accounting programs have built-in reporting features that make cash flow analysis easy. One of the most useful strategies used on small businesses is to shorten its cash flow conversion period so that business can bring in money faster.

Planning and controlling are the primary function of business. Businesses cannot success or live a minute in competitive global environment without cash. In most cases, revenue planning is not only important but also difficult to prepare. Revenue plan provides basis for management decision about marketing and for developing a comprehensive sales plan.

The cash balance of the firm is influenced by credit position of the firm, status of firm's receivable, availability of short-term credit etc. Management should make every effort to speed up cash inflow and delay cash outflow. The cash management of corporation is significant enough to have the best use of idle cash balances, and to take advantage from the opportunity interest in cash velocity determined by sales volume and turnover of assets. So, corporate manager must be familiar with the cash cycle to undertake measure for improvement of collection and disbursement.

1.2 History of NT

In Nepal, operating any form of telecommunication service dates back to 97 years in B.S. 1970. But formally telecom service was provided mainly after the establishment of MOHAN AKASHWANI in BS. 2005. Later as per the plan formulated in First National Five year plan (2012-2017); Telecommunication Department was established in BS.2016. To modernize the telecommunications services and to expand the services, during third five-year plan (2023-2028), Telecommunication Department was converted into Telecommunications Development Board in BS. 2026. After the enactment of Communications Corporation Act 2028, it was formally established as fully owned Government Corporation called Nepal Telecommunications Corporation in BS 2032 for the purpose of providing telecommunications services to Nepalese People. After serving the nation for 29 years with great pride and a sense of accomplishment, Nepal Telecommunication Corporation was transformed into Nepal Doorsanchar Company

Limited from Baisakh 1, 2061. Nepal Doorsanchar Company Limited is a company registered under the Companies Act 2053. However the company is known to the general public by the name of Nepal Telecom as registered trademark. (www.ntc.net.np/utilities/nt_brief.php)

1.3 Present Scenario of NT

Nepal Telecommunications corporation (NTC), renamed Nepal Telecom (NT) is a public sector entity owned almost (85% of share capital) by government and 10% by general public and 5% by employee, administered by a government appointed Board of Directors, with a chairman and six voting members which includes Managing Director of the company and Employees' Representative. The company is an inevitably accountable autonomous and organized institution.

The existing ICT (Information and Communication Technology) scenario in the country clearly shows that the Nepalese telecom market is poised for significant growth. In Nepal Telecom, we pride ourselves on the timely forecast of the scale of business opportunities few years back and subsequently embarking upon the vision of having big-sized telecom infrastructure projects catering both urban and rural markets. The result was investment decisions amounting to more than Rs1500 crores in the past four years resulting cumulative total investment of Rs 5000 crores in the year ending Ashad 2068. (Annual Report, 2008: 1)

NT's management has come to believe strongly that growth in telecom infrastructure will greatly contribute in the economic progress of the country. Hence, with a new vigor and with "value-driven" broader corporate purpose, the NT has decided to play an important role in the nation building endeavor by rapidly deploying all kinds of telecom services throughout the country, including remotest villages.

Until the year 2002/03, more than 50% of VDCs did not have any kind of telecom services; tele-density was just 2% with huge gap between supply and demand of telecom services in urban as well as rural areas. By the end of the year 2006/07, Nepal Telecom had 6200,000 PSTN subscribers, 10000,000 mobile subscribers, 311,000 CDMA subscribers and 40,000 Internet subscribers.

Consequently, Nepal Telecom alone succeeded to increase total tele-density to the present ratio of 7.8%. Similarly, in the same period, VDCs with telecom service increased from 1900 to 2850. Presently, out of total 75 districts, 71 districts are being served with CDMA system and 55 districts with GSM mobile. This means 71 districts and about 2007 VDCs have connectivity for both voice and Internet access, which is sure to bring revolutionary changes in the socio-economic life-style in those remote villages.

On urban front, Nepal Telecom is equally aware of ever-increasing demand for latest technologies and newer services, and accordingly Nepal Telecom has initiated steps to go along with fast-paced technological development in the rest of the world. As per this strategy, Nepal Telecom introduced 3G Mobile (WCDMA) in the first quarter of the year 2007, which made Nepal the first country in South Asia to introduce 3G mobile (WCDMA) service.

Similarly, broadband service, triple play service, and host of other value-added services are in the offing in near future. The operating revenue of the company increased from about Rs 720 crores in the fiscal year 2002/03 to Rs 1300 crores in the fiscal year 2006/07. Financial and economic sustainability of the company could be easily judged as “comfortable” due to the fact that net profit available for appropriation has increased from Rs 300 crores in the fiscal year 2002/03 to about Rs 600 crores in the year 2006/07.

"To achieve our sustained business growth we all must realize that the coming 3 years are extremely crucial and of great significance in shaping up our organization's future through "Mission 2010". The ultimate goal of "Mission 2010" is to achieve the set target of our 3 year development program (additional new 3.5 million GSM, attain 2 million CDMA, expansion of PSTN and value added services) we have undertaken in all sectors of services". (Annual Report 2010: 1)

The study mostly deals with the cash management of Nepal Telecom. Also the study briefly takes over the account of various methodologies of the implementation, current technologies used in the telecommunication and its future policy. The study also depicts the future of telecommunication in Nepal.

Nepal telecom is one of the most prominent public enterprises that is earning relatively good profit and paying highest taxes to government exchequer. The main purpose of establishment of company in Nepal was to strengthen the administrative efficiency of the government. Nepal Telecom, even with its present status of being a public sector enterprise, has the ambition of becoming a dominant player in the telecommunication sector, giving an affordable and the cheapest possible services to all regions including the remotest areas of nation retaining its present financial health even in the coming competitive environment. "The national goal of Nepal Telecom is to provide affordable telecommunication services to all nooks and corners of the nation. It was later expanded to serve the needs of development of various sectors as expansion of foreign trade tourism development and international integration". (Annual Report, 2002: 5-8)

Nepal Telecom has always put its endeavors in providing its valued customers a quality service since its inception. To achieve this goal, technologies best meeting the interest of its customers has always been selected. The nationwide reach of the organization, from urban areas to the economically non- viable most remote locations, is the result of all these efforts that makes this organization different from others.

As per the framework of the currently running 11th Plan, NT plans to increase its basic telephony penetration by around 4% and to provide broadband services in the form of High Speed Internet (HSI). The first 3 years of the 11th Plan covers the implementation of Next Generation Network (NGN) to expand around 500K voice and 125K DSL lines and deploy various access nodes throughout the country. At present, NT is providing voice services via PSTN, CDMA and GSM technologies to its fixed and mobile subscribers. It has been providing other Value Added Services (VAS) like Voice Mail (VMS) service, Interactive Voice Response (IVR) service and Intelligent Network (IN) services such as Prepaid-Calling-Card (PCC) service, Advanced- Free phone (AFS) service, PSTN-Credit-Limit (PCL) service, Home- Country-Direct (HCD) service. In addition, NT also provides internet service to its fixed/mobile subscribers and data services to corporate customers via leased lines. Recently, NGN has emerged as an alternative technology for replacing Public Switched Telephone Network. Deployment of NGN will provide unified resources for voice and multi-media. (Annual Report, 2007: 14- 15)

1.4 The Goal, Mission and Vision of NT

1.4.1 Mission

"Nepal Telecom as a progressive, customer spirited and consumer responsive Entity is committed to provide nation-wide reliable telecommunication service to serve as an impetus to the social, political and economic development of the Country" (www.ntc.net.np)

1.4.2 Vision

"Vision of Nepal Telecom is to remain a dominant player in telecommunication sector in the Country while also extending reliable and cost effective services to all". (www.ntc.net.np)

1.4.3 Goal

"Goal of Nepal Telecom is to provide cost effective telecommunication services to every nook and corner of country". (www.ntc.net.np)

1.5 Services of NT

Nepal Telecom is the role institution in the state to provide telecom services. It has offered and provided its services to all possible parts all over the nation in affordable price and position. Nepal Telecom as far as possible has adopted the new technologies and inventions around the world. Liberalization in telecommunication services is the result of globalization growth of markets, new technological changes and the emergence of new services.

The services provided by Nepal Telecom are as follow (MIS Report, Ashad 2067: 31-32):

A. Types of Telephone Services provided by NT (with number of subscriber)

- i) PSTN Telephone Services Subscriber
- ii) GSM Mobile Services (Post-Paid, Pre-Paid and WCDMA 3G Mobile)
- iii) Services of CDMA technology (Fixed type, SKY with mobility, CDMA Pre- Paid Mobile and PCMCIA Data Card)
- iv) Marts Telephone Services

- v) VHF Telephone Services
- vi) V-SAT Telephone Services
- vi) Pay Card Phone

(The Overall Telephone subscribers are 27,29,637 which includes the 532,391 PSTN Telephone Subscribers, 102,446 Post-Paid Mobile Subscriber, 16,14,176 Pre-Paid Mobile Subscriber, 608 WCDMA 3G Mobile Subscriber, 44395 CDMA Fixed Subscriber, 305631 SKY Phone Subscriber, 127878 CDMA Prepaid Mobile Subscriber, 2112 PCMCIA Data Card, 639 Marts Telephone Line, 361VHF Telephone Line, 656 V-SAT Telephone line and 433 Installed Pay Card Phone.)

B. Internet & Email Services of NT

- i) Internet through PSTN dial up and ISDN dial up
- ii) Internet through CDMA and GSM technology
- iii) Internet through ADSL technology
- iv) Email services

(Total Internet Customers of NT are 40,000 and email users are 5000000, except the ADSL subscriber: the capacity of ADSL is 30,000.)

C. Telex Services

(NT has a Telex Capacity of 256 and only 70 lines of them are distributed.)

D. It has been providing other Value Added Services (VAS) like Voice Mail (VMS) services, Interactive Voice Response (IVR) services and Intelligent Network (IN) services such as Prepaid-Calling-Card (PCC) service, Advanced- Free phone (AFS) service, PSTN-Credit-Limit (PCL) service, Home- Country-Direct (HCD) service.

1.6 Focus of the Study

Nepal Telecom generates its revenue by providing different type of services like basic fixed line services, GSM and CDMA mobile, internet (dial up and broad band), lease line etc. Apart from

these the source, which generates significance revenue for the company, is international settlements from international call. Nepal Telecom, due to its nature of business, has to transact with significant number of customers in addition to dealing with foreign carriers for its international sharing revenue.

"Revenue collection is always a much-contemplated topic for companies and enterprises. If we review the following data related to annual revenue and annual cash collection of past few years, it is satisfying considering the defaults of dues in other business in our country". (Pokhrel, 2005: 59-60)

Nepal Telecom has two different ways of revenue collection process.

(i) Collection through counters-

In smaller exchanges collection being done manually but in almost 50 places collection of cash has been done through online cash collection process, which has far better efficiency than manual cash collection. For the sake of increasing efficiency, Nepal Telecom is collecting its revenue online its exchanges having lines more than 1000.

(ii) Collection through the Banks-

Now Nepal Telecom has stated collecting its revenue through its revenue through the banks also. Nepal Investment Bank, Bank of Kathmandu, Kumari Bank are collecting revenue through their counters for mobile. As a result subscribers are able to pay their dues at their nearest bank's counters as per their convenience. Similarly, also in Katmandu Valley Bank of Katmandu, Kumari Bank, Nepal Investment Bank, Nepal Industrial and Commercial Bank, Machhapuchare Bank, Laxmi Bank and Rastriya Banijay Bank are collecting the revenues for PSTNs subscribers of Nepal Telecom. And in near future few other banks will also be participating in PSTNs revenue collection process.

A good communication system is a must for the success of the socio-economic and political development of the country. Nepal Telecom is the largest company serving for the telecommunication sector in Nepal. Profitability is the major indicator of the financial

performance of any enterprises. The net profit of company is too high. But, the amount of revenue is very low in comparison to the investment on total assets. This shows how the assets have not been utilized. Property and the resources are just lying with out any significant use. All business works begin with the provision of sufficient cash to do business. Cash as a means and ends of business operations must be held in sufficient quantity. Holding of cash both in excess and insufficient than requirement may lead a firm to problems. Shortage of cash put obstruction in the way of production where as excessive cash than requirement contribute nothing to the profitability of firm as idle cash earns nothing. Thus, NT's, financial manager has to confront the problem of maintaining adequate or optimal level of cash, which passes risk and also does not put negative impact of firm's profitability.

Basically, efficient cash management is concerned with the management of cash inflow, outflow and cash flow within the firm and also includes the matters relating to financing of deficit and investment of surplus cash so as to maintain optimum cash balance. The basic issue of cash management is to enable a firm to maintain sufficient liquidity and also at the same time improve its profitability.

The general objective of Nepal Telecom is to provide essential nationwide low cost, reliable, affordable and readily available telecommunication services to the general public for the overall improvement of integrity and economic development. In the age of Information Technology, Nepal Telecom's vast telecommunications networks play a key role in supporting the growth of business in the IT field. Since, Nepal Telecom's responsibility has been to provide reliable and affordable telecommunications services throughout the nation. Nepal Telecom fulfills this responsibility and contributes towards the overall socio-economic development of the nation. Since, Nepal Telecom is the role device and powerful instrument for the development of information system and has been struggling hard to enter Nepal into modern arena of this changing world. However, there are other competitors in the same industry- they are United Telecom, Spices Nepal Pvt. Ltd., and few others are in the way of establishment.

1.7 Statement of the Problem

NTCL is one of the leading public enterprises functioning in public utility sectors. NTCL is one of the basic infrastructures for development of the nation without it, no industrialization of the economy can be imagined. In this context, NTCL has a great role than other public enterprises as all manufacturing, nonmanufacturing industries and government, depends on information supplied by it. In the past, it was a single public enterprise which provides information facilities to the people of Nepal. But nowadays It is facing marketing competition. There are other private companies like: United Telecom Limited, NCEL, Smart Telecom, hello mobile which are playing competitor role in sector of communication. Whatever NTCL is large scale public enterprises of the country and an apex institution in the communication sector.

Most of the public enterprises of Nepal are in a big crisis. Some of them are liquidated. Some are privatization some are in the process of privatization. The first privatization policy was introduced in United Kingdom during 1980s and Nepal it gained momentum after the restoration of multiparty democracy in 1990. At present among PEs of Nepal, NTCL is regarded as one of the few successful corporations.

But long can this prosperity be continued? This is haunting and daunting to each and every conscious person. The monopoly of NTCL in telecom sector has ended. IN this competitive and complex situation, NTCL and all its stables should focus more towards customers.

Nepal Telecom is role institution in the telecom sector in the country with high capital investment. It has been financed by government of Nepal and many donor agencies. Although it has enjoyed almost full monopoly in the industry, now it is facing market competition with same service provider in some areas. So, now it must prepare and strengthen existing competency to achieve productive output in by optimum utilization of resources. The management must focus in implementation of effective and appropriate action plan, strategies, and control mechanism.

Cash management is the heart of overall planning and control system of management. Although, cash management in NT is primarily based on traditional approach has also been suffered from problem of efficient cash management, it has applied several tools and established mechanism for proper planning and control of cash. The study attempts to have an insight over the problem

of cash management of Nepal Telecom so that strength has been gathered to identify the answer of the following question as major problem:

1. What kind of planning and controlling devices of the cash is there in NT?
2. What are the internal control policy regarding cash control practices in NT?
3. Is there any cash shortage or excess in the company?
4. What are the sources of financing of investment Projects?
5. What is the liquidity and cash position of the company?
6. What steps should be taken for close the cash gap?
7. Whether the company has maintained optimal cash balance or not?

1.8 Objectives of the study

The major objective of the study is to examine the management of cash in NT. The basic objectives are as follows.

1. To examine the existing internal control policy in NT regarding cash control practices.
2. To identify the shortage or excess of cash in the company and the procedures of financing for the shortage and investment of excess cash.
3. To study the liquidity position of the company.
4. To suggest and recommend Nepal Telecom based on findings.

1.9 Significance of the study

NT is one of the most prominent public enterprises that is earning relatively good profit and paying highest taxes to government. NT, even with its present status of being public sector enterprise, has the ambition of becoming a dominant player in the telecommunication sector, giving affordable and the cheapest possible services to all regions including the remotest areas of the nation retaining its present financial health even in the coming competitive environment.

This study is focused to analyze cash management in NT. Cash management contributes to improve the profitability as well as the overall financial performance of an organization to help the best utilization of resources.

This study will be concise, brief, practical data based, usable and valuable to the major parties interested in maximization through cash management; this will also serve as a reference for the further study and data collection. This will be equally useful and beneficial to NT, MOIC Government of Nepal, and Board of Directors of Nepal Telecom, Shareholders of the company, employee and other stakeholders. Lastly, it will provide relevant and pertinent literature for further research on the field of cash management. Thus, the study of cash management is rewarding.

1.10 Limitation of the study

The study is confined only to the revenue effectiveness and cash management of Nepal Telecom. The following factors limit the scope of this study:

- (a) Cash management study covered the analysis of five fiscal years ranging 2062/63 to 2066/67.
- (b) The accuracy of this study is based on true response and the data available from management of Nepal Telecom.
- (c) The study is based on historical data and it is a case study of specific portion of cash management of the company. So the outcome of the study may applicable to the company only.
- (d) Only financial and managerial tools are used for analysis of data.

1.11 Organization of the study

This study report is based on the following five chapters:

Chapter-I Introduction

This chapter dealt with the subject matter of the study consisting background of the study, brief overview Nepal Tele-Com, statement of the problem, objectives of the study, significance of the study and limitation of the study.

Chapter-II Review of Literature

This chapter dealt with the review of literature relating to NTC includes review of books, review of bulletins, journals and annual reports published by Nepal NTC, review of related articles and studies and previous thesis as well.

Chapter-III Research Methodology

This chapter dealt with research design, nature and sources of data, population and sample, data gathering procedure and tools of data analysis. For the data analysis, various financial and statistical tools have been used.

Chapter- IV Data Presentation and Analysis

This chapter dealt with the presentation and analysis of relevant data. Various data are gathered from the application of different methods presented and tabulated as required by the research objectives. Data are interpreted and analyzed with the help of various analytical tools and techniques. It also includes major findings of the study.

Chapter-V Summary, Conclusion and Recommendations

This chapter included summary and conclusion of the study. It also includes recommendation on the basis of the study.

CHAPTER - II

REVIEW OF LITERATURE

2.1. Meaning of Cash Management:

The meaning of cash may vary according to the purpose for which it is used and person with different level of knowledge. Cash is an asset constituting the most liquid item among all the assets. Company has to rise through issue of share or by borrowing with interest.

"Cash is the most important form of current assets. It is the basic input and ultimate output. The term cash refers to all the money items and sources that are immediately available to help pay a firm's bills." (Adhikary, 2006: 324)

So, a corporation must utilize cash efficiently to meet obligation of interest payment, if cash is obtained from borrowing. And if it is received through issue of share, the corporation has responsibility to owners in assuring them to pay favorable rate of return. Since, "cash is not easy to obtain, the available cash must be prudently spent without incurring loss". (Shrestha, 1980: 57-58)

Cash is only one constituent of what is essentially a combination of business resources. It is the part of working capital and as such provides the means of earning a profit investment for business. The objective should aim to obtain an optimum level for each component of current assets figure and a smooth and rapid conversion of these assets to cash both of these lead to improve earning power. He again suggested that "if care is taken for cash programmed for improving cash may have unexpected consequences. In the short term it will be possible to cut back expenditure on marketing and other function but future sales will probably suffer and, consequently, there will be further deterioration in cash flow. Further, he defined cash management as the process involved in the effective planning and control of cash requirements of a business". (Betty, 1972:667)

The firm should keep sufficient cash neither more nor less. Cash shortage will disrupt the firm's manufacturing operations while excessive cash will simply remain idle without contributing

anything toward the firm's profitability. According to him, the major function of financial manager is to maintain sound cash position. Some theoretical insights about cash Management has presented by him. He said that cash management is concerned with the managing of

- (i) Cash flows into and out of the firm,
- (ii) Cash flows within the firms, and
- (iii) Cash balance hold by the firm at point of time by financing deficit or investing surplus cash.

It can be represented by a cash management cycle. Sales generate cash which has to be disbursed out. The surplus cash has to be invested while deficit has to be borrowed cash management seeks to accomplish this cycle at minimum cost. At the sometime, it also seeks to achieve liquidity and control. Cash management assumes more importance than other current assets because cash is the most significant and the least productive asset that a firm holds. It is significant because it is used to pay the firm's obligation. However, cash is unproductive. Unlike, fixed assets or inventories, it does not produce goods for sale. Therefore, the aim of cash management is to maintain adequate control over cash in some profitable way, the cash management cycle is shown as:

Figure No.2.1

Cash management cycle

(Source: Pandey, 1999:775)

The management of cash is also important because it is difficult to predict cash flows accurately, particularly the inflows. and there is no perfect coincidence between inflows and out flows of cash, During some period cash outflows will exceed cash inflows because payment of taxes, dividend or seasonal inventory build up. At other times, cash inflows will be more than cash payment because there may be large cash sales and debtors may be realized in large sums promptly. "Cash management is also important because cash constituted the smallest portion of the total current assets. Yet, management's considerable time is devoted in managing it. In recent past, as number of innovations have been done in cash management techniques. An obvious aim of the firm now-a-days is to manage its cash affairs in such a way as to keep cash balance at a minimum level and to invest the surplus cash in profitable investment opportunities." (Pandey, 1999:772)

Cash is curtail component of working capital of a concern. Cash, like blood stream of human body gives strength to human body, gives strength to business unit. It is ultimate resource for a business; unit management should endeavor to secure larger cash at the end of each working capital cycle than what in had at the beginning of working capital cycle. Further, the important objective in managing cash should be trade off liquidity and profitability in order to maximize profits. By keeping larger amount of cash, the firm is able to meet its obligation when they fall due and the risk of technical insolvency is reduced. However, cash is non earning assets, so unnecessary cash should not be kept as hand then the optimum required continuing the operation of the business efficiency. Liquidity and profitability must be balanced in such a way that the organization retains its liquidity and at the same time maximizes its profitability. They also stressed that business transaction, without involvement of cash is mythical in this monetary world. "Today importance of cash management is recognized by all segments of organization activities. If some of departments are handled independently without considering their implications of cash management the conflicting interest of these departments are bound to create serious problem. The study of cash management is therefore considered as integrated approach to management science." (Jain and Narang, 1993: 367)

"Cash management is one part of the key areas of working capital management. A part from the fact that is the most liquid current asset, cash is the common denominator to which all current assets can be reduced because the other major liquid assets, i.e., receivables and inventories get eventually converted into cash; this underlined the significance of management. There are detail accounts of the problem involved in managing cash, i.e., motive for holding cash objective of cash management, factors determining cash needs, cash management models, cash budgets basic strategies for efficient management of cash, and specific technique to manage cash subsequently." (Khan and Jain, 1972:667)

"If cash holding is bad for inefficient corporation, cash shortage is dangerous for efficient corporations. As for inefficient corporations, it does not matter whether cash increases or decreases if they are not in a position to utilize them. But efficient corporation due to undertaking of more operations need more cash besides having profit." (Shrestha, 1980:625)

Cash management involves managing the monies of the firm to maximize the cash availability and interest income to any idle funds. At one end, the function starts when a customer writes a check to pay the firm on its account receivable. The function ends when a supplier, an employee or government realizes collected fund from the firm as an amount payable or accruals. All activities between these two points fall within the realm of cash management. The firm's decision about when to pay its bills involves account payable and accrual management. "An idea of effective collection and disbursement so that maximum cash is available. Collection can be accelerated by means of concentration banking, lock-box system and certain other procedures. Disbursement should be handled to give maximum transfer flexibility and the optimum timing of payment, being mind-full, however, of supplier relations. Methods of controlling disbursement i.e. electronic fund transfer is becoming increasingly important, and most corporation use such transfer in use way or another." (Van Horne, 1974:426)

"Cash is often called 'non earning assets'. It is needed to pay for labor and raw materials, to buy fixed assets, to pay taxes, to service debt, to pay dividend and so on. However, cash it self earns no interest. Thus, the goal of the cash manager is to minimize the amount of cash and the firm must hold for use in conducting its normal business activities, yet, the same time, to have

sufficient cash (i) to take trade discount, (ii) to maintain its credit rating, and (iii) to meet unexpected cash needs." (Brigham, Gapenski and Ehrhardt, 2001:18.6)

Cash includes coins, currencies, cheques held by a firm, and balances in its bank account. This money is immediately useable to pay bills. Some times "near cash items" are also included in cash, e.g., marketable securities. If the firm has excess cash, it may decide to convert it to short term investments. The financial manager will purchase low risk, high liquidity money market instruments that can be converted back to cash without delay if the need arises. The securities provide a small profit on cash that may not be needed immediately for the firm's operation. These securities are widely used as short term investment by the firm in developed countries. Each security offers different characteristics that make it suitable for different firms. "Cash management is also called management of money position because cash includes not only the cash or currency in hand but also the readily convertible securities or other near cash items, e.g. Time and demand deposits, readily available credit and so on. The concerning area of cash management are management of cash flows into and out of the firms, management of cash flow within the firm and management of cash balance held by the firm at a point of time." (Pradhan, 2004:158)

Cash management is a broad term that refers to the collection, concentration, and [disbursement](#) of cash. It encompasses a company's level of liquidity, its management of cash balance, and its short-term investment strategies. In some ways, managing cash flow is the most important job of business managers. If at any time a company fails to pay an obligation when it is due because of the lack of cash, the company is [insolvent](#). Insolvency is the primary reason firms go [bankrupt](#). Obviously, the prospect of such a dire consequence should compel companies to manage their cash with care. Moreover, efficient cash management means more than just preventing bankruptcy. It improves the profitability and reduces the risk to which the firm is exposed. (www.answers.com/topic/cash-management)

Cash management involves the following aspects:

- i. Cash Planning
- ii. Controlling Cash Inflows
- iii. Controlling Cash Outflows
- iv. Determining Optimum Liquid Balance
- v. Investing Surplus Cash

Sources: (www.answers.com/topic/cash-management)

2.1.1.1 Cash Planning:

Cash policies and procedures are to be formulated with a view to satisfy different motives for holding cash, Normal cash requirements as well as requirements of cash for abnormal or irregular reasons are to be provided for. The nature of the business, credit position, the amount of sales, time required in conversion of accounts receivable etc determine the normal cash requirement of firm. On the basis of past experience, Pro forma balance sheet cash balance required for the future may be projected. Cash forecasting may be prepared for a short-term as well as a long-term period to estimate the requirements or cash. Cash budget is a summary statement of the firm's expected cash inflows and outflows over a projected time period. The projected time period may be a year, a quarter, a month, a week, or even a day-it depends upon the nature of the business and the status of the firm's cash position. Cash budget throws light not only on the amounts of inflows and outflows expected during a budget period, but also helps managements in determining the future cash needs, in planning financing of these needs and in exercising control over cash and liquidity of the firm. If cash shortage is indicated by the budget, the same may be managed by arranging short-terms loans and if cash surplus is pointed out, it may be managed by investing the amount in readily marketable securities.

For the above purpose, cash flow statement can also be prepared. It records and reflects the quantum and the nature of inflow and outflow of liquid funds. A cash flow statement is actually the summarized form of cash book in which the actual receipts and payments are sectionalized. It can be prepared in the following two ways:

- i. Showing in detail each item of inflows or outflows of cash irrespective of whether it is capital or revenue in nature; or
- ii. Showing the net inflows /outflows from revenue operations as one consolidated figure and inflows/outflows of capital nature separately.

2.1.1.2 Controlling Cash Inflows:

Efficient cash management is possible only when the collections of cash are accelerated. The delay between the time customers pay their dues and the time the cash is collected in the sense of becoming useable by the firm should be attempted to be reduced to the extent possible. Collection process may be speeded up in any of the following manners:

- i. The mailing time of payment from customers to the firm may be reduced.
- ii. The time during which payments received by the firm remain uncollected may be minimized, it includes the time a company takes in processing the cheques internally and the time consumed in the clearance of the cheques through the bank.

Following techniques are considered to be useful to accelerate the collection:

A. Concentration banking:

To speed up collections, collections should be decentralized as far as possible. If, instead of one collection centre, there are a number of collection centers for the purpose, collections would certainly be speeded up. This procedure is named as concentration banking. Through this procedure, the mailing time of the customers is reduced. Customers of a particular region may be directed to deposit/remit their payments to a collection centre which will deposit the payments received in the local bank regularly (may be daily), which is generally at the firm's head office. This concentration bank or central bank can get the payments by telegraphic transfer or telex, as per the instructions given by the firm. The collection centers may themselves collect the cheques or the cash payment from the customers, instead of customers remitting the payments to the collection centre. It further accelerates the process of collection because of the reduction in the mailing time. The advantage of system of decentralized collection is two-fold:

- i. The mailing time is reduced, because the bills are prepared by the local collection centers and sent by them to the customers. Further, if the collection centers collect the payments by themselves, the time requires for mailing is reduced on this account also.
- ii. Collection time is reduced, since the payments collected are deposited in the local bank accounts. The funds become useable by the firm immediately on hearing from the collection centre about the amount being deposited in the local bank account.

B. Lock box system:

The system is a further improvement over the concentration banking system in the matter of accelerating the cash inflows. Under this system, the time required in collecting the payments, processing them and finally depositing them in the local bank accounts is further reduced. Before determining the collection centers a feasibility study is made of the possibility of cheques that would be deposited under alternative plans. In this regard operations research techniques have proved useful in the location of lock box sites. A post office box is hired by the firm at each collection centre and the customers are instructed to mail through remittance of the box. The remittance is picked up by the local bank directly from the post office box (i.e., lock box) as per the instructions given by the firm. The bank can pick up the mail several times a day and deposit the cheques in the amount of the firm. A record is kept by the bank regarding the cheques deposited and is sent to the firm as and when required. The advantages of such a system are as under:

- i. The cheques are deposited sooner than if they were processed by the firm prior to deposit thus the time lag between the receipt of cheques by the firm and the actual deposit thereof at the bank is eliminated.
- ii. The firm is freed from the responsibility of handling and depositing the cheques. The main disadvantages of such a system is the cost involved of making such arrangements hiring post office box and loading the bank with additional burden of work entail costs and sometimes it may be uneconomical for the firm to adopt such a system. Thus, the appropriate rule for deciding whether to use lock-box

system or not is to compare the added cost of the most efficient system with the marginal income that can be generated from the released funds. If costs are less than income, the system is profitable, if not, the system is not a profitable one.

C. Collections through messengers:

Certain firms like to send messengers at the places of customers to collect the payments. It certainly reduces the mailing time but increases the costs of collection in terms of the traveling costs of messengers.

To conclude, whatever system of speeding up collections is adopted, the costs are to be compared with the benefits derived there from. In case the benefits of a particular system exceed the costs on a comparative basis, the same may be recommended by the finance manager for adoption by the firm.

2.1.1.3 Controlling Cash Outflows

Just as the golden rule for controlling cash inflows is 'accelerate the collections'; similarly, the golden rule for controlling cash outflows is 'slow down the disbursements.' Decentralized collection system is the best way to accelerate collections and centralized payment system is the best way to slow down the disbursements. Delaying the accounts payable to the extent possible can help the firm only if the firm's credit standing does not suffer. If an effective control over disbursements is exercised, without losing goodwill, cash availability is certainly enhanced. The following techniques can be fruitfully employed to slow down the disbursements as far as possible:

Centralized payments- Centralized payment system is the most advantageous methods of slowing disbursements. The payment should be through a single account maintained at the company's headquarters.

i. Paying the float:

'Float' is the lag between the time the cheque is written and the time the firm's bank receives it. A firm may have less balance in its bank account but the firm may issue a cheque to its supplier because the supplier would present the cheque to his bank for payment only when he receives it after a few days. Moreover, after presentation to the bank, the bank would send the cheque for collection, which would also consume some time. The time by which firm's bank receives the cheque for payment can be used by the firm for utilizing fund for business purposes and exactly on the time when the payment has to be made by the bank the amount may be deposited in the bank by the firm. In case the period of time gap can be accurately estimated by the financial manager, the firm can certainly earn during the float period. However, the game is a risky one and should be played with caution.

ii. Payment on due dates only:

Payment should be made on the due dates, not before. For maximum use of cash, if cash discount is more lucrative, payments may be made early also depending upon

the availability of funds. Delaying payments beyond the due date cannot be favored at all since the credit rating of the firm is endangered.

2.1.1.4 Determining Optimum Liquid Balance

Liquid balance (balance of cash and marketable securities) must be maintained at the optimum level. It is the level which gives the minimum cost of holding the liquid balance. If the liquid balance, it remains idle and, therefore, it involves opportunity costs in the sense that the amount could have been put to the other hand, if liquid balance is short of the requirements, the firm may have to incur shortage cost. The firm may be required to forego cash discounts and pay higher rates of interest on borrowings. It may have to forego cash discounts and pay higher rates of interest borrowings. There is a danger of losing goodwill and there is a risk of insolvency even. Thus, costs go down, and vice versa. The combination of opportunity cost and shortage costs gives the total cost of maintaining liquid balances at various levels. The point which gives the minimum total cost is the point of optimum liquidity balance-representing a trade-off of shortage costs against opportunity cost. The following graph shows the position clearly:

Figure.2.2

Optimum Liquid Balance of Cash



Source: (Keynes, John Maynard, 1936: 173)

2.1.1.5 Investing Surplus Cash

Cash not required of short durations can be invested in near-cash assets, i.e.; marketable securities which are readily convertible in to cash. Even though cash is temporarily ideal; it should not be kept so because if the firm has an opportunity to earn interest through investing it in marketable securities, why should it not avail of the same. The criterion for selecting securities may be the followings:

- i. **Marketability:** The firm must be able to sell its holdings and realize cash as and when required. The securities must be readily marketable.
- ii. **Maturity:** The maturity period of the securities should be short; otherwise, the company might suffer losses on account of getting the funds pre-maturely released. The period should be selected according to the time for which the cash would remain surplus otherwise.

- iii. **Risk of default:** The investment should not be risky in the sense that if it depreciates in safety value, the firm will be financially embarrassed.
- iv. **Yield:** Investment should be in such securities which yield the highest return. However, safety should not be sacrificed at the expense of yield.

How much amount should be invested in marketable securities and when should a security transaction take place is a crucial problem before the financial manager. If the amount and the timing of transactions can be determined, the firm can minimize the costs of maintaining liquid balance. (Shrestha, 1980:625)

2.1.2 Principle of Cash Management

The size of cash balance in the hand and in the account to be maintained depends on the behavior of the operating cash flows of the firms. Each business operation is unique in the matter of cash collection and disbursement, as such, a firm needs to follow cash management strategies based on its own financial strength and objective in the matter of cash management, financial manager are mainly concerned with the -

- i. management of cash receipt
- ii. management of disbursement
- iii. minimization of cash balance
- iv. use of most inexpensive source of financing for cash balance
- v. investment of excess balance of cash

The standard principles of cash management are follows:

- i. **Collection strategy:** To collect account receivable as soon as possible without annoying and losing potential customers by establishing a system of lock boxes, electronic fund transfer, preauthorized checks, and deposit concentration.
- ii. **Credit period:** Use credit period on accounts payable as long as permitted without damaging the firm's credit rating by establishing controlled disbursement system.

- iii. **Cash management models:** Minimize cash balance without adversely affecting the business operation by following the techniques of cash balance management such as Baumol and Miller Orr-models.
- iv. **Balance between cost and risk:** Manage most inexpensive source of financing for meeting short term cash deficiency by optimally balancing between cost and risk.
- v. **Cash Surplus:** To invest short term excess cash in most efficient market portfolios of securities such money market instruments. (Pradhan, 1992: 158)

2.1.3 Motives for holding Cash

There are three motives for liquidity: the speculative motive, the precautionary, and the transaction motive. (Keynes, John Maynard, 1936: 170- 174)

The term with reference to cash management is used in two senses. In a narrow sense, it is used broadly to cover currency and generally accepted equivalent of cash, cheques, draft and demand deposit in bank. The broad view of cash is also includes near cash assets, such as marketable securities and time deposit in banks. The main characteristics of these are that they can be really sold and converted into cash. They served as reserve pool of liquidity that provides cash quickly when needed. They also provide a short term investment outlet for excess cash are also useful for meeting planned out flow of fund. Irrespective of firm in which it hold a distinguished feature of cash as an asset, is that it has no earning power. Cash does not earn any return, why it is hold? There are four primary motives of cash balance, these are:

2.1.3.1 Transaction motive:

This refers to holding of cash to meet routine cash requirement to finance the transaction which a firm carries in the ordinary course of business. A firm enters in to a variety of transaction to accomplish its objectives which have to pay for in the form of cash. The requirement of cash balance to meet routine cash needs is known as transaction motive and such motive refers to the holding of cash to meet anticipated obligation whose timing is not perfectly synchronized with cash receipt.

2.1.3.2 Precautionary Motive:

The cash balance hold in reserves for random and unforeseen fluctuation in cash flows are called as precautionary balances. In-other word precautionary motives of holding cash implies the need to hold cash to meet unpredictable obligation. Thus, precautionary cash balance serves to provide a cushion to meet unexpected contingences. The more unpredictable are the cash flows. The larger is the need for such balance. Another factor which has a bearing as the level of such cash balances is the availability of short term credit. If a firm borrows at short notice to pay for unforeseen obligation, it will need to maintain a relatively small balance and vice versa.

2.1.3.3 Speculative Motive:

It refers to the desire of a firm to take advantage of opportunities which presents themselves at unexpected moments and which is typically outside the normal course of business. While the precautionary motive is defensive in nature in that firm must make provision to tide over unexpected contingencies, the speculative motive represents a positive and aggressive approach. The firm's aim to exploit profitable opportunities and keep cash in reserve does so. The speculative motive helps to take advantage of-

- i. An opportunity to purchase raw materials at a reduced price on payment of immediate cash.
- ii. A change to speculate on interest rate movement by buying securities when interest rates are expected to decline.
- iii. Delay purchases of raw materials on the anticipation of decline in prices, and
- iv. Make purchases at favorable prices.

2.1.3.4 Compensating Motive:

It is to compensate banks for providing certain services and loans. Usually, clients are requested to maintain a minimum balance of cash the bank. Since this balance can not be utilized by the firm for transaction purpose, the banks themselves can use the amount to earn a return. Such balances are compensating balance. Compensating balance is also required by some loan arrangement between a bank and its customer. During periods when the supply of credit is restricted and interest is rising, banks require a borrower to maintain a minimum balance in his

account as a condition precedent to the grant of loan. This is presumably to compensate for a rise in the interest rate during the period when the loan will be pending.

Of four primary motives of holding cash balances the two most important are transaction motive and the compensation motive. Business firm do not speculate and need not have speculate balances. The requirement of precautionary balances can be met out of short term borrowing. (Khan and Jain, 2003: 18.9)

2.1.4 Objective of Cash Management

The main objectives of cash management are to determine the optimal cash balance which is neither excessive nor inadequate, and to ensure that the optimal cash balance is maintained all through; Cash should not remain idle unnecessarily, and simultaneously, it should not fall short of the requirements also. For this, the collections and the disbursements of cash are to be managed properly. In case the flow of cash is not even, the cash is to be arranged by rising short-term loans for meeting the payment bills; and in cash the collections have been made but there is no immediate outlet for payment, the idle funds are invested in temporary securities so as to yield some return. Thus, the problem is to manage the cash affairs in such a manner that gives the least possible cost of maintaining cash. The main objective of financial management-maximizing profitability without sacrificing liquidity-should be borne in mind while attempting to manage cash and bank balances. Optimal cash balance does not mean minimum cash balance since minimum cash may lead to shortage of cash and the day-to-day operations of the business may suffer. The level of cash which meets the requirements appropriately and which gives the minimum cost is known as the optimum level of cash.

The basic objective in cash management is to keep the investment in cash as low as possible while still keeping the firm operating efficiently and effectively. This goal uses reduces to the dictum. **“Collect early and pay late.”** (Ross, Westerfield and Jordan, 2003: 673)

Cash management covers the management of not only cash but near-cash assets also, e.g., marketable securities and time deposits with banks, because these are readily convertible into cash. As a matter of fact, 'near-cash assets' are to be included under 'cash' for the purpose of cash management since surplus cash is required to be invested in near-cash assets for the time being.

To avail of the profit making opportunities that may arise in future, certain firms may like to hold cash in advance, Though, a normal business concern should not indulge in speculation, yet in sometimes it becomes necessary for the firm to keep cash available with this objective in view. For example, if there is a likelihood that material prices will fall down in near future, cash may be withheld for a certain period.

Examples of certain specific advantage of holding cash are as under:

- i. Certain companies maintain cash balance to take advantage of the trade discounts and cash discounts, which may be available to them on the basis of the terms of sale.
- ii. Credit standing can be maintained if the firm has sufficient cash. To meet the standards of the line of business in which firm is engaged, the firm may like to have sufficient cash balances.
- iii. The firm may like to take advantage of the available business opportunities.
- iv. Emergencies, e.g.; strikes, floods, fires etc. can be met out successfully only when the firm has sufficient liquidity.

2.1.5 Factors Determining Cash Needs

The factors which determine cash needs are described in the following points:

2.1.5.1 Synchronization of cash Flow

With a perfect synchronization of cash inflows and out flows and a higher degree of predictability, cash balance could be held to low levels. An example of synchronization demonstrates low cash flows can be improved through more frequent requisitioning of fund to divisional offices from the firm's central office. If funds are requisitioned once a month, we may now explore the possibility of requisitioning of funds on fortnightly, or weekly or daily basis, Moreover, effective forecasting can be achieved, it will enable the firm to economic on the amount of money it must borrow and thereby keeping interest expenses to a minimum. It is necessary to understand now that there are different types of float. We have seen that the float is the different between book cash and bank cash, representing the net effect of changes in process of clarity. The first types of float are disbursement float. As we write check, it declares book balance but does not immediately change available balance. Similarly, the collection float refers to the reset of cheque received, which increases book balance but not immediately change available balance. The net float is the overall different between the firm's available and its book balance. (Pradhan, 2004: 187)

2.1.5.2 Short Cost

Another general factor to be considered in determining cash need is the cost associated with a short fall in the cash needs. The cash forecast presented in the cash budget would reveal period of cash shortages. In addition, there may be some unexpected short fall. Every shortage of cash, whether expected or unexpected involved a cost depending upon the severity, duration and frequency of the shortfall and how the shortage is covered. Expenses incurred as a result of shortfall are called short costs. Following are included in the short cost (Khan and Jain, 2003: 18.4):

- a. Transaction cost associated with raising cash to tide over the shortage, this is usually the brokerage incurred in relation to the sale of some short term near cash assets such as marketable securities.
- b. Borrowing cost associated with borrowing to cover the shortage these include items such as interest on loan, commitment charge and other expenses relating to the loan.
- c. Loss of cash discount, that is, a substantial loss because of temporary shortage of cash.
- d. Cost associated with deterioration of the credit rating which is reflected a higher bank charges on loans, stoppages of supplies, demand for cash payments, refusal to sale, loss of image and the attendant decline in sales and profits.

2.1.5.3 Excess Cash Balance Cost

The cost of having excessively large cash balance is known as the excessive cash balance cost. If large funds are idle, the implication is that the firm has missed opportunities to invest those funds and has thereby lost interest which it would otherwise have earned, this lost of interest is primarily the excess cost. (Khan and Jain, 2003: 18.5)

2.1.5.4 Procurement and management

There are the cost associated with the establishing and operating cash management staff and activities. They are generally fixed and are mainly accounted for by salary, shortage, handling of securities and so on. (Khan and Jain, 2003: 18.5)

2.1.5.5 Uncertainty and Cash Management

Finally, the impact of uncertainty of cash management strategy is also relevant on cash flows can not be predicted with complete accuracy. The first requirement is a precautionary cushion to cope with irregularities in cash flows. Unexpected delays in collections and disbursements, default and unexpected cash needs.

The impact of uncertainty on cash management can, however, be mitigate through -

(1) Improved forecasting of tax payments, capital expenditure, dividend, and so on: and (2) increased ability to borrow though over draft facility. (Khan and Jain, 2003: 18.5)

2.1.6 Techniques for effective Cash Management

There various tools and technique are applied for effective and efficient management of cash. Various techniques for cash management are discussed as follows (Pandey, 1997: 914-32):

2.1.6.1 Cash Planning

Cash planning is a technique to plan and control the use of cash; it protects the financial condition of the firm by developing a projected cash statement from a forecast of expected cash inflows and outflows for a given period. Cash plans are very curtail in developing the overall operating plans of the firm.

2.1.6.2 Cash forecasting and budgeting

Cash budget is the most significant device to palm for and control cash receipt and payment, a cash budget is a summary statement of the firm's expected cash inflows and outflows over a projected time period.

Cash forecast are needed to prepare cash budget. Generally forecasts covering period of one year or less are considered as short term forecast. The important functions of carefully developed short term forecast are to,

- i. Determine operating cash requirement
- ii. Anticipate short term financing, and

- iii. Manage investment surplus cash.

Methods of Cash forecasting are:

1. **Receipt and Disbursement Method-** The prime aim of receipt and disbursement forecast is to summarize these flows during a predetermined period. In cases of these companies where each items of income and expenses involve flows of cash; this method is favored to keep a close control over cash.
2. **Adjusted Net income Method-** This method of cash forecasting involves the tracing of working capital flows. It is same time called the sources and uses approach. There are two objectives of the adjuster net income method, They are to project company's need for cash at a future date and to show whether the company can generate the required fund internally, and id not how much will have to be borrowed or raised in the capital mordent. It is a projected cash flow statement based on perform financial statement, one popularly used method of projecting working capital is to use ratios relating account receivable and inventory to sales.
3. **Sensitivity Analysis-** One useful method of getting insights about the variability of cash flow is sensitivity analysis. Cash budget can be prepared under three sales condition, they are optimistic, most probable and pessimistic. Knowledge of the outcome of extreme expectation will help the firm to be prepared with contingency plans. A cash budget prepared under woes condition will prove to be useful t management to face these circumstances.
4. **Long Term Cash Forecasting-** Forecasting those extending beyond one year are considered long term. Once a company has developed long term cash forecast, it can be used to evaluate the impact of say, new product development or plan acquisition on the firm's financial condition three, five or more years in the future. The major uses of long term forecasts are:
 - a. To indicate as company's future financial needs especially for its working capital requirement.

- b. To evaluate proposed capital projects. It pin pints the cash required to finance these project as well as the cash to be generated by the company to support them.
- c. To improve corporate planning. Long –term cash forecast compel each division to plan for future and no formulate project carefully.

2.1.6.3 Managing the Cash flows

The flow of cash should be properly managed. The cash inflows should be accelerated while, as far as possible, the cash out flow should be decelerated.

2.1.6.4 Optimum Cash Level

The firm should decide about the appropriate level of cash balances. The cost of excess cash and danger of cash deficiency should be matched to determine the optimum level of cash balances.

2.1.6.5 Investing surplus cash

The surplus cash balance should be properly invested to earn profits. The firm should decide about the decision of such cash between alternative short-term investment opportunities such as bank deposits, marketable securities, or incorporate landing.

2.2 Review of the previous thesis

In this section the review of thesis relating to cash management have been considered. It encompasses a combined effort of entire researcher. The main objective of this part is to analyze the previous research study an attempt is made here to review some of the research work, works submitted are as follows.

Pradhan, Bijaya (1997). *A Case Study of Cash Management in STCL*. Kathmandu: An unpublished master level Thesis Submitted to Shankerdev Campus, Faculty of Management, Tribhuvan University. According to his study, the main objectives were as follows:

1. To access the credit policy adopted in STCL.
2. To study the existing cash management system in STCL.
3. To expand few suggestions on the basis of above analysis to improve the cash management in future.
4. To find the above objectives, He has conducted research of six years periods under consideration from FY 2047/48 to FY to FY 2052/53. He has used both primary and secondary data. Primary data were collected from questionnaire, interview and secondary data were collected from financial statements of STCL

He has found the following condition:

1. The STCL could not make the best use of available cash balance prudently.
2. The cash collection efficiency in the corporation is very low.
3. Optimum cash balance is not maintained.
4. The collection of trade credit in the corporation is low during the three years of study period.

Neupane, Dipendra Kumar (2001) has has conducted a research on *A Study on profit planning in Nepal Tele Communication Ltd*. An unpublished master level thesis submitted to Nepal Commerce Campus Faculty of Management, Tribhuwan University.

The main objectives of the study were:

1. To examine the practices and effectiveness of profit planning in NTC.
2. To examine the Present comprehensive profit planning system applied by NTC.
3. To analyze the various functions, plan formulated and implemented in NTC.
4. TO analyze the financial position of NTCL by the help of redio analysis.

The Main findings are as follows:

1. Lack of systematic profit planning and control. Plans are prepared on "ad hoc" basis.
2. Actual production lines are more variable than budgeted production line.
3. Overhead expenses are not classified systematically and it creates problem to analyze its expenses properly.
4. Financial analysis shows that the financial performance of NTCL is not so good during the study period.

Sainju, Sabin Prakash (2003). *Cash Management in Public Manufacturing Enterprises: A Case Study of Royal Drugs Limited*. Kathmandu: An unpublished Master Level Thesis Submitted to Shankerdev Campus, Faculty of Management, Tribhuvan University. Overall cash management practices have been found disappointing.

1. Overall liquidity position of the firm has been found moderately dissatisfactory.
2. Overall, yearly cash inflow and out flow in RDL is not properly managed.
3. Surplus cash hasn't been properly employed to earn return by investing in short term investment opportunities.
4. Profitability has been found in very weak position.
5. Overall cash budgeting practice of RDL is very poor.

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

Nepal telecom is non manufacturing company and most of its transaction is done in cash basis. It is one of the major contributors to the revenue of the government. Besides this, stake holders have various level of interest on the company. Cash management of Nepal Telecom; a service oriented company has great importance in overall planning and control of the company. So, this is legitimate reasons for studies in some aspects of cash management practices of NT and the researcher has chosen this topic of interest. The researcher mainly focuses his studies on the

analysis of cash budget, cash position, surplus/deficit, liquidity position and internal control policy regarding cash management practices of the company.

Bhatt, Lok Raj (2006). Revenue Planning and Cash Management of Public Utility in Nepal: A *Case Study of Nepal Telecom*. An unpublished Master level Thesis Submitted to Central Department of Management, Faculty of Management, Tribhuvan University.

. The main objectives of the study are as follows:

1. To analyze the gap between budgeted and actual revenue and its trend.
2. To examine cash collection and disbursement.
3. To review cash flow form operating, financial and investing activities.
4. To have information, control and security over cash balances and payment system.

Some major findings of his research were as follows:

1. The lack of accurate and proper sales forecast is one of the important contains that affect the financial performance of the company. In Nepal Telecom, there is consistency between planned sales line and actual sales. The analysis of distributed sales line and revenue shows that the achievement is highly consistent. So, if the company forecasts the expected sales accurately, it can manage the various activities accordingly.
2. Sales budget shoes ISD sector's sales revenue is main sources of Nepal Telecom, which contributes more than 40% in average.
3. Because of high demand of telephone line there exist small gap between actual production and actual sales in lines. The local calls are increasing at this stage but the revenue per line is decreasing. It is due to bad governance and slow economic growth.
4. Correlation and coefficient value shows that there are positive correlations between budgeted and actual sales units and Rs, by the regression line, it is clear that future revenue will increase with compare to budgeted if other things remaining same etc.

Bhatt has made following findings & recommendations were:

1. Nepal Telecom should be made effective plan and programmed and it should be analyzed on the basis of company's ability. It is because; the company made maximum pay on ad hoc basis. So, system of proper sales forecast and budgeting needs to be adopted and followed.
2. Revenue per line decline is due to bad governance and slow economic growth, and not due to increase of lines. Thus, Nepal Telecom should follow management by objective techniques to maintain co-ordination, cooperation and self-motivating among departments and employees.
3. Installation capacity of Nepal Telecom is not fully utilized but the demand of telephone line is higher. If installed capacity is utilized, then revenue will be increased and operating expenses will be gone down.
4. Nepal Telecom is paying a huge amount as interest on long term loan, which is not good for company. So it should emphasized internal financing to minimize such burden. A Nepal telecommunication corporation was converted to company act. And, to reduce burden of paying interest, the company must restructure its capital structure and for this it can issue the shares and can refund the debt.
5. Nepal Telecom should try to reduce overdue amount of receivables. Nepal Telecom should provide incentive to staff to encourage them for collection of overdue amount of receivable and it should be establish separate department for collection old debt (defaulters) that will help to monitor collection revenue. In revenue collection any kind of pressure (especially political), nepotism and biases should strictly be discouraged.

Chataut, Bhuwan Raj (2008) has made research entitled on *Cash Management In Nepal Telecom*.

An unpublished Master Level Thesis Submitted to Shankerdev Campus, Faculty of Management, Tribhuvan University. Described About Cash management of Nepal Telecom.

The major objective of the study is to examine the management of cash in NTCL.

1. To observe devices of planning and control of cash in NT.
2. To examine the existing internal control policy in NT regarding cash control practices.
3. To identify the shortage or excess of cash in the company and the procedure of financing for the shortage and investment of excess cash.
4. To study the liquidity positions the company.

Some major findings of his research were as follows:

1. To meet operating expenses, 25% of actual annual expenses can be provided as advance budget in case the budget is not approved.
2. Deposits from customer of other parties received time to time should be deposited in deposit costumer.
3. In regards of account operation, transaction should be done with Nepal Rastra Bank of other commercial banks as recommended by committee.
4. Telecom officers should transfer the income amount from office fund account to central fund account keeping minimum balance amount in their offices.

Paudel, Rudra Prasad (2010) entitled on *Cash Management on the context on Nepal Telecom*. An unpublished Master Level Thesis Submitted to Shankerdev Campus, Faculty of Management, Tribhuwan University. The general objective of the study is to examine the cash management technique adopted by the NTC. The specific objectives t that study were as follows:

1. To examine and critically analyze the existing practices of the organization.
2. To assess the revenue generation practices of the organization.
3. To examine the financial performance of the organization with regards to cash management models.
4. To review the cash mobilization practices of the organization.

Some major findings of his research were as follows:

1. According to capital capacity market situation of NTCL, it has not provided adequate service to its customer.
2. NTCL should be very well aware of its strength and weakness. The monopoly of NTCL in telecom sector has ended. In this competitive and globalized market situation many other firms are found to have developed in the same sector. Hence it was suggested that NTCL must be taken corrective action for entering new firms by strategic management policy.
3. For overall development of any organization its internal condition should be sound. NTCL has not yet come out of chronic decrease such as, slow decision making, lack of systematic mechanism, coordination, and cooperation, unnecessary internal expenses, time consuming administrative procedure etc.
4. The financial position of the NTCL must be evaluated time to time due to overflow of liquidity (cash).
5. NTCL should give attention in account receivable management. Account receivable management can be managed efficiently by designing and appropriate receivable management programmed by trying to maximize collection by using credit terms like 2/10 net 30, 1/20 net 60, 3/5 net 20 etc.

Sharma Hemanta(2011) entitled on Cash Management of Nepal Telecom (NTC). An Unpublished Master Level Thesis Submitted to Shankerdev Campus, Faculty of Management, Tribhuvan University.

The main objectives of the study were as follows:

1. To examine and critically analyze the cash management practices in Nepal Telecom.
2. To explore the liquidity position of the company.
3. To determine the profitability condition of company.
4. To assess the effect of cash holding on financial position of the firm.

Some major findings of his research were as follows:

1. From the analysis of cash to current liabilities to five fiscal year period. it was found that to cash position of company is very strong. But it shows that cash was not managed properly which may yield more return to the company.
2. Under the liquidity analysis, current ratio, liquidity ratio was used. Current assets of the company over the study period were good enough to meet the current liabilities. The position of the highly liquid assets to meet the current liabilities of the company was found more than sufficient.
3. Profitability ratio of the company shows that the operating expenses ratio during the studied period was less then operating profit. it shows that the good position of the company.
4. The company's annual closing cash balance was found to be sufficient to meet the average daily average expenses.

2.3 Research Gap

Nepal Telecom has always been customer oriented organization. Its main objective is to provide the best quality service with low cost. And it has retained its fame by its reliable service. Several studies were conducted for the topic “Cash Management” and the analysis was done either for the banking sectors or for the insurance. But very few theses are related particularly to Cash Management of NT. The ratios relating to cash were used to show the NT performance by the earlier researcher. Along with these ratios, the analysis includes the data of F/Y 2066/67. The NT’s Budget Book up to 2067/68 and Budget Policy & Program for F/Y 2067/68 were also used to find more and accurate data.

Technology has changed very fast and scope of NT is now becoming very wide. The services are not only related with voice or low speed data but also cover the triple play: voice, high speed data and video. Hence, the research with old and obsolete data can not draw the relevant information. This study is specifically based on the recent data to analyze cash management of NT.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Research Design

This research is based on secondary data and primary data analysis. Hence, descriptive and analytical research design has been used to conduct the study of Cash management of NTC.

In this study, to show the relation of Cash collection and disbursement and to fulfill the other objectives of this research, mainly following relevant research designs are adopted:-

1. Descriptive research design
2. Analytical research design
3. Case study research design
4. Historical research design

3.2 Nature and Sources of Data

The data used in this study are secondary as they were collected from concerned authorities. For any research work, information is considered the life blood. Thus it is the major task to gather the information and data collection. To fulfill the objectives of the study secondary data have been used. Secondary data have been taken mainly from the following sources:

-) published and unpublished document and annual reports of the company
-) Journals, government and non-government publication.
-) Other supportive books and websites of related topic.

3.3 Method of Data Analysis

Different financial and managerial tools were used for the analysis of data. Some inferences and generalizations were also be made in the course of preparation of report as demanded by the situation.

3.3.1 Financial Tools:

Financial tools are those instrument and technique which helps in analysis of financial position of the enterprise. Various financial tools have been used in the study which helps to indicate the position of the company as targeted in the objective of the study.

3.3.1.1 Ratio analysis

The most important tool of analysis of financial statements is the ratio analysis. It is an expression of the quantitative relationship between two numbers. It helps to diagnose financial health of the enterprises.

1. Cash position analysis

Business needs cash for meeting its daily operating expenses and other cash obligations. Therefore cash position should be looked into separately to highlight this crucial business aspect. Cash means actual cash and bank balance extracted from annual report balance sheet. Current liabilities consist of account payable, current portion of long term loan, other provision, pension fund, subscriber/contractor deposit. Total assets include net fixed assets, investments, and current assets except deferred charges. The ratios which determine the cash position are:

- i. Absolute cash ratio indicates the position of cash for meeting current liabilities.

$$\text{Absolute cash ratio} = \frac{\text{Cash } \Gamma \text{ Marketable securities}}{\text{Current liabilities}}$$

- ii. Cash to total assets ratio indicates cash contents in the total investment.

$$\text{Cash to total assets ratio} = \frac{\text{Cash } \Gamma \text{ marketable securities}}{\text{Total assets}}$$

- ii. Interval measures indicate the time period until which the available cash would be sufficient to meet operating expenses. However, while taking marketable securities it should be considered whether the same are disposable or not. Only disposable marketable securities should be added to cash for computing ratios. A higher ratio indicates better position. (Maheshwari and Mittal, 2003)

$$\text{Interval measures} = \frac{\text{Cash } \Gamma \text{ marketable securities}}{\text{Average daily cash operating expenses}}$$

2. Cash turnover ratio

The ratio of cash in hand and at the bank to net sales is termed as cash turnover ratio or cash velocity. The ratio indicates the efficient use of cash to generate sales. Cash balance should be kept within reasonable limits just as debtor and stock. In theory, the ideal ratio is said to be around 20. (Maheshwari and Mittal, 2006)

In case of Nepal telecom, sales indicate total revenue of the year which is categorized as total revenue from telephone, total revenue from telegraph, lease circuit and other.

$$\text{Cash turnover ratio} = \frac{\text{Sales}}{\text{Cash in hand } \Gamma \text{ Bank balance}}$$

A high ratio means relatively small amount of cash which is good because cash involves holding cost. But if overdraft is there, it may not be advisable since interest burden may wipe off the resources in due course of time. A lower ratio indicates greater availability of cash which may not be advisable since it may be remaining idle in the business. However, too high a ratio is also dangerous, as it may be an index of overtrading i.e., doing business with too little cash.

3. Liquidity ratio:

Liquidity Ratios are a class of financial metrics that is used to determine a company's ability to pay off its short-term debts obligations. Generally, The higher the value of the ratio, the larger the margin of safety are the company possesses to cover short-term debts. Common liquidity ratios include the current ratio, the quick ratio and the operating cash flow ratio. Different analysts consider different assets to be relevant in calculating liquidity. Some analysts will calculate only the sum of cash and equivalents divided by current liabilities because they feel that they are the most liquid assets, and would be the most likely to be used to cover short-term debts in an emergency. (<http://www.investopedia.com/terms/l/liquidityratios.asp>)

A company's ability to turn short-term assets into cash to cover debts is of the utmost importance when creditors are seeking payment. Bankruptcy analysts and mortgage originators frequently use the liquidity ratios to determine whether a company will be able to continue as a going concern. The ratios to test the short term or current solvency or liquidity or financial position of a company are mainly following-

1. The ratio of current assets to current liabilities is known as current ratio. Current assets consist of cash and bank, account receivable, investment in Government securities and others, inventory, others (L/C, advance, tax etc.)

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

2. The ratio derived by relating liquid or quick assets to current liabilities is known as quick ratios. 'Liquid asset' means those assets which are immediately convertible into cash without much loss. All current assets except prepaid expenses or advance and inventories are categorized as liquid assets. Liquid assets consist of cash and bank, account receivable, investment in Government securities and others.

$$\text{Liquid ratio} = \frac{\text{Liquid assets}}{\text{Current liabilities}}$$

3.4.1.2 Cash Budget Analysis

Cash budget is a plan of cash flow. It shows the planned cash inflows, outflows, opening and ending position of the cash of the company. Cash budget is not expenses budget. It is a plan of cash flows, effective way to control cash flows, assess cash needs and effectively use of excess cash. A basic objective to plan the cash flows of the company is to determine future borrowing and future investment. Planning cash flows present the need of cash financing then deficit exists and need of cash investment of profitable use. The cash budget is prepared with the help of other functional budget.

3.4.1.3 Actual Cash Flow Analysis

Cash flow statement signifies the movement of cash in and out of a business concerned. Inflow of cash is known as source of the cash and outflow of cash is called use of cash. This statement also depicts the factors for such inflow and outflow of cash. It analyses the reason for changes in balance of cash in hand and at bank as on date to a next date after a gap, usually the accounting period. The main source of cash receipts and channels of payment are found out and recorded in the statement. The main purpose of preparing a statement is to have an at a glance idea about the main causes of movement of cash during a particular span of time. A projected statement will help management to chalk out the detailed plans regarding its working and operation in future. (Maheshwari and Mittal, 2006:216)

3.4.2 Managerial Tools

3.4.2.1 Variances or Difference Analysis:

Variance is a tools used to determine deviation between budgeted cash expenses and actual cash expenses. Similarly the same tool is used to analyze the difference in budgeted amount of various fiscal years. It shows deviation in budgeted figure and actual figure which helps to draw generalizations.

3.4.2.2 Internal Control Policy Analysis:

Internal control policy of the company is analyzed in the study particularly regarding cash control practices. The policy analysis will be of descriptive nature.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Analysis of Cash Balance

Economic planning and management department of Nepal Telecom demands various proposals of budget along with detail of plan programs from different regional directorates. High level management committee, respective representative, experts discuss on the budget proposals. The budget should be consistent with long term plan (five years plan) of the country on telecommunication sector. After discussion of the proposed budget, the committee approved the proposed budget after certain amendments and correction. Again in the mid of budgeted period, the committee revised the budget.

4.1.1 Budget Cash and Actual Cash

Table 4.1
Statement Showing Budget Cash and Actual Cash

Fiscal Year	Budget Cash	Actual Cash	Deviation	% Change
2062/63	7,251,329	10,097,737	2,846,408	28.19
2063/64	7,375,201	12,417,486	5,042,285	40.61
2064/65	5,936,374	9,574,500	3,638,126	40.00
2065/66	3,399,304	12,021,625	8,622,321	71.72
2066/67	6,590,307	14,746,338	8,156,031	55.31
Average	6,110,503	58,857,691	56,610,342	41.17

Source: Average Budget and Policy Program (2062/63 to 2066/67)

Figure 4.1

Trend Line showing percentage change in the Budget Cash

The Table 4.1 shows the ending cash position of the company in different fiscal year. The actual Cash balances were higher than the budgeted cash. The company has been able to collect cash more than the budgeted cash. The figure 4.1 shows the degree of deviation is fiscal year 2065/66 and decreased in fiscal year 2066/67.

4.1.2 Revised Budgeted and Actual Cash

Table 4.2
Statement Showing Revised budgeted Cash and Actual Cash

(Rs. '0000)

Fiscal Year	Revised Budget	Actual	Deviation	% Change
2062/63	9,392,113	10,097,737	705624	6.99
2063/64	10,829,362	12,417,486	1588124	12.78
2064/65	10,655,130	9,574,500	(1080630)	(11.29)
2065/66	8,195,242	12,021,625	3826383	31.83
2066/67	11,030,579	14,746,338	3715759	25.20
Average	10,020,485.2	11,771,537.2	1751052	14.87

Source: Average Budget and Policy Program (2062/63 to 2066/67)

Figure 4.2

Figure Showing Revised Cash Budget and Actual Cash at End of F/Y

The Table 4.2 shows that the actual cash remained higher than the revised budgeted cash. The degree of deviation was of insignificant amount. In the fiscal year 2064/65 actual cash balance was less than the revised budgeted cash.

4.2 Shortage or Excess Cash balance

Nepal telecom prepares deficit budget. Deficit budget indicates shortage of source to cover overall uses of budget. In this portion of study, opening cash balance is not included as sources of total cash.

Table 4.3

Fiscal Year	Total Cash Sources	Total cash Uses	Surplus/Shortage
2062/63	9,471,847	10,805,334	(1,333,487)
2063/64	10,915,387	12,932,299	(2,016,912)
2064/65	12,870,339	17,763,327	(4,882,988)
2065/66	11,912,645	19,168,471	(7,255,826)
2066/67	17,858,091	21,952,914	(4,064,823)

Source: Budget and Policy Program (2062/63 to 2066/67)

Figure 4.3

Trend Line Showing Approved Budget Cash Surplus/Shortage without Previous Cash

The Table 4.3 & Figure 4.3 show that the budgeted total cash uses amount is higher than budgeted total cash sources which indicates shortage of in every year.

Table 4.4

Statement Showing Revised Budgeted Cash Surplus/Shortage Cash

Source:

(Rs.0000)

FiscalYear	Total Cash Receipts	Total Cash Uses	Surplus/Shortage
2062/63	9,068,163	7,909,959	1,158,204
2063/64	12,098,696	11,367,071	731,625
2064/65	11,821,612	13,583,968	(1,762,356)
2065/66	13,132,546	14,511,804	(1,379,258)
2066/67	19,797,607	20,788,653	(991,046)

Average Budgeted and Policy Program (2062/63 to 2066/67)

Figure 4.4

Figure Showing Revised Budget Cash Surplus/Shortage Cash

The Table 4.4 and figure 4.4 show revised budgeted cash receipts and cash uses. In the F/Y 2062/63, 2063/64 and 2064/65; the deviation between budgeted receipts and uses indicates surplus of cash. This was happened when budget was revised during mid of budgeted period. But in the F/Y 2064/65, 2065/66, 2066/67 deviation is negative showing and the revised budget shows that there was no need for financing.

Table 4.5

Statement Showing Actual Cash Surplus/Shortage

(Rs. ' 0000)

Fiscal Year	Actual Cash Receipts	Actual Cash Uses	Deviation	Surplus/Shortage
2062/63	9,827,256	8,998,023	829,233	Surplus
2063/64	11,843,217	10,090,042	1,753,175	Surplus
2064/65	1,2151,818	14,444,112	(2,292,294)	Shortage
2065/66	16,510,177	14,063,052	2,447,125	Surplus
2066/67	20,482,552	17,757,839	2,724,713	Surplus

Source: Average Budget and Policy Program (2062/63 to 2066/67)

Figure 4.5

Figure Showing Actual Cash Surplus/Shortage

The Table 4.5 shows big deviation between actual sources and uses. It means there was surplus of cash at the end of every fiscal year except in the F/Y 2064/65. This shows that the budgeted

cash receipt was not actually used according to the plan of the company. Question about investment of surplus cash and opportunity cost of that surplus amount was not answered by the concerned authority. The Figure 4.5 shows the surplus rised up to the F/Y 2063/64 and falled in the F/Y 2064/65 and again rised up to the F/Y2066/67. In F/Y 2066/67, the surplus is the highest.

4.2.2 Considering previous year remaining cash balance:

Table 4.6

Statement Showing Approved Budget Cash Surplus/Shortage with Previous Cash
(Rs.'0000')

Fiscal Year	Opening Cash	Internal Sources	External Sources	Total Cash Available	Total Application of cash	Closing Cash	Surplus/ Shortage
2062/63	6,509,804	9,011,847	4,600,000	15,981,651	10,805,334	11,686,121	5,176,317
2063/64	9,392,113	10,785,387	1,300,000	10,915,387	12,932,299	7,375,201	(2,016,912)
2064/65	10,829,362	12,770,339	1,000,000	12,870,339	17,763,327	5,936,374	(4,892,988)
2065/66	10,655,130	11,912,645	0	11,912,645	19,168,471	3,399,304	(7,255,826)
2066/67	12,021,625	17,858,091	300,000	17,888,091	21,952,914	6,590,307	(4,064,823)

Source: Budget and Policy Program (2062/63 to 2066/67)

Figure 4.6

Figure Showing Approved Budget Cash Surplus/Shortage

Table 6 shows that total budgeted sources involved closing cash balance of previous year, external and internal source. Internal source of cash was main portion of the total cash source to meet the budget. The total approved budget cash expenses could be met by total budgeted cash source and there were deficit in every year except 2062/63.

Table 4.7
Statement Showing Revised Budget Cash Surplus/Shortage

Fiscal Year	Opening Cash	Internal Sources	External Sources	Total Sources	Total Application	Closing Cash	(Rs.'0000'
							Surplus/ Deficit
2062/63	8,233,909	8,819,968	248,195	17,302,072	7,909,959	9,392,113	1,158,204
2063/64	10,097,737	12,004,378	94,318	12,098,696	11,367,071	10,829,362	731,625
2064/65	12,417,486	11,821,612	0	11,821,612	13,583,968	10,655,130	(1,762,356)
2065/66	9,574,500	13,132,546	0	13,132,546	14,511,804	8,195,242	(1,379,258)
2066/67	12,021,625	19,797,607	0	19,797,607	20,788,653	11,030,579	(991,046)

Source: Budget and Policy Program (2062/63 to 2066/67)

Figure 4.7

Figure Showing Revised Budget Cash Surplus/Shortage

The Table and Figure shows similar indication as Table 4.6. When budget was revised, there was huge amount of surplus in 2062/63 but in 2064/65 there were shortage in every year up to

2064/65 except 2061/61 there was little surplus. The deficit budget had been prepared just after the NT entered in the market competition.

Table 4.8

Statement Showing Actual Cash Surplus/Shortage

(Rs. '0000')

Fiscal Year	Opening Cash	Other (external & internal source)Cash	Cash not incurred	Total Actual Cash Sources	Total Actual Uses	Closing Cash	Surplus / (Shortage)
2062/63	8,242,139	9,827,256	1,026,365	19,095,760	8,998,023	10,097,737	829,233
2063/64	10,097,737	11,843,217	566,574	22,507,528	10,090,042	12,448,819	1,753,175
2064/65	10,780,699	12,151,818	1,086,125	24,018,642	14,444,112	9,574,500	(2,292,294)
2065/66	9,574,500	16,510,177	-	26,084,677	14,063,052	12,021,625	2,447,125
2066/67	12,021,625	20,482,552	-	32,504,177	17,757,839	14,746,338	2,724,713

Figure 4.8.1

Figure Showing Actual Cash Surplus/Shortage

Figure 4.8.2

Trend Line Showing Actual Cash Surplus/Shortage

The table and figures above show there was surplus of fund in each year except in F/Y 2064/65.

The trend line shows the surplus was in increasing order. There was shortage in year 2064/65. It

was due to the reason that the amount Rs. 1,668,150,0000 from Closing Cash Balance of F/Y 2063/64 to Investment which reduced Opening Cash for F/Y 2064/65. Otherwise actual cash surplus was in increasing trend.

4.2.3 Analysis of Source of Financing

4.2.3.1 Internal source of cash

Internal sources of financing of cash which was planned by the company in the every fiscal years were categorized as Collection of revenue, Inter-administration, Subscriber deposit, Sale of sets and other income, Collection of Vat & Other Services Maturation of Government Securities, and Other Income. Those were main sources of financing to meet the expenditure of the approved budget. The budgeted internal sources of cash was revised in the mid of the every fiscal year. The amount of internal source of budget was in increasing trend. It was sufficient to meet actual annual expenses of the company. The actual cash collection position under various head was in satisfactory position for different fiscal years. The Company was able to collect more than its target, so there was no problem of financing at all. (Appendix I, II & III)

4.2.3.2 External source of cash

The external source of cash was financed by international agencies. The external financing were made: (a) World Bank (b) Danish grant/ loan(c) NDF loan (d) Japanese grant (e) Korean loan (f) Belgium loan. The external source used by NT was the Belgium loan. But the external source of financing was very nominal in total source of financing. From the study of actual collection of cash, it shows that the company could fulfill its fund needs by its own internal source. The amount of loan which was borrowed from external parties was decreasing every year. (Appendix IV, V and VI)

4.2.4 Analysis of Application of Fund

4.2.4.1 Analysis of Investment

The company has been adopting a routine procedure for its investment purpose which was compulsory in nature. NT had not analyzed use of surplus cash. It has prepared budget keeping cash aside for investment purpose rather than managing surplus cash. The company made provision of cash for investment purpose which were mainly in government securities and staff loan. Although the investment was in increasing trend but it could not go with the surplus of the company. (For more detail see appendix VIII, IX and X)

4.2.4.2 Analysis of Application of Overall Funds

An application of fund was in increasing trend. In the F/Y 2065/66, it decreased in comparison to the F/Y 2064/65 but it was highest in the F/Y 2066/67. Funds were mainly used in revenue expenditure, capital expenditure, payments to government, payments to employees, payments to inter- administration, payment of loan and interest, Financial investment and other liabilities. The amount raised from external source in the F/Y 2062/63 was used for capital expenditure. The

increasing trend of fund shows that NT has been exploring its opportunities and using its fund to make them fruitful. (Appendix VII)

4.3 Analysis of Variance

4.3.1.1 Variance between approved budgeted use and actual uses

Table 4.9

Statement Showing Variance Between Approved Budget Uses And Actual Uses

(Rs. ' 0000)

Fiscal Year	Budget Uses	Actual Uses	Difference	%
2062/63	10,802,963	8,998,032	(1,804,931)	(16.71)
2063/64	12,932,299	10,090,042	(2,842,257)	(21.98)
2064/65	17,763,327	14,444,112	(3,319,215)	(18.68)
2065/66	19,168,471	12,021,625	(7,146,846)	(37.28)
2066/67	21,952,914	17,757,839	(4,195,075)	(19.11)

Source: Budget and Policy Program (2062/63 to 2066/67)

Figure 4.9

Figure Showing Variance between Approved Budget Uses and Actual Uses

The Table 4.9 and Figure 4.9 shows approved amount of budget was not incurred as the company plan. The goal of approved budget, which was designed by the company, was not accomplished by company. There was great difference between actual uses of cash in various head than as planned in approved budget. The performance level was below the budget. The company was not able to spend cash source which was approved to meet the objectives of programs and projects in all fiscal year. Specifically, there is great difference in F/Y 2065/66 of approved budgeted uses and actual uses.

4.3.1.2 Variance between Revised budget use and actual uses

Table 4.10

Statement Showing Variance between Revised Budget Uses and Actual Uses

(Rs' 0000')

Fiscal Year	Revised Budget Uses	Actual Uses	Difference	%
2062/63	7,909,959	8,998,032	1,088,073	13.76
2063/64	12,932,299	10,090,042	(1,277,029)	(11.23)
2064/65	13,583,698	14,444,112	860,414	5.96
2065/66	14,511,804	14,063,052	(2,490,179)	(20.71)
2066/67	20,788,653	17,757,839	(3,030,814)	(17.07)

Source: Budget and Policy Program (2062/63 to 2066/67)

Figure 4.10

Figure Showing Variance between Revised Budget Uses and Actual Uses

The Table 4.10 and figure 4.10 shows that when the budget was revised, actual uses was slightly greater than revised budget uses in the F/Y 2062/63 and 2064/65. But, there was less application of funds than in revised of corresponding The F/Y 2063/64, 2065/66 and 2066/67.

4.3.2 Sources variance

4.3.2.1 Variance between approved budgeted sources and actual sources

Table 4.11

Statement Showing Variance Between Approved Budget Sources And Actual Sources

(Rs. ' 0000')

Fiscal Year	Approved Budgeted Cash Sources	Actual Cash Sources	Difference	%
2062/63	9,471,847	9,827,256	355,409	3.75
2063/64	10,915,387	11,843,217	927,830	8.50
2064/65	12,870,339	12,151,818	(718,521)	(5.58)
2065/66	11,912,645	16,510,177	4,597,532	38.59
2066/67	17,888,091	20,482,552	2,594,461	14.50

Source: Budget and Policy Program (2062/63 to 2066/67)

Figure 4.11

Figure Showing Variance between Approved Budget Sources and Actual Sources

The Table 4.11 and figure No.4.11 exhibits that budgeted amount of sources is higher than total actual sources in year 2064/65. It indicates collections of cash from different sources were less than the company targeted in those years. But, actual cash sources were favorable in all year except 2064/65.

4.3.2.2 Variance between Revised budget sources and actual sources:

Table 4.12

Statement Showing Variance between Revised Budget Sources and Actual Sources
(Rs.' 0000')

Fiscal Year	Revised Budget Sources	Actual Sources	Difference	%
2062/63	9,068,163	9,827,256	759,093	8.37
2063/64	12,004,378	11,843,217	(161,161)	(1.34)
2064/65	11,821,612	12,151,818	330,206	2.79
2065/66	13,132,546	16,510,177	3,377,631	25.72
2066/67	19,797,607	20,482,552	714,945	3.61

Source: Budget and Policy Program (2062/63 to 2066/67)

Figure 4.12

Showing Variance between Revised Budget Sources and Actual Sources

The Table 4.12 and Figure 4.12 show that Revised Budget of cash shows favorable situation of cash. The total actual cash source was higher than revised budgeted cash source except in year 2063/64. The company has always drawn ambitious budget. But it was not able to meet its target as desired. Revisions of cash budget tried to adjust than approved budget. There was huge amount of cash surplus which was not invested and managed properly. Even though there was unfavorable situation in application of budgeted cash, collection of the cash or sources shows positive prospects of budget. That means actual cash source becomes higher than budgeted cash source amount. But, in F/Y 2063/64, the actual cash source was less than revised budget.

4.4 Ratio Analysis:

Ratio analysis is a tool which is used for evaluating the financial performance of the company. It is useful for the stakeholder of the company. It presents the actual financial position of the company. Liquidity ratio, turnover ratio, profitability ratio and solvency ratio are the major types of ratio which are frequently used for the analysis. (Appendix XI and XIV)

For the study, selected ratios were used to exhibit cash position, liquidity position of the NT.

4.4.1 Cash Position Analysis:

$$(i) \quad \text{Absolute cash ratio} = \frac{\text{Cash}}{\text{Current liabilities}}$$

Table 4.13

Statement Showing Absolute Cash Ratio			Rs. (In million)
Fiscal Year	Cash	Current Liabilities	Cash/Current Liabilities

2062/63	10,097.730	10,137.350	1.00
2063/64	12,449.0000	12,501.588	0.99
2064/65	9,574.500	14,722.677	0.65
2065/66	12,021.625	15,665.380	0.77
2066/67	14,746.338	15,675.154	0.94

Source: Average Budget and Policy Program (2062/63 to 2066/67)

Figure 4.13.1

Figure Showing Absolute Cash Ratio

Figure 4.13.2

Trend Line Showing Absolute Cash Ratio

On the basis of the above table and figures, it can be found that the cash position of company was very strong over the study period. The cash ratio was in slightly decreasing trend over the F/Y 2064/65 and 2065/66.

(ii) Cash to total assets ratio = $\frac{\text{Cash}}{\text{Total Assets}}$

Table 4.14

Statement Showing Changes in Cash to Total Assets Ratio

Fiscal Year	Cash Rs(million)	Total Assets Rs(million)	Cash/ Total Assets
2062/63	10,097.73	29,724.70	0.34
2063/64	12,417.49	34,272.65	0.36
2064/65	9,574.50	35,572.77	0.27
2065/66	12,021.63	23,686.03	0.51
2066/67	14,746.34	27,985.96	0.53

Source: Budget and Policy Program (2062/63 to 2066/67)

Figure 4.14.1

Figure Showing Cash to Total Assets Ratio

Figure 4.14.2

Trend Line Showing changes in Cash to Total Assets Ratio

The table and figures above depict that cash was the major component of total asset. It shows that cash was kept idle without investing in appropriate sector. The ratio simply increased up to the F/Y 2063/64 and decreased in the F/Y 2064/65 but its increasing trend remains much over the F/y 2065/66 and 2066/67.

(iii) Interval measures =
$$\frac{\text{Cash}}{\text{Average Daily Cash Operating Expenses}}$$

Table 4.15
Statement Showing Interval measures

Fiscal	Cash	Annual	Daily	Cash/Average

Year	Rs(million)	Operating Expenses Rs (million)	Operating Expenses Rs (million)	Daily Operating Expenses (days)
2062/63	10097.73	1439.42	4.00	2524.43
2063/64	12,449.00	1550.10	4.31	2888.39
2064/65	9,574.50	1626.35	4.52	2158.08
2065/66	12,021.63	2032.43	5.65	2127.72
2066/67	14,746.34	2147.52	5.97	2470.08

- The figures in days above have been rounded up. And a year of 360 days assumed.

Source: Budget and Policy Program (2062/63 to 2066/67)

Figure 4.15

Trend Line Showing Interval Measures

On the basis of above table and figures, the company's annual closing cash balance (in million) was Rs. 10097.73, Rs. 12449, Rs. 9574.50, Rs. 12021.63, and Rs. 14746.34 in the fiscal years 2062/63, 2063/64, 2064/65, 2065/66, and 2066/67 respectively. Similarly, the average daily operating expenses (in million) were Rs. 4.00, Rs. 4.31, Rs. 4.52, Rs. 5.65, and Rs. 5.97 in the

respective fiscal years. The company's annual closing cash balance was found to be sufficient to meet the average daily operating expenses.

4.4.2 Liquidity Analysis:

$$(i) \text{ Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Table 4.16

Statement Showing Current Ratio

Fiscal Year	Total Current Assets	Total Current Liabilities	Ratio C.A / C.L)
	Rs(million)	Rs(million)	
2062/63	18,424.14	10,137.35	1.82
2063/64	23,037.70	12,501.59	1.84
2064/65	20,598.35	14,722.68	1.40
2065/66	22,526.52	15,665.38	1.44
2066/67	23,519.75	15,675.15	1.53

Source: Budget and Policy Program (2062/63 to 2066/67)

Figure 4.16.1
Figure Showing Current Ratio

Figure 4.16.2

Trend Line Showing the Changes in Current Ratio

The Table 4.16 and the Figures depict that the current assets of the company over the study period was sound to meet the current liabilities. And the major portion of current assets comprised of cash.

$$(ii) \text{ Liquid ratio} = \frac{\text{Liquid assets}}{\text{Current liabilities}}$$

Table 4.17

Statement Showing Liquid Ratio

Fiscal Year	Liquid Assets Rs(million)	Current Liabilities Rs(million)	Ratio (L.A / C.L)
2062/63	13,128.01	10,137.35	1.30
2063/64	15,200.96	12,501.59	1.22
2064/65	12,400.44	14,722.68	0.84
2065/66	15,121.12	15,665.38	0.94
2066/67	18,201.85	15,675.15	0.97

Source: Average Budget and Policy Program (2062/63 to 2064/65)

Figure 4.17.1

Figure Showing Current Ratio

Figure 4.17.2

Trend Line Showing the Changes in Current Ratio

The Table 4.17 and Figures 4.17.1 & 4.17.2 show the position of highly liquid assets to meet the current liabilities of the company. It was found more than required in the F/Y 2062/63 and 2063/64 and in rest the fiscal year it was less than 1.

4.4.3 Cash Turnover Ratio

$$\text{Cash turnover ratio} = \frac{\text{Sales}}{\text{Cash in hand } \Gamma \text{ bank balance}}$$

Table 4.18

Statement Showing Cash Turnover Ratio

Fiscal Year	Total Revenue (Rs. millions)	Cash and Bank (Rs.millions)	Total Revenue / cash and bank
2062/63	7208.09	10097.73	0.71
2063/64	8318.97	12,449.00	0.67
2064/65	8584.14	9,574.50	0.89
2065/66	10413.65	12,021.63	0.87
2066/67	13967.32	14,746.34	0.95

Source: Budget and Policy Program (2062/63 to 2064/65)

Figure 4.18

Trend Line Showing Cash Turnover Ratio

The table and figure above show that the company's cash turnover ratio was in decreasing trend up to F/Y 2063/64 and increased in 2064/65 and again slightly decreases and finally, in year 2066/67, it was increased and highest. Mainly, the revenue for every year was in increasing trend but the cash has decreased in year 2064/65 and 2065/66. In addition, the turnover ratio which indicates that the company was unable to utilize its idle cash in generating sales. The company's position of liquid cash that remained idle was too high.

4.5 Actual Cash Flow Analysis

4.5.1 Cash Flow from All Activities

Table 4.19

Statement Showing Cash Flow from Various Activities

Activities	Fiscal Year				
	2062/63	2063/64	2064/65	2065/66	2066/67
CFOA	4,126,932,220	4,724,587,088	4,827,497,506	6,722,360,621	8,052,325,466
CFIA	(2,043,123,009)	(1,015,896,483)	(2,595,531,134)	(2,483,522,527)	(3,326,419,166)
CFFA	(66,210,126)	(1,806,740,710)	(3,187,010,931)	(2,071,719,115)	(1,475,161,719)

Source: Budget and Policy Program (2062/63 to 2066/67)

Figure 4.19.1

Figure Showing Cash Flow position from Various Activities

Figure 4.19.2

Trend Showing Cash Flow position from Various Activities

The table and figures above shows cash flow position of company in different fiscal year. From F/Y 2062/63 to 2066/67 cash inflow from operating activities was increasing year by year. Cash inflow position from operating activities was in gradual increasing trend from year 2062/63 to 2066/67. Cash outflow in investment activities was lower in year 2063/64 in rest of the study period there was increasing trend. This shows that company was extending it services and project. Again, it shows that company was in growing stage. Company had negative cash flow in financing activities from year 2062/63 to 2066/67 that means it was paying it long term liabilities. Company was paying back its loan and investing its fund simultaneously which become possible because of retained earnings. Cash from operating activities was ploughed for the investment and loan payment. It shows strong financial position of company.

4.6 Policy Analysis:

Some of the provision, procedure and rules relating to cash management practices and internal control are analyzed in this phase of study:

-) Strategic plan for ten years should be prepared with revision and amendment in every five years.
-) Short term plans and annual programs should be prepared to meet the objective of the strategic plan.
-) Annual programs and estimated income/expenditure budget should be presented in central office before three month by the beginning of fiscal year. Managing director, with revision and amendment present that budget in committee for the discussion and approval.
-) To meet operating expenses, 25 % of actual annual expenses can be provided as advance budget in case the budget is not approved.
-) Budget can be transferred and adjusted in different heads if it is required after getting prior approval of managing director or the committee.
-) In case income and deposit, income amount should be deposited in the company's fund account.
-) Deposit or income amount received against services and from other source should be deposited in the same day. If it is not possible, the cash should be deposited in next day which is mandatory.
-) Deposits from customer or other parties received time to time should be deposited in deposit account.
-) In regards of account operation, transaction should be done with Nepal Rastra Bank or other commercial banks as recommended by committee.

-) Signature of minimum two authorized persons is required in such transaction.
-) Telecom offices should transfer the income amount from office fund account to central fund account keeping minimum balance amount in their offices.
-) Final responsibility of all book keeping and accounting procedure relating income expenditure lies upon office – in – charge although account officer have to perform tasks and responsibility related to economic transaction under the order of office in charge and within economic rules of the company.
-) All the transaction should be in due course within rules and procedure which has to be reported to the authority.
-) After internal audit has to be done within specific time, all the reports and records should be prepared within two months by the end of fiscal year for final audit.
-) There is strict provision for the advance and advance clearance.
-) All the records and account should be kept systematically and in organize way following accounting policy of the company.
-) There is provision of penalty and punishment for deregulating accounting rules and economic policy of the company.
-) For the daily petty expenses Rs 25,0000 and Rs 10,0000 petty cash fund is established for central office, directorates, departments and account office respectively on reimbursement basis.

There are strict provisions regarding cash handling in NT. These legal provisions are mandatory for every authorized officer along with other subordinates staffs. The decision making process will be lengthy due to compliance of time consuming rules and procedure as prescribed. Prompt

decision cannot be by the company. The policy study shows that NT is still suffering from centralization problem of management. (Source: *Budget and Policy Program of the F/Y 2064/65*)

4.7 Major Findings

The presentation and analysis of cash position of NT help to draw the following major findings:

- a. The actual cash balances were higher than the budgeted amounts. The deviation increased up to the fiscal year 2065/66 and decreased in the fiscal year 2066/67. It indicates positive trend in closing balance of cash. Similarly, actual cash balances were higher than the revised budgeted cash amount. The F/Y 2064/65 actual cash balance was less than the revised budgeted cash.
- b. Nepal Telecom used to prepared and approve deficit budget to the total budgeted cash uses was always higher. This situation was totally remained different when the company revised its budget. The result of revision showed surplus position of cash. Moreover, when comparison is made between the actual cash receipts and actual cash uses, there was big deviation resulting surplus. So, it shows that budget was not implemented properly and surplus was not invested in productive sector. It could be done by keeping required level of closing cash balance in hand.
- c. That total budgeted sources involved closing cash balance of previous year, external and internal source. Internal source of cash was main portion of the total cash source to meet the budget. The total approved budget cash expenses could be met by total budgeted cash source and there were deficit in every year and surplus only in 2062/63. When budget was revised, there was huge amount of surplus in 2062/63 but in 2064/65 there were

deficit in every year up to 2064/65 except 2061/61 there was little surplus. The deficit budget had been prepared just after the NT entered in the market competition. There was surplus of fund in each year except in F/Y 2064/65. The trend line shows the surplus was in increasing order. There was deficit in year 2064/65. It was due to the reason that the amount Rs. 1,668,150,0000 from Closing Cash Balance of F/Y 2063/64 to Investment which reduced Opening Cash for F/Y 2064/65. Otherwise actual cash surplus was in increasing trend.

- d. Internal sources of financing of cash which was planned by the company in various fiscal years were categorized as Collection of revenue, Inter-administration, Subscriber deposit, Sale of sets and other income, Collection of Vat & Other Services Maturation of Government Securities, and Other Income. The budgeted internal sources of cash was revised in the mid of various fiscal year. It tried to match with actual position. The amount of internal source of budget was in increasing trend. It was sufficient to meet actual annual expenses of the company.
- e. The external source of cash was financed in past mainly following international agencies:
(a) World Bank (b) Danish grant/ loan (c) N.D.F loan (d) Japanese grant (e) Korean loan (f) Belgium loan. But Belgium loan was only the external source of financing over the study period. It was very nominal in total source of financing. From the study of actual collection of cash, it shows that the company could fulfill its need by its own internal source. The amount of loan which was borrowed from external parties was decreasing year by year.

- f. NT used its fund in revenue expenditure, capital expenditure, payments to government, payments to employees, payments to inter- administration, payment of loan and interest, financial investment and other liabilities. The amount raised from external source in F/Y 2062/63 was used for capital expenditure. The increasing trend of fund shows that NT has been exploring its opportunities and using its fund to make them fruitful. And NT made provision of cash for investment purpose which were mainly in government securities and staff loan.
- g. The goal of approved budget, which was designed by the company, was not accomplished by company. There was great difference between actual uses of cash in various head than as planned in approved budget. The performance level was below the budget. The company was not able to spend cash source which was approved to meet the objectives of programs and projects in all fiscal year. Specifically, there is great difference in F/Y 2065/66 of approved budgeted uses and actual uses. When the budget was revised, actual uses was slightly greater than revised budget uses in F/Y 2062/63 and 2064/65. But, there was less application of funds than in revised of corresponding F/Y 2063/64, 2065/66 and 2066/67.
- h. Budgeted amount of sources is higher than total actual sources in year 2064/65. It indicates collections of cash from different sources were less than the company targeted in those years. But, actual cash sources were favorable in all year except of 2064/65.

- i. The company has always drawn ambitious budget. But it was not able to meet its target as desired. Revisions of cash budget tried to adjust than approved budget. There was huge amount of cash surplus which was not invested and managed properly. Even though there was unfavorable situation in application of budgeted cash, collection of the cash or sources shows positive prospects of budget. That means actual cash source becomes higher than budgeted cash source amount. But, in F/Y 2063/64, the actual cash source was less than revised budget.
- j. An attempt was made to diagnose the financial health of the company with regards to analysis of various ratios. Under this part, cash position analysis, liquidity position analysis, and cash turnover ratio (cash velocity ratio) have been implicated and found as –
- It was found that the cash position of company was very strong over the study period. The cash ratio was in slightly decreasing trend over the F/Y 2064/65 and 2065/66 but it was in satisfactory status on 2066/67.
 - The analysis of cash to total assets ratio shows that cash was kept idle without investing in appropriate sector. The ratio simply increased up to F/Y 2063/64 and decreased in 2064/65 but its increasing trend remains much over the 2065/66 and 2066/67.
 - Interval measure show that the company's annual closing cash balance (in million) was Rs. 10097.73, Rs. 12449, Rs. 9574.50, Rs. 12021.63, and Rs. 14746.34 in the fiscal years 2062/63, 2063/64, 2064/65, 2065/66, and 2066/67 respectively. Similarly, the average daily operating expenses (in million) were Rs. 4.00, Rs.

4.31, Rs. 4.52, Rs. 5.65, and Rs. 5.97 in the respective fiscal years. The company's annual closing cash balance was found to be sufficient to meet the average daily operating expenses.

- Under liquidity analysis, current ratio and liquidity ratio were used. Current ratios show that the current assets of the company over the study period were good enough to meet the current liabilities. And the major portion of current assets comprised of cash. And the liquidity ratios show that the position of highly liquid assets to meet the current liabilities of the company. It was found more than sufficient on F/Y 2062/63 and 2063/64 and in rest there was satisfactory status of liquid ratio. It was because of the huge portion of cash in the current assets.
- The company's cash turnover ratio was in decreasing trend up to F/Y 2063/64 and increased in 2064/65 and again slightly decreases and finally, in year 2066/67, it was increased. Mainly, the revenue for every year was in increasing trend but the cash has decreased in year 2064/65 and 2065/66. In addition, the turnover ratio which indicates that the company was unable to utilize its idle cash in generating sales. The company's position of liquid cash that remained idle was too high.
- Cash flow position of company in different fiscal year was discussed in actual cash flow analysis portion of the study. From F/Y 2062/63 to 2066/67 cash inflow from operating activities was increasing year by year. Cash inflow position from operating activities was in gradual increasing trend from year 2062/63 to 2066/67. Cash outflow in investment activities was lower in year 2063/64 in rest of the study period there was increasing trend. This shows that company was extending its services and project. Again, it shows that company was in growing stage.

Company had negative cash flow in financing activities from year 2062/63 to 2066/67 that means it was paying its long term liabilities. Company was paying back its loan and investing its fund simultaneously which became possible because of retained earnings. Cash from operating activities was ploughed for the investment and loan payment. It shows strong financial position of company.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

NT has invested a huge amount of cash for moving the company effective usage of cash. Effective management of cash increases the profitability of the company. The present study focuses on the cash management adopted by the NT. It tries to analyze the cash management of NT for last five year period. The main objective of this study is to show true might in to its' "cash management" and an attempt has main made in the study to provide a possible suggestive framework, for better cash management. Nepal Telecom has a challenge to operate in a systematic manner that improves the key business process sales performance of NT is satisfactory and sales revenue is increasing every year but not in same ratio.

Through the study, it is found that NT has huge amount of cash. cash as a means and ends of business operation must be held in sufficient. Holdings of cash in excess and insufficient than requirement may lead a firm to problems.

The main sources of NT are sale of telecom service. besides these sources company receives income from sale materials, maturity of financial investment and other. capital expenditure, administration expenses, employee cost, operating and maintenance cost etc. And the company holds cash for transection motives. Nepal telecom has geting effort for cash management in a firm, which helps the company to maintain sufficient liquidity and also the same time improve its profitability.

At last, this study specially focuses on cash management practices of NT.As stated in the introduction chapter, the objective of the study are to observe the planning and controlling of

cash in NT, to examine internal control policy in NT regarding cash control practices, to identify surplus and cash position in the company, source of financing, sector of investment and to study liquidity position of the company. Review of related literature and previous studies has been concluded in the second chapter. Tools and techniques, which was implemented in fourth chapter has been described in chapter three. Fourth chapter includes presentation and analysis of data. Hence, an effort has been made in this chapter to present major findings on the arena of cash management of NT to fulfill the objectives of the study.

5.3 Conclusion

Although the liquidity and cash position of the company is sound strong, it cannot be concluded that the cash management practices in Nepal telecom was satisfactory in general. Company has been adopting various management tools and techniques like annual cash budget, annual actual cash flow statement, provision of financing and investment for cash management of the company. But it only plays formal role and fails to screen the weakness of the cash management. It has not applied any corrective action although its own annual analysis indicates the actual weak situation of cash management in some sector. From the study of targeted sector of cash management practices of Nepal Telecom, it can be concluded as below:

Company could not meet targeted expenses and expenditures as it approved in the budget. It shows that there was over estimation of expenses as well as weakness in the implementation of budget. Planning and implementation could not go side by side. It may be due to the security and political reason that company could not run the project and programs.

Another astonishing fact is – The Company was able to collect more cash from different sources than it targeted in the budget. It shows good position of actual cash collection of the company. On the other hand, company did not spend cash as it targeted. Due to these facts, there was enough surplus cash in hand every year. But company could not manage the surplus in the productive sector. It was unable to cope up with the market demand which could have fulfilled through tracking the surplus cash in that profitable sector.

The study shows that company has high liquidity which adversely affects profitability of the company. Moreover, it fails to invest surplus cash in appropriate investment sector. Instead of investing surplus there was separate budget for investment which was compulsory in nature. Company has also taken external loan from foreign institution which was not required to borrow. It was able to meet its expenses of budget by its own source. One of the amazing facts is that only closing balance of cash of a year was sufficient to meet daily operating expenses for five to six years.

There are strict provisions regarding cash control practices like procedure of running bank account, central collection policy, authority and responsibility for expenses etc in Nepal Telecom. Strict and lengthy procedure of business activities hamper in decision making which may cause to suffer for not getting business opportunity.

5.4 Recommendations

Cash management is one the important aspect of overall management area which is interrelated and integrated with overall functioning of management. Financial efficiency and the effectiveness are vital for achieving the goal of any business enterprises.

On the basis of the study considering target objective, following are the recommendations for effective and efficient cash management of the NT.

- a. Preparation of realistic budget: While preparing budget, the Finance Department should analyze the actual past data and present needs of the programs applying systematic and scientific method of data analysis. Actual total uses of budget amount were not matching with budgeted target for expenses purpose. There must not be such vast deviation between actual and budgeted figure.
- b. Appropriate investment policy for surplus cash: On the basis of study, there seems enough cash surplus than it was required. So there must be appropriate policy and strategies to use that surplus cash in profitable sector.
- c. Maintain liquidity in balance: There is high liquidity in the company. If the liquidity of the company is too high, it adversely affects the profitability of NT. So, the company should hold the cash as required to run annual operating expenses. Idle cash should be utilized in appropriate sector; which can be for extending services of the company, investment in secured sector etc.
- d. Use internal source in full capacity: Internal source is sufficient to finance whole budgeted expenses of the NT. It should not borrow loan from foreign institution because it involves cost.
- e. Revision of the strict provisions regarding cash: NT should adopt practical procedure and practices for handling cheques and cash. To deal financial and cash matter, responsibilities, authority and accountability should be delegated, making process more practical and flexible. It encourages for prompt decision by responsible person. It helps to implement the budget in time.

BIBLIOGRAPHY

Books:

Agrawal, Govinda Ram (2003). *Dynamics of Business Environment in Nepal*. Kathmandu: M.K Publisher and Distributer.

Bajracharya, Subarna Lal (1990). *A Study of Cash Management in Nepalese Public Enterprise*. New Delhi: Unpublished PhD Thesis submitted to University of Delhi.

Betty, J (1972). *Management Accountancy*. Plymouth: English Language Book Society and Macdonald and Evans Ltd.

Brigham, Eugene F., Gapenski, Louis C. and Ehrhardt, Michael C. (2001). *Financial Management*. New Delhi: Prentice Hall Of India Private Ltd.

Goldress, Jedry E. and Chiston, Roger W. (2006). *Management of Crisis Management Review*. New York: American Management Association.

Hampton, John J. (1989). *Financial Decision Making*, New Delhi: Prentice Hall of India Pvt. Ltd.

Khan, M.Y and Jain, P.K (2003). *Financial Management*. New Delhi: Tata McGraw Hill Publishing Company Ltd.

Maheshwari, S .N and Mittal S.N (2003). *Cost Accounting and Financial Management*. New Delhi: Shree Mahavir Book Depot.

Pandey, I.M. (1997), *Financial Management*. New Delhi: Vikash Publishing House Pvt. Ltd.

Pokhrel, S. B. (2005). *First Anniversary Souvenir*. Kathmandu: Nepal Telecom.

Pradhan, Radheshyam (2004). *Financial Management*. KathmanduBuddha: Academic Publishers and Distributors Pvt. Ltd.

Pradhan, Surendra (1992). *Basic Financial Management*. Kathmandu: Educational Enterprises Private Limited.

Simon, Harry and Kerrenbrock, Wilbert E. (1964). *Intermediate Accountancy*. India: South Western Publishing Company.

Van Horne, James C. (2002). *Financial Management and Policy*. New Delhi: Prentice Hall of India Private Limited.

Welch , Glenn A. , Hilton , Ronald W., Gordon, N Paul (2000). *Budgeting Profit Planning and Control*. New Delhi: Prentice Hall of India Private Limited

Weston J. Fred and Brigham Eugene F.(1978). *Managerial Finance*. Florida: The Dryden Press

Unpublished Master Level Thesis:

Bhatt, Lok Raj (2006). Revenue Planning and Cash Management of Public Utility in Nepal: *A Case Study of Nepal Telecom*. An unpublished Master level Thesis Submitted to Central Department of Management, Faculty of Management, Tribhuvan.

Chataut, Bhuwan Raj (2008) has made research entitled on *Cash Management In Nepal Telecom*. An Unpublished Master Level Thesis Submitted to Shankerdev Campus, Faculty of Management, Tribhuvan University.

Neupan,e Dipendra Kumar (2001) has has conducted a research on *A Study on profit planning in Nepal Tele Communication Ltd*. An unpublished master level thesis submitted to Nepal Commerce Campus Faculty of Management, Tribhuwan University.

Paudel, Rudra Prasad (2010) entitled on *Cash Management on the context on Nepal Telecom*. An Unpublished Master Level Thesis Submitted to Shankerdev Campus, Faculty of Management, Tribhuwan University.

Pradhan, Bijaya (1997). *A Case Study of Cash Management in STCL*. Kathmandu: An unpublished Master Level Thesis Submitted to Shankerdev Campus, Faculty of Management, Tribhuvan University.

Sainju, Sabin Prakash (2003). *Cash Management in Public Manufacturing Enterprises: A Case Study of Royal Drugs Limited*. Kathmandu: An unpublished Master Level Thesis Submitted to Shankerdev Campus, Faculty of Management, Tribhuvan University.

Sharma, Hemanta (2011) entitled on *Cash Management of Nepal Telecom (NTC)*. An Unpublished Master Level Thesis Submitted to Shankerdev Campus, Faculty of Management, Tribhuvan University.

Publications:

Ministry of Finance, Budget Book (2059/60 – 2066/67)

Nepal Telecom, Annual Report (2002 – 2011).

Nepal Telecom, *Budget Policy & Program* (2059/60 – 2066/67).

Websites:

www.answers.com/topic/cash-management

www.investopedia.com/

www.InvestorWords.com

www.ntc.net.np

APPENDICES

Internal source of cash

Appendix I

Statement Showing Total Internal Source Of Financing As Per Approved Budget
(Rs'.000)

Year Description	2062/063	2063/064	2064/065	2065/066	2066/067
(a) Domestic revenue	5589791	5920458	6801692	6832989	8836249
(b) Inter-administration	666400	980000	1470000	1315650	1447852
(c) Subscriber deposit	313412	340784	353832	619475	830360
(d) Sale of sets and other income	33913	254598	353248	385492	292649
(e) Collection Of Vat & Other Service charge	1624788	1822645	2252250	2309039	2864181
(f) Maturation of Govt. Securities	423543	1090702	1103800	-	3130300
(g) Other Income	360000	376200	435517	450000	456500
Total Internal Sources	9011847	10785387	12770339	11912645	17858091

Appendix II

Statement Showing Total Internal Source Of Financing As Per Revised Budget (Rs'.000)

Year Description	2062/063	2063/064	2064/065	2065/066	2066/067
(a) Domestic revenue	5007721	6197329	6271330	7361764	10450016
(b) Inter-administration	1100000	2000000	1620597	1959840	1944450
(c) Subscriber deposit	508183	223614	161611	443170	304734
(d) Sale of sets & other income	160976	278325	342437	331523	262048
(e) Collection of VAT & other Services	1192183	1749810	1886320	2336249	2911478
(f) Maturation of Govt. Securities	508905	1135300	1103800	350000	3265880
(g) Other Income	342000	420000	435517	350000	659000
Total Internal Sources	8819968	12,004,378	11821612	13132546	19797607

Appendix III

Statement Showing Total Actual Internal Source Of Financing

(Rs'.000)

Description	Year				
	2062/063	2063/064	2064/065	2065/066	2066/067
(a) Domestic revenue	5347262	6027070	6513925	8209068	11319925
(b) Inter-administration	1231780	1955765	1565085	1855434	1932396
(c)Subscriber deposit	314821	182236	280336	254588	196413
(d) Sale of sets & other income	421060	288698	344290	550202	-
(e) Collection of Vat & Other Services	1404780	1749810	1886858	2403463	2807193
(f) Maturation of Govt. Securities	508905	1135300	951171	2579000	3442320
(g) Other Income	411198	504338	610153	658422	784305
Total Internal Sources	9639806	11843217	12151818	16510177	20482552

External Source of Cash

Appendix IV

Statement Showing Total Approved Budgeted External Source Of Financing

(Rs'.000)

Description	Year				
	2062/063	2063/064	2064/065	2065/066	2066/067
(a) Belgium loan	460000	130000	100000	-	30,000
Total External Sources	460000	130000	100000	-	30,000

Appendix V

Statement Showing Total Revised Budgeted External Source Of Financing

(Rs'.000)

Year Description	2062/063	2063/064	2064/065	2065/066	2066/067
(a) Belgium loan	248195	94318	-	-	-
Total External Sources	248195	94318	-	-	-

Appendix VI

Statement Showing Actual External Source Of Financing

(Rs'.000)

Year Description	2062/063	2063/064	2064/065	2065/066	2066/067
(f) Belgium loan	187450	-	-	-	-
Total External Sources	187450	-	-	-	-

Appendix VII
Application of Fund

(Rs. in '000')

SN	Description	Actual 2062/063	Actual 2063/064	Actual 2064/065	Actual 2065/066	Actual 2066/067
1	Revenue Expenditure	1,439,418	1,550,101	1623,348	2,032,433	2,147,520
2	Capital Expenditure (Internal Sources)	2,012,321	1,298,913	3208,335	2,417,413	3,783,603
3	Capital Expenditure (External Sources)	187,450	-	-	-	-
4	Payments to Government	2,644,365	3553,841	3,892,921	3,335,820	5,581,479
	Income Tax	860,000	1,417,566	1556,063	1,328,175	2,090,357
	Prior Years' Tax Liabilities	-	-	-	-	563,698
	VAT, Service Charge & Ownership Tax	1,404,780	1,749,810	1,886,858	1,970,494	2,363,737
	Royalty & RTDF	379,585	386,465	450,000	371,551	563,687
5	Payment to Shareholders	576,167	509,209	400,000	483,347	1,500,000
	Dividend	576,167	509,209	400,000	483,347	1,500,000
	Prior Years' Dividend	-	-	-	-	-
6	Payments to Employees	310,660	299,586	616,227	267,475	285,637
	Pension and Gratuity	224,082	93,647	318,651	14,170	23,884
	Bonus & Incentive	86,578	205,939	297,576	253,365	261,753
7	Payment to Inter- administrator	62,377	63,096	1,491	52,777	62,238
	Interadministration Sharing	62,377	63,096	1,491	52,777	62,238
8	Payment of Loan & Interest	320,448	346,749	53,485	28,169	-
	Repayment of Loan	300,116	324,333	52,729	25,834	-
	Interest on Loan	20,332	22,416	756	2,335	-
9	Repayment of subscriber's deposit	-	-	-	-	-
10	Other Liabilities	411,655	443,573	958,305	174,778	84,412
11	Financial Investments	1,033,202	1,024,974	790,000	3,220,500	4,312,950
	Total	8,998,023	10,090,042	14,444,112	14,063,052	17,757,839

Investment of Cash
Appendix VIII

Statement Showing Investment of Cash as in Approved Budget

(Rs'.000)

Fiscal Year	Investment in Govt. Securities	Staff Loan	Total
2062/063	500,000	50,000	550,000
2063/064	1,000,000	50,000	1,050,000
2064/0625	3,000,000	50,000	3,050,000
2065/067	1,750,000	70,000	1,820,000
2066/067	5,027,827	100,000	5,127,827

Appendix IX

Statement Showing Investment of Cash as in Approved Budget

(Rs'.000)

Fiscal Year	Investment in Govt. Securities	Staff Loan	Total
2062/063	903,202	5,0000	953,202
2063/064	903202	50,000	953,202
2064/0625	-	50,000	50,000
2065/067	3,461,000	70,000	3,531,000
2066/067	4,521,700	150,000	4,671,700

Appendix X

Statement Showing Investment of Cash as in Approved Budget

(Rs'.000)

Fiscal Year	Investment in Govt. Securities	Staff Loan	Total
2062/063	983,202	50,000	1,033,202
2063/064	974,974	50,000	1,024,974
2064/0625	740,000	50,000	790,000
2065/067	3,150,500	70,000	3,220,500
2066/067	4,162,950	150,000	4,312,950

Appendix XI
Balance Sheet As at Ashadh End

**Rs.in
'million'**

Sl. No.	Particulars	Actual 2062/063	Actual 2063/064	Actual 2064/065	Actual 2065/066	Actual 2066/067
	Cap. & Liab.					
A	SHF					
	Share Capital	2,053.87	15,000.00	15,000.00	15,000.00	15,000.00
	RE	17,227.70	6,759.81	5,665.41	8,602.37	11,710.62
	Cap. Res.	240.00	-	160.45	83.66	83.66
	Total SHF	19,521.57	21,759.81	2,0825.86	23,686.03	26,794.28
B	Loan Fund					
	GON Loan	233.78	11.25	24.24	-	1,191.68
	Total Loan Fund	233.78	11.25	24.24	-	1,191.68
	Total Capital & Liabilities	19,755.35	21,771.06	20,850.10	23,686.03	27,985.96

A	Fixed Assets					
	Net Fixed Assets	7,607.70	7,837.44	9,040.91	10,088.43	11,361.04
B	Capital WIP	1,922.70	1,555.85	2,452.58	2,443.06	3,764.65
C	Investments	1,770.16	1,704.74	3,338.73	4,156.95	4,883.86
D	Current Assets					
	Inventories	400.78	359.02	309.86	392.32	327.68
	A / R (Net of Prov.)	3,030.28	2,783.47	2,825.94	3,099.50	3,455.51
	Cash & Bank Bal.	10,097.73	12,417.49	9,574.50	12,021.63	14,746.34
	Loans, Advances and others	4,895.35	7,477.72	7,888.05	7,076.08	4,990.22
	Total C. A.	18,424.14	23,037.70	20,598.35	22,526.52	23,519.75
E	Current Liabilities					
	Subs. Deposits	2,252.15	2,638.80	2,843.31	3,089.75	3,286,161
	Accounts Payable	1,376.07	727.60	1,015.18	79.99	2,118.59
	Other Liabilities	457.50	1,029.51	1,421.24	1,312.01	807.54
	Provisions	6,051.63	8,105.68	9,442.96	11,189.63	9,962.86
	Total C. L.	10,137.35	12,501.59	14,722.68	15,665.38	15,675.15
F	Net Working Capital (D-E)	7,844,600	10,536.11	5,875.67	6881.14	7,844.60
G	Deferred Revenue Expenditure	168.00	136.93	142.19	136.45	131.82
	Total Assets	19,755.35	21,771.06	20,850.10	23,686.03	27,985.96

NT – Achievements

Appendix XII

Line Capacity Addition in Eleventh Plan	Future Programs in F.Y.2064/65	Future Programs in F.Y.2065/66	Future Programs in F.Y.2066/67
PSTN	178921	124331	125238
GSM	2150000	1020000	850000
CDMA	225000	845000	766000
ADSL	22224	63186	50000
Internet	10000	10000	10000
Total Lines Addition planned	2566145	2062517	1801238

Appendix XIII

Financial Highlights

































Particulars	2062/063	2063/064	2064/065	2065/066	2066/067	In million Rs.
Operating Revenue	7208	8312	8584	10414	13032	
Non-Operating Revenue	461	543	610	645	722	
Net Profit before Tax	4093	4551	4922	6844	8308	
Net Profit available	3137	2524	3701	4593	6056	

for appropriation						
Net Current Assets	8287	7584	5876	6861	8597	
Net Fixed Assets	7608	8094	9040	10088	9684	
Long Term Debts	234	11	24	0	0	
Total Equity and Reserve & Surplus	19522	20580	20826	23686	27720	
Operating Profit Ratio	57%	55%	57%	66%	64%	
Net Profit Ratio	41%	34%	40%	42%	44%	
Operating Revenue /DEL	18126	14192	12268	8972	7576	Nrs.
Operating Expenses/DEL	8993	7345	6107	3632	3166	
Current Ratio-Times	1.82	1.60	1.40	1.44	1.53	
Debt/Equity Ratio	0.01	0.001	0.001	0.0000	0.0000	
Debt Service Coverage Ratio	49.72	17.72	395.83	231.57	0.00	
Return on Investment (%)	16	15	18	19	22	
Debt Collection Period including Inter administration	173	160	147	127	115	In days
Debt Collection Period Excluding Inter-administration	104	102	102	95	90	

Mile Stone of Nepal Telecom

Appendix XIV

Year	Milestone Details
1913	Establishment of first telephone lines in Kathmandu
1914	Establishment of Open wire Trunk Link from Kathmandu to Raxaul (India)
1935	Installation of 25 lines automatic exchange in Royal Palace
1936	Installation of Open Wire Trunk line from Kathmandu to Dhankuta
1950	Establishment of Telegram Service
1950	Introduction to High frequency Radio System (AM)
1950	Establishment of CB telephone exchange (100 lines) in Kathmandu
1951	Installation of Open Wire Trunk line from Kathmandu to Palpa
1955	Distribution of telephone line to general public
1962	First Public Telephone Exchange in Kathmandu (300 lines CB)
1964	Beginning of International Telecommunications Service using HF Radio to India and Pakistan
1965	First Automatic exchange in Nepal (1000 lines in Kathmandu)
1971	Introduction of Telex Services
1974	Microwave transmission links establishment for internal trunk
1982	Establishment of Standard "B" Type Earth Station for international circuits
1982	Establishment of SPC telex exchange
1983	Establishment of digital Telephone Exchange
1984	Commencement of STD service
1984	Reliable Rural Telecom Service (JICA)
1987	Commencement of STD service
1995	Installation of Optical Fiber Network
1996	Conversion of all Transmission link to Digital transmission link
1996	Automation of the entire Telephone Network
1996	Independent Int. Gateway Exchange established
1996	Introduction of VSAT services
1997	Digital Link with D.O.T. India through Optical Fiber in Birgunj - Raxaul
1998	Direct Link with Bangladesh
1999	Launching of GSM Mobile service

2000		Implementation of SDH Microwave Radio
2000		Launching of Internet Service
2001		Launching of Payphone Service
2002		East West Highway Optical Fiber Project
2003		GSM Prepaid Service
2004		NEPAL TELECOM (Transformation from Corporation to Nepal Doorsanchar Company Limited)
2004		Pre-paid Calling Card Service (IN Services)
2005		Soft launch of CDMA
2005		Access Network Services
2005		Outsourcing of Enquiry Service (197)
2006		PSTN Credit Limit Service - PCL (IN)
2006		Home Country Direct Service - Nepal Direct (IN)
2006		MCC (198) Complaint Registration via IVR in Kathmandu Valley
2006		CDMA Limited Services in Kathmandu Valley
2007		Expansion of Internet Bandwidth through India-Nepal cross boarder optical link.
2007		National Roaming for CDMA Mobile (Sky Phone)
2007		IVR service by 1888 free VOIP call complaint
2007		In GSM mobile GPRS, 3G/ CRBT
2008		ADSL internet Service
2008		IVR service by 1607 GSM and CDMA Service
2008		Notice Board Service
2009		SMS Service GSM to CDMA
2009		CDMA Postpaid Mobile Service
2009		GSM Voice Mail Service
2010		Excess Code 1424 service
2010		BTS Service in GSM mobile
2010		Friends and Family (FNF) Call Service Post Paid GSM Mobile
2010		Corporate Users Groups Service in Post paid Mobile
2010		Multimedia massage Service in GSM Prepaid mobile
2011		Miss Cal Alert (MCA) Service in Postpaid mobile
2011		Missed Call Notification Service In GSM Prepaid Mobile
2011		Web SMS Service in Prepaid GSM Mobile

2011 	Voice Mail Service in GSM Mobile
2011 	International Roaming Service in GSM Postpaid Mobile