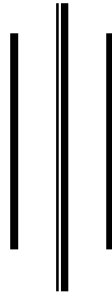
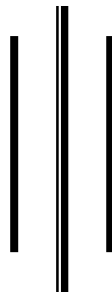


**FINANCIAL PERFORMANCE
OF
SURYA NEPAL PRIVATE LIMITED
Biratnagar**



Submitted By
KARUNA BHANDARI
Post Graduate Campus
T.U. Regd. No-7-2-278-985-2000



A Thesis Submitted to:
**Office of the Dean,
Faculty of Management
Tribhuvan University**

*In partial fulfillment of the requirements of the degree of
Master of Business Studies (M.B.S.)*

Magh 2067



TRIBHUVAN UNIVERSITY
Post Graduate Campus
Biratnagar, Nepal

Tel. No. 021 -471327
021- 471204

Ref. No.

RECOMMENDATION

This is to certify that the thesis;

Submitted by
Karuna Bhandari

Entitled
**FINANCIAL PERFORMANCE OF SURYA NEPAL
PRIVATE LIMITED BIRATNAGAR**

*has been prepared as approved by this department in the prescribed
format of Faculty of Management, Tribhuvan University. This thesis
is forwarded for examination.*

Supervisor

.....
(Mr. Ram Prakash Upadhyay)

Head of Department

.....
(Prof. Dr. Khagendra Acharya)

Campus Chief

.....
(Mr. Harihar Bhandari)

Date:



TRIBHUVAN UNIVERSITY
Post Graduate Campus
Biratnagar, Nepal

Tel. No. 021 -471327
021- 471204

Ref. No.

VIVA-VOCE SHEET

We have conducted the viva voce examination of the thesis Presented by
KARUNA BHANDARI

Entitled
FINANCIAL PREFORMANCE OF SURYA NEPAL PRIVATE LIMITED

*and found the thesis to be the original work of student and written
according to the prescribed format. We recommend the thesis to accepted
as partial fulfillment of the requirement for*

Master of Business Studies (M.B.S.)

Viva-voce committee

Chairperson, Research Committee:

Member (Thesis Supervisor):
(Mr.Ram Prakash Upadhyay)

Member (External Expert):

Date

DECLARATION

I hereby declare thesis entitled financial performance of Surya Nepal Private Limited submitted to the office of Dean, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the Master Degree in Business Studies (M.B.S.) under the supervision of Mr. Ram Prakash Upadhyay.

.....
Karuna Bhandari
Researcher

Date

ACKNOWLEDGEMENT

This thesis “FINANCIAL PERFORMANCE OF SURYA NEPAL PRIVATE LIMITED” which is partial fulfillment of requirement for the degree of master of business studies under the faculty of management, Trubhavan University.

First of all I must gratefully acknowledged to my respected teacher **Mr. Ram Prakash Upadhyay**, lecturer of management of Post Graduate Campus supervisor of this thesis, for his valuable suggestion, constant, encouragement, adequate support, patient guidance, co-operation and regular supervision to complete this research study . Similarly, I would like to give sincere thanks to **Prof. Dr. Khagendra Acharya**, whose individual recommendation helps me at each and every stage of my research work. I am equally indebted to campus **Chief Mr. Harihar Bhandari** and other teacher of management faculty. My sincere thanks goes to librarian and other campus staff for their helps and providing good environment for this study.

I extent my deep gratitude to my parents, brothers, sisters and all family members not only for their support and perpetual kind co-operation but also for their waiting in my future achievement.

Its my more pleasure to express my thanks to **Mr. Divya Raj Chapagain** Deputy Controller of Examination of Eastern region for making good environment to complete this thesis. I am also thankful to my friends **Kamal Dahal, Rajan Bhandari Sumita Bista, Gyanu Chapagain, Shaligram Bhandari** for their co-operation in my research time. And a special mention of thanks need to the staff of Nepal stock exchange for providing me the secondary data source.

Lastly I am thankful to **Mr. Yadav Dai** of Bargachhi Communication Center Bargachhi, Biratnagar for his excellent performance in computer setting.

Finally, needless to say I alone am responsible for any deficiencies; they have remained in this study paper.

Karuna Bhandari
(Researcher)

TABLE OF CONTENTS

Recommendation
Viva-voce Sheet
Declaration
Acknowledgements
Table of Contents
List of Tables
List of Diagrams
Abbreviations

Chapter-1 INTRODUCTION

	Page No
1.1 Background.....	1
1.2 Focus of the Study...	2
1.3 Statement of the Problem...	3
1.4 Significance of the Study...	3
1.5 Objective of the Study...	4
1.6 Limitation of the Study.....	4
1.7 Organization of the Study.....	5-6

Chapter-II REVIEW OF LITERATURE

2.1 Introduction.....	7
2.2 Conceptual Review...	7
2.2.1 Financial Performance.....	7
2.2.2 Financial Management...	9
2.2.3 Financial Statement...	10
2.2.3.1 Balance Sheet...	11
2.2.3.2 Income Statement...	12
2.2.4 Uses of Financial Statement...	12
2.2.5 Limitation of Financial Statement	13
2.2.6 Financial Statement Analysis	14
2.2.7 Need of Financial Statements	15
2.2.8 Tools and Techniques of Financial Statement Analysis	16
2.2.8.1 Funds Flow Statement Analysis	16

2.2.8.2	Financial Ratio Analysis	18
2.2.8.3	Trends Percentages Analysis	27
2.2.8.4	Correlation Analysis	28
2.2.8.5	Common Size Statement Analysis	30
2.3	Review of Related Studies	32

Chapter-III

RESEARCH METHODOLOGY

3.1	Research Design	35
3.2	Sources of Data	36
3.3	Population and Sample	36
3.4	Data Collection Techniques	36
3.5	Data Processing Procedures	37
3.6	Data Analysis Tools	37
3.7	Research Questions	38

Chapter-IV

DATA PRESENTATION AND ANALYSIS

4.1	Funds Flow Statement Analysis	39
4.1.1	Schedule of Changes in Working Capital	40
4.1.2	Statement of Source and Application	46
4.2	Ratio Analysis	50
4.2.1	Liquidity Ratio	51
4.2.1.1	Current Ratio	51
4.2.1.2	Quick Ratio	52
4.2.2	Leverage Ratio	53
4.2.2.1	Long-Term Debt to Net Worth Ratio	54
4.2.2.2	Total Debt to Net Worth Ratio	55
4.2.2.3	Total Liabilities to Assets Ratio	56
4.2.2.4	Interest Coverage Ratio	57
4.2.2.5	Net Fixed Assets to Long Term Debt Ratio	58
4.2.3	Activity Ratio	59
4.2.3.1	Total Assets Turnover Ratio	59
4.2.3.2	Debtor Turnover Ratio and Average Collection Period	60
4.2.3.3	Inventory Turnover Ratio	61
4.2.3.4	Net Sales to Net Worth Ratio	62
4.2.3.5	Fixed Assets Turnover Ratio	63
4.2.4	Profitability Ratio	64
4.2.4.1	Gross Profit Margin	65
4.2.4.2	Net Profit Margin	65
4.2.4.3	Return on Total Assets	66

4.2.4.4 Net Profit to Net Worth Ratio	67
4.2.4.5 Return on Capital Employed	68
4.2.4.6 Cost of Goods Sold Ratio	69
4.3 Trend Analysis	70
4.3.1 Trend of Gross Profit, Net Sales and Cost of Goods Sold	73
4.3.2 Trend of Net Profit, Net Sales and Cost of Goods Sold	74
4.3.3 Trend of Net Profit, Net Sales, and Direct Mfg. Expenses	75
4.3.4 Trend of Current Asset and Current Liabilities	76
4.2.5 Trend of Total Assets and Total Liabilities	77
4.3.6 Trend of Net Sales and Inventory	78
4.3.7 Trend of Interest, Total Liabilities and Deferred Liabilities	79
4.3.8 Trend of Total Assets and Net Worth	80
4.3.9 Trend of Worth and Share Capital	81
4.3.10 Trend of Gross Profit, Operating Profit and Net Profit	82
4.3.11 Trend of Net Sales and Total Assets	83
4.4 Correlation Analysis	83
4.4.1 Karl Person's Correlation Coefficient and Probable Errors of Gross Profit and Net Sales	84
4.4.2 Karl Person's Correlation Coefficient and Probable Error of Net Profit and Net Sales	85
4.4.3 Karl Person's Correlation Coefficient and Probable Error of Net Worth and Total Liabilities	87
4.4.4 Karl Person's Correlation Coefficient and Probable Error of Net Sales and Net Worth	88
4.4.5 Karl Person's Correlation Coefficient and Probable Error of Net Sales and Total Sets	89
4.4.6 Karl Person's Correlation Coefficient and Probable Error of Net Sales and Total Assets	91
4.5 Common Size Statement Analysis	92
4.5.1 Common Size Income Statement Analysis	93
4.5.2 Common Size Balance Sheet Analysis	94
4.6 Major Findings of the Study	97

Chapter -V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summaries.	99
5.2 Conclusions.	101
5.3 Recommendations.	103
BIBLIOGRAPHY.	
APPENDXES.	

LIST OF TABLES

1. Table of Changes in Working Capital for the year 2003 of SNPL	41
2. Table of Changes in Working Capital for the year 2004 of. SNPL	42
3. Table of Changes in Working Capital for the year 2005 of SNPL.	43
4. Table of Changes in Working Capital for the year 2006 of SNPL.	44
5. Table of Statement of Source and Application	45
6. Table of Current Ratio	52
7. Table of Quick Ratio	53
8. Table of Long-Term Debt to Net Worth Ratio	54
9. Table of Total Debt to Net Worth Ratio	55
10. Table of Total Liabilities to Assets Ratio	56
11. Table of Interest Coverage Ratio	57
12. Table of Net Fixed Assets to Long Term Debt Ratio	68
13. Table of Total Assets Turnover Ratio	69
14. Table of Debtor Turnover Ratio and Average Collection Period	61
15. Table of Inventory Turnover Ratio	62
16. Table of Net Sales to Net Worth Ratio	63
17. Table of Gross Profit Margin	64
18. Table of Net Profit Margin	65
19. Table of Fixed Assets Turn Over Ratio	66
20. Table of Return on Total Assets	67
21. Table of Net Profit to Net Worth Ratio	68
22. Table of Return on Capital Employed	69
23. Table of Cost of Goods Sold Ratio	70
24. Table of statement of Trend percent of items of SNPL	72
25. Table of Karl Person's Correlation Coefficient and Probable Errors of Gross Profit and Net Sales	84
26. Table of Karl Person's Correlation Coefficient and Probable Errors of Net Profit and Net Sales	86
27. Table of Karl Person's Correlation Coefficient and Probable Errors of Net Worth and Total Liabilities	87
28. Table of Karl Person's Correlation Coefficient and Probable Errors of Net Sales and Net Worth	88
29. Table of Karl Person's Correlation Coefficient and Probable Errors of Net Sales and Total Sets	90
30. Table of Karl Person's Correlation Coefficient and Probable Errors of Net Sales and Total Assets	91
31. Table of Common Size Income Statement Analysis	93
32. Table of Common Size Balance Sheet Analysis	95

LIST OF DIAGRAMS

1. Trend Line of Gross Profit, Net Sales and Cost of Goods Sold	73
2. Trend Line of Net Profit, Net Sales and Cost of Goods Sold	74
3. Trend Line of Net Profit, Net Sales, and Direct Mfg. Expenses	75
4. Trend Line of Current Asset and Current Liabilities	76
5. Trend Line of Total Assets and Total Liabilities	77
6. Trend Line of Net Sales and Inventory	78
7. Trend Line of Interest, Total Liabilities and Deferred Liabilities	79
8. Trend Line of Total Assets and Net Worth	80
9. Trend Line of Worth and Share Capital	81
10. Trend Line of Gross Profit, Operating Profit and Net Profit	82
11. Trend Line of Net Sales and Total Assets	83

ABBREVIATIONS USED IN THIS STUDY

GDP	= Gross Domestic Product
SNPL	=Surya Nepal Private Limited
US	=United State
NPV	= Net Present Value
Mfg.	= Manufacturing
Mgmt.	= Management
Exp ⁿ	= Expenses
Pg	= Page No.
NIDC	= Nepal Industrial Development Corporation
Misc.	= Miscellaneous
P.E.r	= Probable Error
r	= Correlation Coefficient
r _{xy}	= Correlation Coefficient between x and y variables
FY	= Fiscal Year
Pvt.	= Private
Ltd.	= Limited
DDC	= Dairy Development Corporation
BJM	= Biratnagar Jute Mills
UCIL	= Udayapur Cement Industry Limited
MBO	= Management By Objectives
SWOT	= Strengths , Weaknesses , Opportunity and Threat
EOQ	= Economic Order Quantity
NEPSE	= Nepal Stoke Exchange
EPS	= Earning per Share
CO ₂	= Carbon dioxide gas
A/c	= Account
c/d	= Carried down
b/d	= Bought down

Chapter: One

INTRODUCTION

1.1. Background of the study.

Nepal is known as an agricultural country and economy of Nepal is predominately agriculture one. Industrial sector only accounts for about one third of total national production. The role, which manufacturing and processing company play in national economy, is only marginal. Industrial sectors play vital role for the development of the country by improving the economic condition. Industrialization is a major tool of progress, modernization, socialization and social change in Nepal. It is one of the major tools with the aid which the various circle of backwardness and poverty can be broken.

Industrialization not only creates vast and different opportunities for the employment on the modern unemployment age but also maximum utilization of human resources, capital resources and other natural resources of the country. It contributes to government of nation in economic sector in different ways such as increase the income of the people by providing the employment opportunities, making job by using of natural resources, facilitates the agricultural development by reducing the pressure on land creating the demand for agricultural raw material to agriculture. Therefore an important pre-requisite for economic development and transition of country from traditionalism and an agrarian economy to modernization is to faster the industrialization.

Government of Nepal has given the emphasis on the industrial sector in increasing rate by using the different rules and regulations day by day. The different economic survey report states that the emphasis on industrialization for the creation of enough job opportunities for the people and for raising their economic levels through a sizable increase in GDP appears quite relevant at a time, when the growth of population of the country is pushing the rural economy down to the subsistence level.

In this context, government has operated numerous manufacturing trading and commercial enterprises, which are called as public enterprises. The government has encouraged private sectors by using the policy of privatization and liberalization to operate such types of enterprises for the development of national economy as well. It is because national development is possible only when there is close relationship between government owned enterprises and private sector in executing development effort. Government

alone cannot fulfill the social and economic needs of people. Therefore, the role of private sector is more important in the process of economic development of country. Characteristics such as control mechanism, entrepreneurship, participating management, professional skill, decision-making process and freedom of management of the private section enable it to influence the economy constructively and according to the changing situation.

Surya Nepal Private Limited (SNPL) is an Indo-Nepal-UK joint venture which started operations in Nepal in 1986. Surya Nepal is now the largest private sector enterprise in Nepal and a subsidiary of ITC Ltd India, the balance shares are held by 20 Nepalese individual and corporate share holders and British American Tobacco (investment) Ltd UK. It is manufacturing and marketing of cigarettes and readymade garments in Nepal as well as export of readymade garments with a total turnover of over US \$100 Million.

There are two factories of Surya Nepal Pvt Ltd in Nepal. One is cigarettes factory which is located at Samara, Bara. Which produces mainly five kinds of cigarettes brand name known as Surya classic, Surys luxury kings. Shikhar, Khukuri and Bijuli. Another factory which produces readymade garments is located at Tankysinwary-2 Dharan road Biratnagar in area of 110000sq.ft. Which include the factory building warehouse canteen workers convenience and office block. the Surya Nepal is manufacturing the various clothes like formal and casual shirts , ladies tops and semi formal trousers, party wear shirt, jacket, 100% pure Merina wool sweater, blazer and suits under the brand name john player and springwood. Surya Nepal ltd sells its products in Nepalese market and also export all over the world.

My study is about Surya Nepal Pvt. Ltd. The company does not have policy of direct distribution, which uses two types of distribution channel i.e. through the dealer and retailer to customers. To maintain the leadership in the market, company always concentrate for its best products, for best clothes, the company brings its raw materials like cotton, plastics, zip etc. are imported from national and international market. The whole process (inputs to outputs) is prepared by company secretly and sold without disclosure.

1.2. Focus of the study

Nepal is a landlocked country in which majority people are unemployed. Nepal depends on other countries for the manufacturing things. Population of the kingdom is steeply increasing day by day. The kingdom has not technically developed enough to manufacturing commodities. So large amount of foreign currency is spending to import those commodities.

Industrial development was started from 1938 A.D. in Nepal and established various industries in different places to develop the country.

Nowadays there are nearly 5000 enterprises in Nepal, in which more than 300,000 people are engaged. The developments of the industries state that the condition of increasing trend of Nepalese industries is not satisfy.

It is not desirable and possible for the government to spend to public enterprises all times rather government must be in position to generate surplus or contribute financially for the definite objective and goal. Every public enterprise has certain rules and regulations. Through this rules and regulations government can control their function. In general, public enterprises are autonomous bodies. A public enterprise cannot exist if its economic condition is weak. Financial contribution from the public enterprises is possible only when the enterprises are financially sound. An enterprise must be financially viable to the extent in order to fulfill its objectives. The researcher wants to find out the financial performance of the SNPL. It helps to show the financial strength and weakness, which affect to their effectiveness and efficiency.

1.3. Statement of the problem

A nation's propensity to consume and investment play a key role in achieving economic stability. In this context, the performance of manufacturing public enterprises of the country assumes special significance.

Nepal is a poor country. It's saving and investment capacity is becoming poor day by day because of decreasing agricultural and industrial production and increasing population. In this context, the industrial products are necessary to promote all-round development of the country. Therefore the manufacturing company increased their production capacity to help the government and to meet the increasing market demand. SNPL contribute to the Nepalese people by providing the needy soft drinks producing according to the demand of the Nepalese people. SNPL eared profit in increasing rate up to 2004. After the years 2004 the profit is seems in decreasing trend.

Thus the analysis of the financial condition of company is diversification and it is necessary to analysis its financial performance. So that some corrective measures can be suggested for improvement of the company situation.

1.4. Significance of the study

Industrialization is the medicine to alleviate the poverty. Industrialization is playing vital role for the economic development of country by profitable earning. Financial position demand on profitability of industries. The profitability study of the enterprise will be the aid to save the enterprise for the long life to help to the poverty alleviation. It also helps to related organization and concerned top level and functional level of management bodies. Financial performance states its profitability, financial

position, efficiency, capital structure, liquidity and future progression's trend etc. These are helpful for the government, other enterprise and the management by providing the supportive decision to mobilize the fund effectively.

1.5. Objectives of the study

The basic objective of the study is to identify the financial condition, which is determined according to the nature of study. The objective of financial performance of SNPL is mainly to identify the existing financial position. The details objectives of the study are as follows.

- To identify the existing financial position of SNPL.
- To evaluate of sources and application of fund of SNPL.
- To test the financial situation with the help of ratio analysis of SNPL.
- To compare the present financial situation with the help of trend analysis of SNPL.
- To find the basic reasons of the financial performance good or bad in SNPL.
- To identify the strengths and weakness of SNPL.
- To provide reformative suggestions for future improvement of SNPL.

1.6. Limitation of the study

There are considerable place for arguing about its accuracy and reliability. There are limitations, which weaken the generalization, e.g. inadequate coverage of companies, time period taken, reliability of statistical tools used and other variables. The study finds out the different views and ideas for the future but different limitations bound it. The following limitations are pointed out to study the financial performance of Bottlers Nepal limited.

This analysis is based on five years data from 2002 to 2006 AD.

The figures of different account are consider at the year and only.

This study is based on secondary data. They are taken by annual reports and source of Internet (website of Nepal stock Exchange) of SNPL.

Its financial performance is based only on the funds flow analysis, ratio analysis trend analysis, correlation analysis and common-size statement analysis.

Rounding figures in zero is used mathematically to make easy in calculation in the study.

This study suggested rather than direct.

The study is mainly based on manufacturing activities.

This study is two years back because the financial statements (data) are not available in current date according to company's rules & regulations.

This study has not considered net present value (NPV) of money in the 5 years period.

1.7. Organization of the study:

In the study of financial Performance of Bottlers Nepal limited has been organized into five chapters. They are:

1. Introduction
2. Review of literature
3. Research methodology
4. Analysis and interpretation of data
5. Summary, conclusion and recommendation.

Introduction

In the introduction chapter it includes the 7 parts such as, focus of the study, statement of the problems, needs of the study, significance of the study, objectives of the study, limitations of the study and organization of the study. There fore first chapter of the study highlights on the objectives and structure of the study.

Review of literature

The second chapter that is known as review of literature. This chapter obtains during the library researcher. It contains introduction, introduction of financial performance. Financial statement, parts of financial statement, use of financial statement, limitation of financial statement, analysis of financial statement, need of financial analysis, use of tools and techniques on financial analysis etc.

Research Methodology

Third chapter is research methodology, which is discusses about the research methodology. This chapter includes research design, source of data, data collection procedures, population and sample of study, processing procedures, use of analytical tools and research question

Presentation and analysis of data

Presentation, analysis and interpretation of study is the forth chapter of the study. This chapter is the major part of the study. In this chapter mainly five types of analysis such as, ratio analysis, funds analysis, trend percentage analysis, correlation analysis and common-size statements analysis have been presented and interpreted.

Summary, conclusion and recommendation

At the last of the study, there is summary, conclusion and recommendation. This chapter is the ending of the study, which provides the suggestion for further improvement of the organization. By annual report and source of SNPL,

Chapter-Two

REVIEW OF LITERATURE

2.1. Introduction

Review of literature covers the review of analysis of the financial performance. The objective of the review of literature is to review the literature to develop the research effectively. “The purpose of reviewing the literature is to develop some expertise in one’s area to see what new contribution can be made and to receive some ideas for developing research design.”¹ Some light has been thrown with a purpose of reviewing the literature in this chapter. It contains financial performance, financial statement, financial statement analysis and interpretations of tools and techniques of financial statement analysis and review of the research study.

In the study the researcher consulted various books, journals, articles, seminar's papers, various relevant acts, rules, regulations and policies on related subject. Researcher also consulted on some thesis presented by various students on related subject. Some of their logics, issues, finding and suggestions are mentioned, which are found to be guideline to prepare the current study. And also have gone in various related organizations to review the literature of financial performance of SNPL.

2.2. Conceptual Review

2.2.1. Financial Performance

The financial performance prefers to treatment of the information confined in the financial statement to afford a full diagnosis of profitability and financial position of the concerned company. Financial performance is concerned with analysis of financial statement of an enterprise by using different tools and techniques. The real picture of financial performance mainly depends upon the past, present and anticipated future profit (financial condition) of an enterprise.

The profit earned by the company is the main financial performance indicator of the business enterprise. Profit result mainly from successful management, cost control, risk management, credit extension and general efficiency of the operation. It also affected by the government economic rules, regulation, policies interest rate, investment tax, labor law and inflation etc. “profit is essential for an enterprise to service and grow as well as the maintain capital adequacy through retained earning. It is also essential to

¹ .Wolf, Howard and Pant, Prem Raj “A hand book for Social Science Research and Thesis writing” Buddha Academy Enterprises, Katmandu, 2nd edition ,1999, pg-30.

access market for both debt and equity to provide funds for increased assistance to the productive sector”. 2

Financial performance is that managerial activity, which has concerned with the planning, raising, controlling, administrating of financial resource of an enterprise. The main activities essential to successful administration are the financial performance in any organization. Therefore financial performance is not only the evaluation of financial condition. But also the evaluation of planning and it helps to improve the planning in future." Management should be particularly interested in knowing the financial strengths of the firm to make their best use and to be able to spot out the financial weaknesses of the firm to take suitable corrective actions. The future plans of the firm should be laid down in view of the firms' financial strengths and weaknesses.”3

If management or enterprise fail to manage adequate capital than it takes the more risky. Inadequate equity capital structure or composition in the capital structure makes use of more debt of fixed cost. If a firm fails to earn profit sufficiently, it will be unable to meets its obligation. Consequently the firm may fail on insolvency position. In other words, lower position of the debt in capital structure also reduce the shareholders profit because the cost of debt always less than the cost of capital as well as of equity. Therefore, we conclude that neither the lower equity capital structure not the higher equity capital structure is effective for business organization. In short, adequate capital structure is necessary to smoothly operation of running business for every enterprise. An effective financial performance is that performance, which has management effectiveness by the returns, generated investment, the firm ability to maintain its economic position in a competitive market and the growth of the economy to use proper advantage and to take the corrective action of financial strengths and weaknesses. “Effective planning and control are central to enhancing enterprise value. Financial plans may take many forms, but any good plan must be related to the firm’s exiting strengths and weaknesses. The strengths must be understood if they are to be used to proper advantage and the weaknesses must be recognized if corrective action is to be taken.”4

We conclude that if the enterprise have been operating effective efficiency financial policy and management effectiveness by the returns generated on investment which is able to maintain its economic position in the growth of economy and the ability to achieve market value is excess of

² Ronald L. Robinson “*The Management of Bank Fund*” Mc Grew Hill Book Companying , New York, edition ,1951, chap.-21,22

³ Pandey, I.M. “*Management Accounting*” Vikas Publishing House, New Delhi, 1983, pg-89

⁴ Weston, J.F. & Copeland T.E. “*Managerial Finance*” The Dryden Press, New York, 9th edition, 1990 , pg-185

cost outlays, its financial performance is better on the competitive age of twenty first century. Financial performance means to generate its reasonable profit by giving high quality of goods and service offered of the consumers. In the manufacturing and processing sectors the main source of income is profit of selling goods and services.

2.2.2. Financial Management

“Financial management is a business activity which is concerned with the acquisition and utilization of capital funds in meeting the financial needs and overall objectives of the business organization.”⁵ In other words, financial management can be defined as the management of the flow of money and any credit instrument in an organization whether it is corporation, school, enterprise and bank or government agency. The successful financial management of an organization is beneficial to customers, employees, investors and also to the general people.

“Financial management is concerned with the acquisition financing and management of assets with some overall good in mind.”⁶

Financial management is considered as an integral part of overall management and decision of each and every functional area are made only after analyzing its financial consequence as well as contribution to achieve the financial objective of the business organization. The functions and scope of financial management covers the three major decision making areas i.e.

The investment decision

The financing decision

The dividend decision

One of the main objectives of any business organization is the higher return with the least cost. So that it can give good returns to investors in the form of dividends, in the form of bonus and other different facilities to employee’s attraction and to the creditors to invest more by providing the interest and returns on loan on time and some contribution to mention economic objectives of nation.

⁵. Adhikari, Nanda Kumar, “**Financial Management**” Sukunda Pustak Bhawarn, Kathmandu, 1st edition, 2057, pg-1

⁶. Van Horne, James & Wachowicz Jr, John, M. “ **Fundamental of Financial Management**” Prentice Hall of India, New Delhi, 9th edition, 2002, pg-3

2.2.3. Financial Statement

Financial statement is the collection and presentation of historical data organized according to logical and consistent accounting procedure. The basic purpose of financial statement is to provide information about the financial aspects of a business enterprise. Mainly the term financial statement as used in modern business states that the two statements, which are prepared by the accountant at the end of the financial period of time for a business enterprise. They are balance sheet or statement of financial position and income statement or profit and loss account statement. Some statement of corporations, there is added a next statement, which is known as statement of retained earning that reconciles the balance in the account at the period with that at the beginning.

“The financial statements provide a summary of the accounts of a business enterprise, the balance sheet reflecting the assets, liabilities and capital as of a certain date and the income statement showing the results of operations during a certain period.”⁷

"Financial statement reports what has actually happened to earnings and dividends over the past few years. It may show a position at a moment in time as in the case of activities over a given period of time in case of an income statement"⁸

Financial statement is prepared for the purpose of presenting a periodical review as report on the progress by management and deal with the starts of investment in the business and the result achieved during the period under review. Thus, "financial statement contains summarized information of the firms financial affairs organized systematically."⁹ Financial statements are the means to present the firm's financial condition to investors, creditors and general people. The basic objective of financial statements is to assist to decision-making. The basic financial statements prepared for the owners, investors, creditors and others are;

Balance sheet

Income statement

Director's reports

Copy of the chairman's speech

"Financial statement involved at least two statements which are prepared by a business concern at the end of the year. These are (I) Income statement or Trading, profit and loss account, which is prepared by a business concern

⁷ Myer, Jhon. N. "*Financial Statement Analysis*" Prentice Hall of India , 1974, pg-95

⁸ Hampton, Jone J. "*Financail Decision Making*" Prentice Hall of India, New Delhi.1981 . pg--63

⁹ Meigns W.B.& Others "*Intermediate Accounting*" Mc Graw Hill, New York, 1978 pg-1049.

in order to know the profit earned and loss sustained during specified period (ii) position statement or balance sheet, which is prepared by a business concern on a particular date in order to know its financial position"¹⁰

Thus, among the above financial statements, the main financial statements are Balance given below sheet or statement of financial position. Income statement or profit & loss account.

2.2.3.1. Balance sheet

"Balance sheet presents the position of company's assets, liabilities and stock holder's equity and a particular data, the liabilities indicate the amounts owed by the firm to its creditors"¹¹

Balance sheet is a statement, which is prepared with a view to present the true picture of the business organization at a certain fixed date, usually at the closing date of an accounting period. Therefore, it presents the financial position of a business organization or firm on the given date. The financial information contained in the balance sheet is presented into two sides as assets side and liabilities and net worth side. Assets side presents all items of fixed and current assets of the business organization as existed at a point of time. Liabilities side of balance sheet presents all the long- term as well as short –term liabilities including equity capitals. So, “Balance sheet contains information about resources and obligation of a business entity and about its owner's interest in the business at a particular point of time¹²”.

The comparison of the balance sheet prepared at the beginning and closing date of an accounting period shows the changes in the structure of assets and liabilities between two points of time. This change is the results of business activities carried out in between two accounting periods. This change also gives simple idea about the financial performance of the business organization. Thus “Balance sheet may be defined as a statement, prepare with a view to measure the exact financial position of a business on a certain fixed date.”¹³

Balance sheet provides not only the useful information, but also creates the critical situation for the business enterprise. Sometime it does not point out the result in the balance in each of the accounts. Many accounting methods are standard, but some variance is permitted, which would greatly change the amounts reported in certain accounts in certain time.

¹⁰ Jain,S.P. & Narayan, K.L."Financial and Management Accountancy" Kalyani publisher, New Delhi, 3rd edition, 1993 pg—B .15

¹¹ Lawrance D.Schall & Charles W. Haley, "Introduction to Financial Management" Mc Graw Hill book company,London, 4th edition ,1994, pg---381

¹² Knenedy, Ralpa, Dale, “Financial Statement for Analysis and Interpretation” Richard P. Irwin Inc, Chicago, edition 1947 pg-1

¹³ Batliboi,J.R., “Advanced Accounting” The Standard Accountancy Publications Private Ltd., Bombay, India, 31th edition, 1992 pg-68

In conclusion, balance sheet is classified summary of all assets and debit balance as well as liabilities and credit balances, which shows the financial position of company on a given date.

2.2.3.2 Income Statement

"Income statement is designated to report the point performance of business entity for specific period of time such as a year, quarter or month. Business revenues and expenses results from the accomplishment of the firm's operation"¹⁴

Income statement is the financial statement, which is the presentation of accumulated accounting data, prepared with a view to show the profit made or loss incurred during an accounting period of time. It is also known as profit and loss account. All the items of income, revenue, costs and expenses, which are accumulated during the accounting period, are included in this statement and profit or loss made during the period is determined. "The profit and loss account is condensed and classified record, prepared from various subsidiary and nominal accounts of the gains or, losses to the business for a period of time."¹⁵

"The income statement of the profit and loss account presents the summary of revenues, expenses, and net income (or net loss) of a firm for a period of time. Thus, it serves as a measure of the firm's profitability"¹⁶

The profit and loss account includes all outstanding expenses and revenue as well as non-cash expenses like depreciation amortization of preliminary expenses etc. Inclusion of such expenses is essential to find out the true profit and loss made during the accounting period. Therefore, the profit and loss account or income statement reflects the earning capacity and potentials of the firm. It explains the change in retained earnings caused by operations from one balance sheet to next. It usually encompasses yearly operations, although interim statements may be issued for short period such as monthly, quarterly etc.

2.2.4. Uses of Financial Statements

Financial statements are prepared from the accounting records maintained by the firm. The generally accepted accounting principles and procedures are followed to prepare these statements. The main use of the financial statement is to assist in investment decision-making. It is major tools to understanding what happen to the firm's wealth or money as the firm pursues its business activities. When used balance sheet, income statement,

¹⁴ Wilcox Kirkland A & Et. AL" *Introduction to Financial Accounting*", Hamper and Row publisher, New Work, 2nd edition 1984, pg---18

¹⁵ Chaudhary, S.B. "*Management Accounting*" Kalyani Publisher, New Delhi, India, 4th edition, 1978, pg-21

¹⁶ Pandey, I.M. "*Management Accounting* " Vikas Publishing House pvt. Ltd, New Delhi, India, 1983, pg- 26

flow of funds, funds flow statement and related other statements together, into the firm's efforts to achieve liquidity and profitability.

Financial statements are used to present a historical record of firm's financial development, when completed over a number of years. Using the trend analysis of financial statement, determine useful financial factors that have influenced the growth and current status of the business organization. Financial statement is useful to forecast a course of action for the business by preparing performs financial statement with a view to firm's future financial performance.

2.2.5. Limitations of Financial Statements

Although it has many advantages, there are some limitations, which also affect the data presented in the financial statements. Valuations of assets are made in a different way, if the company is liquidated. The value of the assets realized from the market may be higher or lower than its value shown in the books of accounts. Similarly accounting records are based on monetary units, which do not present the impact of inflation. In the financial statement profits are computing, including all accrued revenues and expenses. Though, the provisions for bad debts are made unrealized revenue, but there are the chances that the actual profit may be different due to the changes in the realization of such outstanding revenue.

The important facts with respect to the limitation of the statement are as follows:-

1. Financial statements are essentially interim reports and therefore, cannot be final because true profit cannot be computed unless the business is sold or liquidated. So the net income shown in the income statement is not absolute but relative depending open the particular conventional procedure used by the enterprise, for which the statement is compiled, this procedure having been selected from various alternatives.

2. Precision of the financial statement data is impossible because the statement deal with matters that can't be stated precisely. The data are produced by the professional accountant through many years of experience implemented by various postulates or assumptions and applied by judgment.

3. The assets shown in the balance sheet are largely unexpired and un-amortized costs. Which doesn't usually show the market value of assets? From above view, it follows that the balance sheet doesn't show what a business is worth and that is what might be obtained for it if it were sold.

4. The statement does not show the financial condition of business enterprise because these are many factors which are not parts of the financial statement data that have an important bearing on financial condition of

enterprise rather the financial statement show the position of the financial accounting for the business enterprise.

5. In the financial statement both income statement and balance sheet reflect rupee (money) value of transactions on different date. The rupee (money) value is fast changing and as such the accounting conclusion based on their figures might be misleading for the business enterprise.

In conclusion, A researcher, in order to analysis and interpret financial statement, requires to have a throughout understanding of the nature of each item expressed in this financial statement and should also know the limitation of the financial statements.

2.2.6. Financial Statement Analysis

Financial statement analysis can be undertaken by management of the business enterprise or by different parties outside the firm, such as, owners, creditors, investors and others. The nature of financial statement analysis will differ depending on the purpose of the analysis i.e. trade creditors are interested to analysis about the evaluation of the firm's liquidity position. Similarly the suppliers of the long-term debt are interested to analysis the firm's profitability over the time, its ability to generate cash to be able to pay interest and return their claims. Long term creditors on the other hand are interested to analysis about the firm's future solvency and profitability and investors, who have invested their money in the firm's shares, are most concerned about the earning of the firm. In conclusion they all are concentrated on the analysis of the present and future profitability of the firm.

“Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account.”¹⁷

“Financial statement analysis is an information processing system designed to provide data for decision making. The process of analysis of financial statement involves the compilation and study financial and operating data the preparation and interpretation with measuring devices such as ratios, trends and percentages.”¹⁸

Management, creditors, investors and others use the information contained in these statements to firm's judgment about operating performance and financial position. From the analysis of financial statement, user can be pointed out better insight about the financial strength and weakness or favorable and unfavorable of the firm when they analysis

¹⁷ Pandey,I.M."Management Accounting" Vikas Publishing House Pvt. Ltd. New Delhi , India, 1983, Pg -89

¹⁸ Agrawal,N.P. "Analysis of Financial Statement" National Publishing House, New Delhi , Edition, 1981, Pg-5

properly information reported in these statement. In conclusion, financial statements analysis is the starting point for making plans before using any sophisticated forecasting and planning procedures.

“The focus of financial analysis is key figures contained in the financial statement and the significant relationships and exists between them.”¹⁹

Business organizations, firms, enterprises and other parties may have different types of objective of financial statement analysis. So the users of financial statement such as firm's investors, creditors, management and academicians and students use different types of financial statement such as external and internal, short-term, and long-term analysis for their convenience.

2.2.7 Need of Financial Statement

Every financial statement is prepared according to generally accepted accounting records maintains by experience accounting profession of the institution or business enterprises. Financial management analysis plays important role on every management decision in a much-coordinated way. “Financial statement analysis is helpful in assessing the financial position, performance of profitability of a firm”²⁰. Therefore the financial management analysis is needed for the owners, creditors, investors, management, students, academicians and general people with respect the following point of views are as follows:-

1. It helps to forecast of future earning and dividend
2. It shows the financial position of the enterprises and firm
3. It communicates the information for all party who are related to financial transactions.
4. It helps to solve that how much required capital of the firm has been able to internally and externally.
5. It provides needed information about change in economic resources and obligations.
6. It tells about the strength and weakness of the firm with their expected cash flows.
7. It helps to arrange the information in a way to highlight significant relationships.

¹⁹ Khan, M.Y. & Jain,P.K., “ *Management Accounting and Financial Management*” Tata Mc Grew-Hill Publishing Company Limited, New Delhi, India, 1st Edition, 1989 ,Pg-29

²⁰ Gupta R.L., “ *Advanced Accounting*” Vol –iii, Sultan Chanda Sons Company ,3rd Edition ,1976, Pg-8

2.2.8 Tools and Techniques of Financial Statement Analysis

A numbers of important tools and techniques of financial statement analysis have been identified in modern industrial time and used to analysis the financial aspects of business organization. Using the tools and techniques of financial analysis, it can be judged whether a particular business organization is financially well managed or not.

In this study, the following tools and techniques are applied to analyses and interpret the financial statement to find out of financial performance of Surya Nepal Private limited.

1. Funds flow statement analysis.
2. Financial ratio analysis.
3. Trend analysis.
4. Correlation analysis.
5. Common-size statement analysis.

2.2.8.1 Funds Flow Statement Analysis:

The efficiency of the company is reflected in the inflow and outflow of funds in the business. Funds flow statement contains details of the sources or amount of incoming funds as well as utilization of fund during the accounting period for which this statement is prepared. Therefore, it shows the movement of fund from one item of assets or liabilities to another item of assets or liabilities. Comparison of balance sheet of two dates (i.e opening and closing balance sheet) is used for funds flow statement analysis. A fund flow statement is a report on movement of funds explaining where from working capital originates and where into the same goes during an accounting period. This statement contains of two parts: (1) sources of funds and (2) application of funds, the different between the two parts is known as the net change in the working capital during the period. It describes not only the sources from which addition funds were derived but also the uses to which these funds were put. The transaction, which increase working capital are sources of funds and the transaction which decrease working capital are application of funds. "A statement of sources and application of funds in a technical device designed to analysis the change in the financial condition of a business enterprise between two dates"²¹

"The funds flow statement is a statement which shows the movement of funds and is a report of the financial operation of the business undertaking. It indicates various means by which funds were obtained during a particular

²¹ Foulke Ray, "A Practical Financial Statement Analysis" Tata Mc Graw Hiil publishing company, New Delhi, edition 19 pg-473.

period of time and the way to which these funds were employed.”²² With the help of funds flow statement we study changes in the financial position of a company between two financial statement dates, beginning and ending. Funds flow statement is also known as different titles such as statement of working capital change, statement of source and application of funds, summary of financial operations, and statement of funds supplied and applied, statement of funds received and disbursed of fund and so on.

The basic purpose of the statement is to indicate where funds came and where it is used during the period. The statement is useful as a tool of historical analysis with following importance.

- The statement compared with the budget concerned will show to what extent the resources of the firm were used according to the plan or not.
- It helps to management to formulate financial policies, dividend, reserve etc. of business enterprise.
- It shows how the funds were received and applied in the past than financial manager can take the corrective action to determine the financial consequences of business operations.
- It helps to management to arrange the firm's financing effectively.
- It shows the causes for changes in working capital with strength and weakness of financial position of the enterprise.
- It is used to assess improvement and downfall, when comparing with budgeted figures of previous years and serves as control device.

Limitations of Funds Flow Statement

Although funds flow statement has a number of users and become a significant tool of financial analysis it has also certain limitation. These limitations must be kept in mind while attempting to use, are following:

- It is not original in nature; it is only a systematic rearrangement of accounting data given in financial statement.
- It does not provide information about change in cash, which are more important and relevant than working capital.
- It indicates the funds flow in summary form and it does not show various changes which takes place continuously.
- When the both aspects of transaction are current they are not considered and when the both aspects of transaction are non-current even then they are also not include in this statement.

²² Manankarmi, shiva prasad “*Text Book of Accounting and Auditing*” Educational Enterprises (P) Ltd, Kathmandu, 2nd Edition , 1999 Pg-258

- Of course, it is related to past analysis, due to historical nature. So projected funds flow statement give only an idea about the future.
- It is not an ideal tool for financial performance.

2.2.8.2 Financial Ratio Analysis

"Ratio analysis is a yard stick tool to evaluate the financial performance and conditions of the firm"²³ Ratio analysis is a powerful tool of financial analysis. A ratio is defined as "The indicated quotient of two mathematical expressions and as the relationship between two or more things"²⁴ In financial analysis a ratio is used as an index or yardstick for evaluating the financial position and performance of a firm. The absolute accounting figures reported in a financial statement do not provide a meaningful understanding of the performance and financial position of a firm. So an accounting figure conveys the meaning when it is related to some other relevant information. Ratio indicates a quantitative relationship, which can be in turn used to make a qualitative judgment about the firm's financial position and performance.

"Ratio analysis is a technique of analysis and interpretation of financial statement to evaluate the performance of an organization by creating the ratio from the figures of different accounts consisting in balance sheet and income statement is known as ratio analysis"²⁵

"Ratio is defined as the systematic use of ratio to interpret the financial statements so that the strengths and weaknesses of a firm as well as its historical performance and current financial condition can be determined."²⁶

In conclusion financial ratio analysis is a tool to evaluate the performance and current financial condition of an organization. Objectives of financial ratio analysis is to provide necessary information for trade creditors, investors, suppliers' management and student etc. for well managed of business firm. "Most of the ratio to judge the soundness of financial position and policies are based on the balance sheet"²⁷ Ratio can be classified, for purpose of exposition, into four broad groups which are the following.

²³ James C. Van Horne " *Financial Management and Policy*" Prentice Hall of India, 8th edition, 1991, pg - 753

²⁴ Webster's " *New collegiate Dictionary*". Springfield, Mass G and C, Merriam ,8th edition ,1975, pg-958

²⁵ Dangol, Ratna man, "*Management Accounting*" Taleju Prakashan, Kathmandu, Re-print edition, 2056, pg-369.

²⁶ Khan, M.Y. and Jain,P.K., "*Management Accounting*" Tata Mc Grew-Hill Publishing Company Limited, New Delhi, 2nd edition, 1994, pg-60

²⁷ Shukla, M.C.Gawal, T.S. & Gupta S.C, "*Advanced Accounting*" S.Chanda Company, New Delhi ,13th edition, 2002, pg-29.9

a. Liquidity ratio:

The liquidity ratios measure the ability of a firm to meet its short-term obligations and reflect the short-term financial strength solvency of a firm and indicate the liquidity of the firm.

"Liquidity ratio is used to judge the company's ability to meet its obligations at maturity"²⁸ Liquidity ratio is computed either by comparing fixed charges and earnings from the income statement or by relating the debt and equity items with assets from the balance sheet. It measures the company's ability to fulfill short-term commitment out of its liquid assets. In other words it measures the company's short-term strength to meet the short liabilities.

1. Current ratio.

The current ratio measures the company's short-term solvency. It indicates the availability of current assets in rupees for every rupee of current liability. As a general rule 2:1 ratio is considered acceptable for most companies, although it is only a rule of thumb standard, higher the current ratio greater is the probability of prompt and full payment of current liability. Low ratio indicates the company's inability to pay its future bills when due.

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

Where,

Total current Assets = Cash and Bank Balance + sundry

Debtors + Inventory + Misc. Current Assets.

Total current Liabilities = Loans and Advance + sundry creditors + provision for taxation + Misc. Liabilities and provisions.

2. Quick Ratio:

This ratio establishes a relationship between quick or liquid assets and current liabilities. The ratio is found out by dividing the total quick assets by total current liabilities. As a guideline 1: 1 quick ratio is deemed adequate for most companies but it should not be relied dangerously. It also measures and analyses the liquidity position of a company. Notational,

²⁸ Weston, J.F. and Brigham, F. "Essential of Managerial Finance" Holt Rinehart Wiston Inc., 1968, pg- 28

$$\text{Quick Ratio} = \frac{\text{QuickAssets}}{\text{TotalCurrentLiabilities}}$$

Where,

Total quick assets = Total current assets – inventory

b. Leverage Ratio

Leverage ratios are used to measure the company's ability to meet long-term obligations. Generally assets of the companies are financed both by equity and debt. Financial leverage can work in opposite direction as well. If the cost of debt is higher than the company's overall rate of return of earning of shareholders will be reduced. "If the equity base is thin, the creditors risk will be high. Thus leverage ratios are calculated to measure the financial risk and the firm's ability of using debt for the benefit of stockholders" ²⁹

In conclusion it can be said that the companies with high leverage ratios run the risk of larger losses but also have a chance of gaining high returns and vice-versa.

1. Total Debt Ratio/ Debt to Total Assets Ratio

Debt ratio may be used to analyze the long-term solvency of the company. The debt ratio can be completed by dividing total debt by capital employed or total assets. Here total debts include both long-term debt and short-term debts and total assets include current and fixed both assets, which are derived from balance sheet of the company.

$$\text{Debt to Assets Ratio} = \frac{\text{TotalDebt(liabilities)}}{\text{TotalAssets}}$$

2. Long term debt to net worth ratio

This ratio is also known as debt to net worth ratio. Long-term debt to net worth ratio indicates to what extent the company depends upon outsiders for its existence. For the creditors this ratio provides a margin of safety for the owners. It is useful to measure the extent to which they can gain the benefit by maintaining control over the firm with a limited investment.

This ratio is very important for the creditors, owners and the business itself. It provides a margin of safety to creditors to measure the extent to which they can gain the benefits by maintaining control over the company with a limited investment to owners and what is the long-term solvency position to

²⁹ Pandey, I.M., *op.cit.* pg-- 127

the business itself. A high debt to net worth ratio shows that the claims of long-term creditors are greater than those of owners. A low long-term debt to net worth ratio implies a greater claim of owners than creditors. In other words, the high ratio is unfavorable from the business point of view. This ratio is calculated in this way.

$$\text{Long-term Debt to Net worth Ratio} = \frac{\text{LongtermDebt}}{\text{Networth}}$$

3. Total Debt to Net worth Ratio

Total debt to net worth ratio is calculated by dividing total liabilities by net worth. It measures the percentage of total funds provided by creditors and owners. The creditors prefer moderate ratio. Lower the ratio the greater the cushion against the creditor's loans in the event of liquidation. In contrast, the owner may seek high ratio to magnify earning because raising of new equity means giving up some degree of control and earning as well.

If the debt ratio is too high, there is a danger tempting irresponsibility in the part of the owners. This ratio is calculated by using following formula:

$$\text{Total Debt to Net worth Ratio} = \frac{\text{TotalDebt}}{\text{Networth}}$$

Where, Net worth = share capital + reserve and dividend

Total debt = long-term debt + short-term debt.

4. Interest Coverage Ratio

Interest coverage ratio is useful for the company's debt servicing capacity. Sometime, it is also called "time interest earned ratio". It measures how many times interest charges are covered by funds that are available to pay the interest charges. This ratio indicates the extent to which the earning may fall without causing any embarrassment of the company regarding the payments of the interest charges. The formula of this ratio is:

$$\text{Interest Coverage Ratio} = \frac{\text{EarningBeforeInterest \& Tax}}{\text{InterestCharges}}$$

5. Net Fixed Assets to Long-term Debt Ratio

This Ratio is also useful to measure the long-term position of a company. This ratio is helpful to creditors, owners and business itself. It measures the condition of fixed assets to cover the long-term debt. Higher the ratio is an

indication of higher overall efficiency of the business. Following formula is used to calculate the net fixed assets to long-term debt ratio:

$$\text{Net Fixed Assets to Long-Term Debt Ratio} = \frac{\text{NetFixedAssets}}{\text{LongtermDebt}}$$

c. Activity Ratio

The activity ratio represents the intensity with which the company uses its assets in generating sales. It indicates whether the companies' investment in current and long-term assets is properly used. Too large investment means lying down of funds in unproductive activities, this ratio gives signal to use funds for more productive purpose. If investment is too small, the company may provide poor service to customers because of inefficiency in the production. This ratio measures the company's efficiency and indicates how the companies have utilized its different assets. Inventory turnover, debtor turnover, fixed assets turnover are some of the important ratio within activity ratio. Thus, activity ratio is employed to evaluate the efficiency with which the company manages and utilizes the available resources put by an enterprise. "An activity ratio may, therefore, be defined as a test of the relationship between sales (more appropriately with cost of sales) and the various assets of a firm".³⁰

1. Inventory Turnover Ratio

This ratio indicates the efficiency of the company in selling its products. It is calculated by dividing the cost of goods sold by the average inventory or by dividing sales by inventory. The inventory turnover ratio shows how rapidly the inventory is turning into receivable through sales. Generally a high inventory turnover is indicative of good inventory management. A low inventory turnover implies excessive inventory levels than warranted by production and sales activities, or a slow moving or obsolete inventory. A high level of sluggish inventory amounts to unnecessary tie up of funds impairment of profit and increased costs. If the absolute inventories have to be written off, this will adversely affect the working capital and liquidity position of the firm.

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

³⁰ Khan, M.Y. & Jain, P.K. *op.cit*, pg—90

2. Debtors Turnover Ratio:

The liquidity position of the company depends upon the quality of debtors to a great extent. The debtor's turnover ratio indicates the number of times on the average that debtor's turnover each year. Generally the higher the value of debtors' turnover, the more efficient is the management of credit. Financial analysts apply two ways to judge the quality of debtors. The first ratio is found out by dividing credit sales by average debtors. The second ratio is found out by dividing total sales by the end balance of debtors.

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

3. Average Collection Period

The average collection period measures the quality of debtors. It indicates how rapidly the debtors are collected, shorter the average collection period, the better the quality of debtors, because short collection period implies the indication of timely payment by the debtors. The average collection period is compared with the company's credit terms to judge its credit and collection efficiency. As a rule of thumb, the average collection period should not exceed the period of payment mentioned in the terms of sale. Notational,

$$\text{Average Collection Period} = \frac{\text{DaysInYear}(360\text{days})}{\text{DebtorsTurnoverRatio}}$$

4. Total Assets Turnover Ratio

The total assets turnover ratio represents the ratio between total assets to net sales. It reveals the efficiency in managing and utilizing the total assets. Total assets turnover ratio is calculated by dividing the total sales by total assets. A high ratio indicates over trading on fixed assets, while low ratio shown excessive investments a symptom of idle capacity. The traditional standard for this ratio is two times. Symbolically,

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

d. Profitability Ratio

Profit is necessary to survive in any business field for its successful operation and further expansion. It measures management's overall effectiveness as shown by the returns generated on sales and investment. These ratios give final answer about how effectively the company is being managed. It is a central measure of the earning power and operating efficiency of a company. Not only any business concern has to earn profit but also it has to

remember social responsibility. Here two contrast things has been arisen a good entrepreneur most make proper balance between them.

The difference between total revenues and total expenses over a period of time is known as profit. Efficient operation of a company and its ability to pay an adequate return to different parties depends upon company's profit. Profitability ratios are calculated to measure the operating efficiency of the company.

Profitability is a measure of efficiency and the search for it provides an incentive to achieve efficiency. "Profitability ratio essentially relates to the profit earned by an enterprise during a particular period to various parameters like, sale, owner's equity (i.e.net worth), and capital employed and total sales."³¹

The profitability ratio examined thus reveal some interesting things about the way the firm is operating, but the profitability ratio give final answer about how effectively the firm is being managed. For the analytical purpose, different measurement tools of profitability are used in this study. Mainly gross profit margin (ratio), net profit margin (ratio), return on total assets, return on equity, cost of goods sold ratio, earning per share, are used in the study.

1. Gross Profit Margin / Ratio

Gross profit margin ratio indicates the percentage of profit after cost of production. It also indicates the efficiency of operation of the company. Gross profit is the result of the relationship between, prices, sales volume and cost. If profit margin falls down, the cost of production increases. A high ratio of gross profit margin is a sign of good management. It means that the company is able to produce relatively at lower cost. A low gross profit margin is definitely a dangerous sign. This occurrence, in turn may be due to lower sales prices or lower operating efficiency in relation to volume.

We can use the following formula to calculate gross profit margin:

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

Where, Gross profit = sales - costs of goods sold

2. Net Profit Margin / Ratio

Net profit margin ratio is the overall measure of the company's ability to turn each rupee sales into net profit. It is very useful to the proprietors and prospective investors because it reveals the overall profitability of the company. This is the ratio of net profit after tax to net sales. It would really be

³¹ S.K. Bhattacharya & Derdon " *Accounting for Management*" Vikash Publication House Pvt.Ltd .India, 1980 Pg-283

difficult for a low net margins company to with stand these adversities. Similarly a company with high net margin can be better use of favorable condition by raising sales prices or reducing cost of production or increasing demand for the product. Such a company will be able to accelerate its profits at a faster rate than a company with a low net profit margin. We can use the following formula to calculating net profit margin.

$$\text{Net Profit Margin/Ratio} = \frac{\text{Netprofit}}{\text{Netsales}} \times 100$$

Where,

net profit= gross profit- all indirect exp- interest charge- income tax.

3. Return on Total Assets

The return on total assets measures the profitability of the total funds or total investment of a company. It, however throws no light on the profitability of the different sources of funds that finance the total assets. In point of fact, real return on the total assets in the net operating earning including interest. A more reliable indicator of the true return on assets is the net profit inclusive of interest. This ratio judges effectiveness in using the "pool" of fund, which is useful to measure the profitability of all the financial resource invested in the company's assets. Symbolically,

$$\text{Return on Total Assets} = \frac{\text{NetIncome}}{\text{TotalAssets}} \times 100$$

Where, Net income = Net profit after interest and tax

4. Return on Capital Employed

Return on capital employed is an important from the owner's point of view. It measures the return on the collected funds. The ratio indicates how well the company has used the resource of owners and creditor. The ratio of net profit to capital employed shows the extent to which profitability objective is being achieved. Higher the ratio the better it is. The ratio is expressed as follows:

$$\text{Return on capital employed} = \frac{\text{Netprofit}}{\text{CapitalEmployed}}$$

Where, capital employed = Net worth + Total liabilities.

5. Expenses Ratio:

Expenses ratio is the indicator of change in the net profit. It is computed by dividing expenses by sales. The expenses ratio is in a way reciprocal of the profit margin, gross as well as net. It is very important for analysis the profitability of the company. It should be compared over a period of time with the company average as well as the company of similar type. As a working proposition, a low ratio is favorable while a high ratio is unfavorable. The implication of a high expenses ratio is not only a relatively small percentage share of sales is available for meeting financial liabilities like, interest, tax, and dividends etc. Thus the profitability ratios of expenses based on sales are an important indicator of the operational efficiency of manufacturing and processing enterprises. Mainly cost of goods sold ratio, operating ratio are used in the study. This ratio is given below:

$$\text{Cost of goods sold ratio} = \frac{\text{cost of goods sold}}{\text{Net sales}}$$

$$\text{Operating ratio} = \frac{\text{Operating Expenses}}{\text{Net sales}}$$

e. Limitation of Financial Ratio Analysis

Financial ratio analysis is a worldwide technique for business enterprise to evaluate the financial position and performance. Although it also has some limitations which can be discussed as follows: -

1. The price level changes make the interpretations of ratio invalid.
2. The ratios are generally calculated from past financial statement and thus are not indicators of future for business.
3. Ratios are constructed from accounting data, and these data are subjected to different interpretations and even to manipulation.
4. Conversely, conformance to industry composite ratio does not establish with certainty that the firm is performing normally and is managed well.
5. The ratios calculated at a point of time are less informative and defective as they suffer from short-term change.
6. It is difficult to decide on the proper basic of comparison.
7. Ratio analysis is related with quantitative analysis only but not with qualitative analysis. Qualitative analysis is ignored by ratio analysis.

8. The result shows by the ratio analysis are not fully dependable. It must be understood those ratios are only the symptoms. It required further investigation for pinpointing the underlying factors.
9. Ratio analysis is helpful tool to aid judgment in complex situation. It can never be a substitute for sound judgment.
10. Ratio analysis can be applied to analyze and interpret only the static phenomena of the financial situation and the dynamic aspect of the flow of funds and cash cannot be analyzed.

2.2.8.3 Trend Percentage Analysis

In financial analysis the direction of change over a period of years is of crucial importance. Trend analysis is a tool for analysis financial performance, which indicates the direction of change. The change and deviation on item of financial statement of a number of years can be analyzed by determining and studying the data shown on the statement. Trend analysis refers to the position of favorable or unfavorable (up ward or downward) of variable in the given period of time with the base year and its helpful to identify the controllable items of financial and operation data contained in the balance sheet and income statement. "In order to express the figure in terms of percentage, the comparative figures of the financial statement are analyzed by calculating percentages, furthermore, the percentage of one period is compared with the base year's percentage usually a particular past year is chosen as a base year and all items of the financial statements for that year are reckoned as 100. There is no doubt that expressing the figure in terms of percentage is a more practical approach for the analysis, interpretation and study of the facts and figure. Thus the change in figures expressed in terms of percentage over a period of yeas, will disclose the trends or change that are occurring in financial and operational data to judge whether the trends are favorable or otherwise."³²

"This method involves the calculation of percentage relationship each item bears to the same item in the base year. Trend percentages disclose changes in the financial and operating data between specific periods and make possible for the analyst to form an opinion as to whether favorable or unfavorable tendencies are reflected by data"³³

An analysis of the trend of certain business facts is extremely helpful in budgeting and forecasting with comparative study of the financial statement of several years. Trend analysis involves the calculation of percentage. Relationship that each item of financial statement bears to the some item in the base year or for trend analysis the use of index number is generally

³² Choudhary, Anil, & Roy B, "Financial Ratio and Working capital" Easter Law House Calcutta, 1985,pg-34

³³ Gupta, R.L, "Advance Accounting" Sulttan Chand and Sons, New Delhi, 3rd volume, 1976, pg--15

advocated. The procedure followed is to assign the number 100 to items of the base year and to calculate percentage changes in each item of other years in relation to the base year. This procedure may be called as trend percentage method.

The trend of significant aspects (such as seller, profit, wages, cost etc) of business activities can be analyzed by taking the figure for number of years and tabulating them in an intelligent manner then presenting them on graphs or charts. Therefore, it makes easy to understand the changes in an item as a group of items over a period of time and to draw the conclusion regarding the changes in data. Trend analysis is a significant tools of financial performance to know the direction of movement i.e. whether the movement is favorable or unfavorable.

Limitation of Trend Percentage Analysis

1. Trend percentage should also be carefully studied after considering the absolute figures on which these are based, otherwise they may give misleading conclusions.
2. The accounting principle and practice followed must be consistent over the period for which the analysis is made.
3. Trend percentage should be calculated only for those items, which have logical relationship with one another.
4. Trend analysis does not state the affairs of the firm when compared with the base year. It is different to select an appropriate base year for comparison of various items of financial statement.
5. If the base year is normal year than trend analysis only can reflect actual picture of the firm.
6. The trend analysis ignores the sudden or short-term fluctuations.

There is also a next method of trend analysis that is trend least squares method. Trend least squares methods is an universal tool of financial performance to describe the trend of the business firm, which helps to the management to know the condition of favorable and unfavorable of the business organization “A widely and most commonly used method to describe the trend is the method of least square”³⁴

2.2.8.4 Correlation Analysis

“ The correlation is a statistical tool which studies the relationship between two variables and correlation analysis involves various methods and

³⁴ Bajracharya, B.C, “ *Business Statistics and Mathematics*” M.K. Publishers and Distributors, 2057, pg-302

techniques used for studying and measuring the extent of the relationship between the two variables"³⁵

“Correlation is defined as the relationship (or association) between (among) the dependent variable (or factor) and one or more than one independents variable or factors. In other words correlation is the relationship between (or among) two or more variable(s) (i.e. only one variable dependent and or more variable(s) independent”³⁶

Among the various methods of studying correlation the Karl Pearson’s co-efficient of correlation is most widely used in practice for financial performance of business enterprises. “One of the widely used mathematical methods of calculating the correlation coefficient between two variables is Karl Person’s correlation coefficient. It is also known as person’s correlation coefficient.”³⁷. The Karl Person’s coefficient of correlation is denoted by symbol(r). It measures the relationship between two variables. In the present context, the coefficient of correlation is calculated in order to examine the relationship between two variables of Bottlers Nepal limited. The formula for computing Karl Person’s coefficient of correlation (r) is:

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

$$\text{Also } r = \frac{\sum xy}{u_x \times u_y}$$

Where, $x = x - \bar{x}$

$y = y - \bar{y}$

u_x And u_y are standard deviation of x and y series respectively.

1. Interpretation of Correlation Coefficient (r)

1. The Coefficient of correlation as obtained by the above formula always lies,

Between + 1 and -1.

2. When r is + 1, there is positively perfect correlation between the two variables.

³⁵ Gupta, S.C. " *Fundamentals of Statistics*" Himalaya Publishing House, India, 5th Edition, 1996, pg—510

³⁶ Shrestha , Sunity & Dhruva Prasad "*Statistical Methods in Management*" Taleju Prakadhan, kathmandu, 2nd edition, 2057, pg -315

³⁷ Bajracharya B.C. *Op. Cit.* pg--254

3. When r is -1 , there is negatively perfect correlation between the variables.

4. When r is between 0.7 to 0.999 these is a high degree of correlation between the variables.

5. When r is between 0.5 to 0.699 , there is moderate degree of correlation between variables.

6. When r is less than 0.5 , there is low degree of correlation between the variables.

7. When r is 0 (zero), there is no correlation between the variables or the variables are uncorrelated.

2. Merits and Limitations of Karl person's Correlation Coefficient

Merits:

- a. Karl Person's method of finding correlation coefficient is based on all the observations.
- b. These method summaries in one figure the degree of relationship as well as direction.

Limitations:

- i. This method always assumes lines relationship between two variables whether this assumption is true or not.
- ii. It is affected by extreme values.
- iii. In comparison of other methods, it is most time consuming method.
- iv. Interpretation of the value of r is not an easy attempt.

2.2.8.5. Common-size comparative Statements

Analysis.

One of the useful tools (way) of analysis financial statements to convert them by expressing absolute rupee amount into percentage is common size statement "When this method is pursued, the income statement exhibits each expense item or group of expense items as a percentage of net sales and net sales are taken at 100 percent. Similarly, each individual asset and liability classification is shown as a percentage of total assets and liabilities respectively. Statement prepared in this way are referred to as common-size statement"³⁸

³⁸ M.Y. Khan & Jain ,P.K. Op, Cit, pg—96

Common size comparative statements prepared for one company over the years would highlight the relative change in each group of expenses, assets and liabilities.

"The financial statements prepared in terms of common base percentage are called common-size statements. This kind of analysis is also called comparative financial statements analysis and indicates static relationship since relative change are studied at a specific date."³⁹

Comparative financial statements are prepared in a way so as to provide time perspective to the consideration of various elements of financial position embodied in such statements. This is prepared to make the financial data more meaningful in comparative way of two or more years data and to show absolute data's in value and in terms of percentage. Which help to point out increase or decrease in assets., liabilities, income and expenditure. "A simple method of tracing the periods change in the financial performance of a company is to prepare comparative statements. Comparative financial statements will contain items of two periods. Changes –Increases and decreases- in items of income statement and balance sheet can be shown in two ways: 1.aggregate changes and 2.relative or proportional changes"⁴⁰

This statement will bring out clearly the nature and trend of the change affecting the business. The important of comparative statements arises from the fact that complete financial history of the business enterprise but only what the business position is on a particular date and particular data. Comparative statement can be prepared in a comparative form for the income statement as well as position statement or balance sheet.

1 Comparative Income Statement

This statement discloses the profit or loss resulting from the operation of business. Such statement shows operating results for a number of accounting periods. So that change in absolute data from one period to another period may be stated in terms of absolute changes or in terms of percentages. It is very easy to ascertain the changes in sales volume, administrative expenses, selling and distribution expenses, cost of sales etc.

II. Comparative Balance Sheet

This statement states the changes of assets and liabilities, which compared on two or more different dates. This statement is prepared by comparing assets and liabilities of two or more dates to find out any increase or decreases in these items. This facilitates the comparison of figures of two more period and provides necessary information which may be useful in

³⁹ Pandey I.M. Op.Cit , pg –116

⁴⁰ Pandey I.M. Op.Cit. pg---115

forming an opinion regarding the financial condition as well as the progress in outlook of the business enterprise.

2.3 Review of Related Studies.

In the researcher's knowledge only a few research studies related to the Surya Nepal Private Limited are researched but there are several research done towards financial performance of manufacturing and processing companies and other companies in Nepal. Therefore the literature relating to this study was received and views expressed by various sectors of research and researcher is been presented in chapter.

(a) A study carried out by Ranjit Lama on "An evaluation of financial operation of NIDC in 1986"⁴¹. In this study the sources of data were used secondary. The major findings in the study period of five years i.e. form F.Y. 1980/081 to 1984/085 were concluded as:

- The liquidity position of the corporation was satisfactory up to the year 1983/1984.
- The current ratio, debt equity ratio, debt to total assets ratio of the corporation was observed poor performance thought out the study period.
- The whole financial performance of the corporation in term of the operation seems dissatisfactory.
- It was found that the corporation possessed enough resources taking loans and the amount of that outstanding loans was unfavorably increased.

(b) Likewise, Bhesraj Bhurtel conducted a study on "Financial analysis of manufacturing company on Udayapur cement industry"⁴². The study based on secondary sources of data and converted period of six years i.e. from F.Y. 2050/051 to 2055/056. As per the objectives to reveal the financial performance of UCIL to evaluate the financial strength and give the basic guide lines, he concluded his finding as under:

- The Liquidity position of the company was unsatisfactory up to the F.Y. 2054/055.
- The company had higher level of costs than the volume of its sales by the cause of which profitability position of the company was poor.
- The solvency position of the company treated by the trend analysis is very poor and unfavorable.

⁴¹ Lama, Ranjit, "An Evaluation of Financial Position of NIDC" Unpublished masters thesis submitted to the faculty of Mgmt T.U.,Kritipur, 1986

⁴² Bhurtel, Bhesraj, "Financial Analysis of Anufacturing Company on Udayapur Cement Industry" Unpublished masters thesis submitted to the Faculty of Mgmt, T.U Kritipur, 2000

- Changes in working capital of company is unsatisfactory that is indicates the short-term solvency position of the company become worse and worse day by day.
 - All the positions are fluctuating and below the satisfactory level because of resulting the return are placed in the negative region by using the tools of financial performance.
- (c) Similarly, Laxman Shrestha carried out a study on "Financial performance of the popular plastic private Limited Dharan"⁴³. The objectives of this study were to identify the existing financial position of the company. The study based on secondary data of five years period. The major findings of the study period i.e. 2050/051 to 2055/056 were summarized as:
- The liquidity position of the popular plastics private limited was not sound.
 - The nature of the net profit was in fluctuating trend thought it was not so bad.
 - High cost of goods sold, heavy operating expenses, low owners capital, traditional concept of financial management, traditional pricing policy etc are the main variable which reflected the poor financial performance of popular plastics private limited.
 - The whole financial performance of the company was not good and bad but normal.
- (d) Another researcher Khagendra Pokharel study on "An analysis of financial position of D.K textile Pvt. Ltd"⁴⁴. The objectives of the study was not examine an evaluate financial performance using funds flow analysis, ratio analysis and trend analysis on the basis of secondary data of five years i.e. from 2046/047 to 2050/051. The major findings were:
- The capital structure of D.K textile (Pvt) Ltd. was not proportionate. There was heavy debt rather than ownership capital.
 - The company was suffered losses during the study period due to inefficient management administration and selling expenses.
 - The solvency position of the company was not satisfactory during the study period.

⁴³ Shrestha, Laxman, " *Financial Performance of Popular Plastics pvt. Ltd. Dharan Nepal*" Unpublished masters thesis submitted to the Faculty of Mgmt. T.U., P.G. Campus, Biratnagar, 1999

⁴⁴ Pokhrel, Khagendra, " *An Analysis of Financial Position of D.K. Textile (pvt) Ltd, Nepal*" unpublished masters thesis submitted to Faculty of Mgmt, T.U. ,P.G. Campus Biratnagar, 1995

- The study indicated that the management had not exercised any control over the expenses of the company.
- (e) Similarly, researcher SantiRam Khanal studied on "Financial performance of Biratnagar Jute mills Ltd. Nepal"⁴⁵. In this study source of data were used secondary to identify the comparative picture of sales, profit and loss, to observe and evaluate the sources and uses of fund, to identify profitability of BJM Ltd. The major findings in this study period of five years from FY.2042 to 2046 were pointed as under:
- The liquidity position of the company was weak. Both liquidity ratios were very low as compared to the normal standard.
 - The company suffered from the operating loss during the study period to higher rate of interest payment, negative working capital.
 - The debt equity capital ratio, debt to total assets ratio, profit margin ratio was observed poor performance of the Mills for the time period of study.
 - The whole financial position of Mills in term of operation seemed unfavorable during the study period.
- (F) Likewise, Binod Krishna Shrestha conducted a study on "Evaluation of the financial performance of the DDC"⁴⁶. The study based on secondary source of data and covered period of six years i.e. from the fiscal year 2037/038 to 2042/ 43. As per the objective to reveal the financial performance of DDC to evaluate financial strength and give the basic guidance, he concluded his finding as under.
- Assets utilization was dissatisfactory despite the satisfactory liquidity position
 - The investment policy of corporation was found defective.
 - The DDC had a sound long-term solvency that the fixed assets alone pay the double the amount of long term loan.
 - The corporation was more dependent on the foreign subsidies that 92% of the total loan was profited by the foreign agencies.
 - The corporation had higher level of costs than the volume of its sales by the cause of which profitability portion of the cooperation was poor.

⁴⁵ Khanal, Santiram, " *Financial Performance of Biratnagar Jute Mills Ltd, Nepal*" unpublished Masters thesis submitted to faculty of Mgnt., T.U., P.G. Campus Biratnagar 1994

⁴⁶ Shrestha, Binod Krishna " *An Evaluation of Financial Performance of DDC,Nepal*" unpublished Master thesis submitted to Central Dept of Mgnt T.U.Kritipur ,1988.

Chapter – Three

RESEARCH METHODOLOGY

Introduction:

It is well known that every study needs a good methodology to show better performance and true result. So, the main objectives or aim of this study is to explain the financial performance of Surya Nepal Private limited during the period (from 2002 AD to 2006 AD) of 5 fiscal years to judge the its financial performance. To achieve this objective, certain methodology has to be followed. In order to find out the result, a good research methodology is necessary for on investigation. Research methodology refers to the various sequential steps to be adopted by a researcher with certain objectives in view.

The main purpose of this chapter is to focus on the different method and condition, which are used while conducting this study. Similarly, only secondary dates are used for the purpose of the study, which are available form Surya Nepal Private Limited on the annual reports and Internet of Nepal stock Exchange. This chapter includes:

1. Research Design
2. Sources of data
3. Population and sample of the study
4. Data collection techniques
5. Data processing procedures
6. Data analysis tools
7. Research question

3.1 Research Design:

The frame of the study is given in research design. A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure is the basic aim of this study. Therefore, is to examines, and accesses the financial performance of Surya Nepal Private Limited and attempts in collection, evaluation, verification and analysis systematically for the improvement and exploration of certain facts. Evaluation has been done on the basic of 5 years "Income statement" and "Balance sheet" using ratio analysis; funds flows analysis, Trend analysis common-size statement analysis

and correlation analysis to analyze the financial performance and the study represent historical and exploratory as well as descriptive type.

In this study ratio analysis is the process of determining and interpreting numerical relationship based on financial statement, funds flow statement which bring out the total stream that flow in and the utilization of that flow. Thus, this shows whether the resources have been properly used or not. Similarly trend analysis makes it easy to understand the change in old item on a group of items over a period of time. Correlation analysis shows the relationship between as among the variables. To draw conclusions regarding the data, the common-size statement shows the percentage change as increase and decrease in amount of items of statement over a period of time. So the structure of research has been designed to attain the objectives, which are mentioned in this study.

3.2. Sources of Data.

Data are classified, generally into primary and secondary. Secondary data are those data, which already existed and might be used in the investigation, which are the published financial statements, viz, income statement or profit and loss account and Balance sheet of Surya Nepal Private Limited.

In this study secondary data is very important because most of the figures were used from secondary source. The company it self is the main source of data because most of the data and information are presented in annual reports of company and important financial statement and data are settled in internet or wed side. Therefore for the success of the study various types of information and data, which are related in this company, are collection by published annual reports and using Internet.

3.3. Population and Sample of the Study.

Surya Nepal Private Limited is a unit at the study. Financial performance of the company has been assessed mainly thought its published financial statement from the data of its (company's) establishments to till now are treated as population of the study. But it is very different to analyze all the published financial data and reports, since its establishment data of 1979 AD. Therefore a sample should be drawn for the study for five years only in this study, five years financial statements from 2002 AD to 2006 AD have been taken as sample for the study. The company has been taken as universe, which is selected for the purpose of investigation.

3.4. Data Collection Techniques:

Secondary data is more important than the primary data for the research study. The basic secondary data related to financial performance such as

income statement and Balance sheet of Surya Nepal Private Limited of different years are collected from various places such as the floor of the stock exchange of Nepal, Surya Nepal Private Limited, past data from various trading report published, etc. Using web side of the Nepal stock Exchange and company and other various information's which is very important for this study, have been collected from the published annual financial reports of company. A theoretical study of modern techniques of financial analysis was made from the Literature's available in various books are collected from library of university and others company. Surya Nepal Private Limited is one of the companies listed in the NEPSE few years' back and falls in the list of the top ten companies of the similar type the market capitalization. This has been the greatest sources of data collection and purely available data to help me bring report in front as an analysis.

Necessary primary data are collected from the company itself by making my self present in the company physically and getting the annual reports, information, annual general meeting briefings of the company from their accounting and finance department.

3.5. Data Processing Procedures:

The data collected as stated above have been calculated and analyzed. In this study the data extracted from the annual financial reports that were found in NEPSE (wed-site) and published by Surya Nepal Private Limited have been processed and interpreted considering the requirement of the study. The secondary data are presented in the tabulated forms with the changes in ratio analysis, funds flow analysis, Trend analysis, correlation analysis and common size statement analysis for evaluation financial performance clearly. The help of common arithmetical rules are taken in processing to adjust, select and analyze the data presented over the five years periods from 2002 AD- 2006 AD Published by Surya Nepal Private Limited.

3.6 Data Analysis Tools

Financial performance is a mirror of financial strength and weakness for the company. The main objective of the study is to find out the actual and real financial performance of Surya Nepal Private Limited. Thus, to know the real financial performance some analytical tools and techniques have been used. These analytical tools and techniques such as funds flow analysis, ratio analysis, trend analysis, correlation analysis, common size statement analysis are applied. In short the financial performance of the company is evaluated with the help of relevant financial tools and techniques. These above tools and techniques can be fruitfully used to show the clear picture of financial position of Surya Nepal Private Limited.

Financial performance must deal with the effectiveness in capital management, the efficiency and profitability of operations and the value of safety of various claims against the company. Funds flow analysis gives that information which is not covered by balance sheet and income statement. It is known as where cash come from and how it is applied in business. Ratio analysis is a powerful tool of financial analysis, which is the process of determining and interpreting numerical relationship based on financial statement. Trend analysis disclose the change in the financial and operating data between the specific period and make possible for the analyst to form an opinion as to whether favorable or unfavorable situation are reflected by the data. Similarly, Correlation analysis deals with relationship between or among variables, and lastly, common-size comparative statement is compare one-year figures with different years in amount increase and decrease with percentages. Thus above tools and techniques are applied to find out the financial performance and make basic decisions for investment, operations and financing of Surya Nepal Private Limited.

3.7. Research Questions

It is most difficult and complex to measure the financial performance of Surya Nepal Private Limited with a view to measure the financial situation of SNPL. Some questions are as given below:-

- i. How are the funds collected and applied by the SNPL?
- ii. How is the financial position of SNPL shown by ratio?
- iii. What is the trend of financial performance of SNPL?
- iv. What is the relationship between the variables

Chapter-Four

DATA PRESENTATION AND ANALYSIS

Data Presentation and Analysis

The main objective of this study is to highlight the financial performance of Surya Nepal Private Limited. To achieve this objectives, it is essential to present, interpret and analyze have been made for the purpose of finding out financial position of SNPL with the help of 5 years financial statements from 2002 to 2006 The presentation and analysis of data that will help to know financial position of the company to make their best use and to be able to spot out the financial weakness. This also helpful to take corrective action in future for management, investors and creditors as well as others group who are interested in financial status and operating result of SNPL.

Financial analysis is the process of identifying the financial strength and weakness of the company by properly establishing relationship between the items of financial statements i.e. balance sheet and profit and loss account.

Thus, whoever may be the analyst, investor, owner, manager or researcher they need the basis financial statements for interpretation and analysis of data. In the present study, data have been presented and analyzed with the help of modern tools and techniques of financial performance such as funds flow analysis, financial ratio analysis, trend percentage analysis, correlation analysis and common-size financial statement analysis.

4.1. FUNDS FLOW STATEMENT ANALYSIS

The funds flow statement is widely used by the financial analysts, creditors, investors, and financial managers in performance of their jobs. It has become a useful tool in their analytical skill. The basic financial statements (i.e. Balance Sheet and Income statement) are unable to explain the changes in assets, liabilities and owners equity during the period of time.

Therefore, an additional statement name as funds flow statement is prepared to show the change in assets, liabilities and owners equity between two Balance sheet dates. This is derived from an analysis of charges that have occurred in assets, liabilities and equity items between two balance sheet dates. It summaries the event of the transactions, describing the sources from which additional funds are derived and uses of these funds. In short, it is a technical device designed to highlight the changes in financial condition of a company between balance sheets on different dates. Funds flow is said to have taken place when transaction makes a change in the amount of fund, which existed just before the happening of the transaction. The amount of funds and the net effect of changes in working capital's items and resulting changes in financial

resources. It changes result in the increase of fund than the transaction responsible for such change is said to be a source of fund. The decreases of fund than the transactions responsible for such a change is said to be an application or uses of fund.

Thus, in this study, the researchers is attempted funds flow analysis for to review the sources and applications of fund in the past for evaluating the soundness of financing and investment decision of SNPL which is prepared to depict a picture of utilization and mobilization of funds of the company. Although funds flow analysis is not an alternative to other tools of financial statement analysis, this is supplement of the other tools to help the interested parties to get more depict picture of the financial performance of a company. In the present analysis, financial statements are analyzed with the help of change in working capital and change in sources and applications of fund.

4.1.1. Schedule of Changes in Working Capital

Schedule of change in working capital shows the short-term liquidity position of the company. Different amount of current assets and current liabilities is known as working capital. In this study, cash and bank balance, sundry debtors, inventory and misc. current assets are current assets and loans and advances, sundry creditors; provision for taxation and misc. current liabilities and provisions are current liabilities of SNPL.

Working capital would be proper balanced in the any business concern because the less working capital is to loose the opportunity. Profit and excess working capital is black of capital and it is also burden of cost of capital. In the present section, the researcher is going to analyze how changes in working capital of SNPL year by year. In the analysis only four-year date are analyzed because financial statement of FY. 2002 is not available. So the researcher cannot analyze the changes in working capitals of first fiscal year (i.e.2003) during the study period.

Table no.1**Schedule of changes in working capital for the FY 2003 of SNPL**

(Amount in million)

Particular	2002	2003	Changes in working capital	
			Increase	Decrease
<u>1.Current assets:</u>				
Cash and bank balance	33.97	39.69	5.72	-
Sundry debtors	0.43	1.26	0.83	-
Inventory	78.14	86.35	8.21	-
Misc. current assets	127.65	161.30	33.65	-
<u>2.Current liabilities:</u>				
Loans and advances	0.00	1.29	-	1.29
Sundry creditors	18.13	38.05	-	19.92
Pro. For taxation	62.39	76.71	-	14.32
Misc. current liabilities	51.96	68.00	-	16.04
3.Increase in working capital	-	-	-	-
4.Decrease in working capital	-	-	3.16	-
Total	-	-	51.57	51.57

Source: Based on appendix- 1

The schedule of change in working capital shows that Rs. 3.16 millions is decreased in working capital for FY 2003 as compared to FY 2004. Current assets like cash and bank balance, sundry debtors, inventory and current assets are increased. Similarly current liabilities like loans and advanced, sundry creditors, provision For taxation and misc. current liabilities are also increased. The main cause of decreased in working capital is increased in loans and advanced altogether other current liabilities. But the decreased in working capital is not higher. So it said to be favorable and satisfactory for the SNPL Company.

Table no. 2**Schedule of changes in working capital for the FY 2004 of SNPL.**

(Amount in million)

Particular	2003	2004	Change in working capital	
			Increase	Decrease
1. Current assets:				
Cash and bank balance	39.69	3.03	-	36.66
Sundry debtors	1.26	0.91	-	0.35
Inventory	86.35	136.77	50.42	-
Misc. current assets	161.30	212.94	51.94	-
2. Current liabilities:				
Loans and advances	1.29	0.26	1.03	-
Sundry creditors	38.05	37.99	0.06	-
Pro. For taxation	76.71	85.83	-	9.12
Misc. current liabilities & prov.	68.00	74.38	-	6.38
3. Increase in working capital	-	-	-	50.64
4. Decrease in working capital	-	-	-	-
Total	-	-	103.15	103.15

Source: Based on appendix- 1

The above table of changes in working capital shows that Rs. 50.64 millions increased in working capital. Current assets like, inventory and misc. current assets are increased and cash and bank balance and sundry debtors are decreased. Similarly, current liabilities like loans & advances and sundry creditors are increased and provision for taxation and misc. current liabilities are decreased. The increased in working capital is higher. It indicates there is not proper balance between current assets and current liabilities. It is unfavorable to the SNPL.

Table no. 3
Schedule of change in working capital of SNPL for FY 2005

(Amount in million)

Particular	2004	2005	Change in working capital	
			Increase	Decrease
1. Current assets:				
Cash and bank balance	3.03	47.83	44.8	-
Sundry debtors	0.91	0.07	-	0.84
Inventory	136.77	121.11	-	15.66
Misc. current assets	212.94	200.4	-	12.54
2. Current liabilities:				
Loans and advances	0.26	1.70	-	1.44
Sundry creditors	37.99	19.11	18.88	-
Pro. For taxation	85.83	84.04	1.79	-
Misc. current liabilities & prov.	74.38	72.68	1.70	-
3. Increase in working capital	-	-	-	36.69
4. Decrease in working capital	-	-	-	-
Total	-	-	67.17	67.17

Source: Based on appendix- 1

The schedule of changes in working capital shows that Rs. 36.69 is increased in working capital. Current assets except cash & Bank balance all are increased. Similarly, current liabilities except loans & advances all are increased. The increase in working capital is higher because of increase in cash and bank balance. So that, it is said to be favorable although there is not proper balance between current assets and current liabilities.

Table no. 4**Schedule of changes in working capital of SNPL for FY 2006**

(Amount in million)

Particular	2005	2006	Change in working capital	
			Increase	Decrease
1. Current assets:				
Cash and bank balance	47.83	3.94	-	43.89
Sundry debtors	0.07	80.48	80.41	-
Inventory	121.11	142.73	21.62	-
Misc. current assets	200.40	166.69	-	33.71
2. Current liabilities:				
Loans and advances	1.70	1.35	0.35	-
Sundry creditors	19.11	41.37	-	22.26
Pro. For taxation	84.04	93.67	-	9.63
Misc. current liabilities & provisions	72.68	131.69	-	59.01
3. Increase in working capital	-	-	-	-
4. Decrease in working capital	-	-	66.12	-
Total	-	-	168.5	168.5

Source: Based on appendix- 1

The schedule of changes in working capital shows that Rs. 66.01 is decreases in working capital of SNPL for the year 2006 during the study period. Current assets like sundry debtors and inventory are increased and cash and bank balance and misc. current assets are decreased. Similarly current liabilities except loans and advances all are decreased. Decrease in working capital is higher due to increase in misc. Current liabilities and decrease in cash & bank balance. Therefore, the decrease in working capital is not only unfavorable but also unsatisfactory for SNPL because it is higher.

Table no-5**Comparative statement of source and application of fund Of SNPL**

(Amount in million)

Particulars	Fiscal Year							
	2003		2004		2005		2006	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%
1.Sources								
Operating Profit	74.43	25.29	96.37	94.12	92.87	97.67	78.53	33.96
Decrease in working capital	3.16	1.07	-	-	-	-	66.12	28.59
Sales of fixed assets	215.58	73.24	3.43	3.46	0.08	0.08	-	-
Issue of share	-	-	-	-	-	-	86.63	37.45
Increase in deferred liabilities	1.17	0.04	2.40	2.42	2.13	3.25	-	-
Total of sources	298.34	100	99.17	100	95.08	100	231.28	100
2.applications								
Increase in working capital	-	-	50.64	51.06	36.69	38.59	-	-
Purchase of fixed assets	283.81	96.43	47.91	48.31	51.18	51.82	31.10	13.44
purchase of fixed asset	-	-	-	-	-	-	96.26	41.62
Decrease in deferred liabilities	-	-	-	-	-	-	83.41	36.07
Payment of dividend	4.04	1.37	0.01	-	7.03	7.39	20.51	8.87
Purchase of investment	6.49	2.20	0.61	0.63	-	-	-	-
Total application	294.34	100	99.17	100	95.08	100	231.28	100

4.1.2. Statement of Sources and Application

Statements are important managerial tools for financial analysis. First part of the funds flow statement is schedule of changes in working capital, which attempted earlier. Then the researcher is going to analyzed sources and application of funds as another part of the funds flow statement which shows from where the fund available to company and where the fund have been used.

Generally issuing share capital and debenture, long tem debt, grants and aid, capital subsidy, sale of fixed assets, sales of investment, decrease in working capital and operating profit are the sources of fund of company. Similarly, purchase of fix assets, payment of long term debt, purchase of share and debenture, purchase of investment, increase in working capital and operating loss are the application of a company. In case of SNPL source of funds consists operating profit, decrease in working capital, sales of fixed and misc. assets, issue of share, decrease in deferred liabilities, sale of investment are the sources of fund of SNPL similarly the application of funds of SNPL is being increased in working capital, operating loss, purchase of fixed and misc. assets, purchase of investment, dividend paid, decreased in deferred liabilities.

A comparative statement of sources and application of SNPL is given in the table no 5 after the preparation of various ledgers account in appendix three (3). There is analyzed main part of the funds flow statement as sources and application of funds flow of SNPL.

The table no. 5 shows the comparative statement of sources and application (uses) of funds of SNPL from FY 2003 to 2006. Mainly there are two parts in the statement of sources and applications. They are:

(1) Sources of Fund:

According to the nature of the operation, SNPL has different sources of funds during the study period of 5 years. The sources of funds of SNPL can be described with the help of above calculation i.e. comparative statement of sources and applications of SNPL's funds. During the study period of 2002 to 2006, five different sources of fund have been available for SNPL. They are:

- i. Operating profit
- ii. Decrease in working capital
- iii. Sales of misc.assets
- iv. Issue of share
- v. Increase in deferred liabilities

(a) Operating Profit:

The major sources of fund of each company are the net profit from operation. The success and failure of every company depends on its profit from operation. To derive (funds) operating profit, non-operating expenses name depreciation should be added with the net profit in present study of the SNPL.

Operating profit as main sources of fund in the amount is 74.43, 93.37, 92.87 and 78.53 millions from 2003 to 2006 respectively. In the FY 2004 operating profit increase by nearly 20 millions and after that it has decreased by 1.50 and 14.34 millions respectively. Operating profit has covered the percentages of total sources 25.29%, 94.12%, 97.67% and 33.96% from fiscal years 2003 to 2006 respectively. The average percentage of operating profit is 62.67% during the study period. The percentage of operating profit on total sources is lower than the average percentage of operating profit in FY 2003 and 2006. The fluctuating percentage of operating profit due to net profit and other application for purchase of new machine, whose depreciation charge etc. hence, operating profit percentage has fluctuated while the average percentage of operating profit of total sources is more than 60 percentage during the study period. The company SNPL seemed to be doing well till this time.

(b) Decrease in Working Capital:

There must be working capital to run day-to-day operation in all business organization, which contributes to the total funds. Decrease in working capital is also one of the major sources of funds to meet its application. Working capital represents the excess of current assets over current liabilities. If the working capital at the end of the period is less than that at the commencement (beginning), the difference is called decrease in working capital.

The amount of decrease in working capital are 3.16 and 62.12 millions in the fiscal year 2003 and 2006 its represent the 1.07 and 28.59% of total source respectively during the study period. The result of such decrease in working capital as a small source of funds with represent the percentage out of total funds during the study period. It shows the normal solvency position during the study period; such situation is satisfactory for the SNPL, but not better.

(c) Sales of Misc. Assets:

Sales of Misc. assets and fixed assets is also a main source of funds to meet its applications for the period of time. The SNPL derived the source of funds through sales of misc. assets is 215.58, 3.43 and 0.08 millions for FY 2003, 2004, and 2005 respectively.

During the fiscal year 2003 statement of sources and application of funds shows that the primary sources of funds is from sales of misc. assets which represents the 73.24 percentage out of total funds and in the fiscal year 2004 it

represents the only 3.46 percentage out of total funds and than nominal. As the result, the sales of misc. assets are to purchase of fixed assets for FY 2005. Such internal mobilization of funds is a good and quite satisfactory.

(d) Issue of Share:

Issue of share is a permanent source of fund. Every company has issued new share as a source of funds like borrowing and other liabilities to meet its application for the smooth running of the business.

The company SNPL has not issued new share until 2006 during the study period. But in FY year 2007 SNPL issued new share of 86.63 millions which represent 37.45 percentages out of total source of fund. It is used to pay differed liabilities of 83.41 millions and company able to save large amount of payable interest comparatively.

(e) Increase in Deferred Liabilities:

Increase in deferred liabilities is an sources of funds. Deferred liabilities include long-term and misc. loans in present study. Therefore, loan is an essential source of fund for every business enterprises.

Increase in differed liabilities has been a continuous source of fund for SNPL since 2003 to 2005. Increase in differed liabilities is 1.17, 2.40, and 2.13 millions, which cover the 0.40%, 2.40% and 3.25% out of total source of SNPL for the year 2004, 2005 and 2006 respectively. The percentage of increase in differed liabilities out of total source is in slightly increases trend up to FY 2006.

In totality an economically sound company does not need the heavy borrowing amount. It need the utilization its internal resource to mobilize its funds. Thus SNPL should be launched new reformative program one for the proper utilization of internal resources as a better result of the company.

2. Application of Funds:

This company for different uses may apply the funds, which are acquired from different sources analyzed above. During the fiscal year 2002 to 2006 AD, total sources of funds of SNPL have been applied in six different uses. They are:

- a) Increase in working capital
- b) Purchase of fixed assets
- c) Purchase of Misc. assets
- d) Decrease in differed liabilities
- e) Payment of dividend
- f) Purchase of investment

(a) Increase in Working Capital:

The flow of working capital is affected by each change in current assets and current liabilities. Increase in working capital is an application of funds of the company.

In this study period, SNPL has utilized its sources of increase in working capital for FY 2005 and 2006 by 50.64 and 36.69 millions that contribute to fund utilize by 51.06% and 38.69% respectively out of the total application during the study period. In FY 2005 and 2006, Primary application of fund is increase in working capital, which represent 51.06% and 38.59% respectively. This percentage shows that the increase in working capital is a major part of funds application for FY 2005 and 2006.

(B) Purchase of Fixed Assets:

Purchase of fixed assets is also a main uses of funds which called increase in fixed assets. Fixed assets consist of land, house, furniture, office goods, machinery, transport, equipment, books and misc. expanses. SNPL had utilized its funds for purchase of fixed assets by Rs 283.81 millions, Rs 47.91 millions, Rs 51.16 millions and Rs 31.10 millions from FY 2003 to 2006 respectively. Total utilization of funds on this study period has been 96.43%, 48.31%, 53.82%, and 13.44% respectively. Average percentage of purchase of fixed assets out of total application is more than 50% during the study period, which is not made by borrowing for SNPL. So from the study period, a purchase of fixed assets has been decreasing slowly in amount. Its amount should increase as constant regularly to improve existing position.

(C) Purchase of Misc. Assets:

Increase of misc. assets is a primary application of funds for SNPL in FY 2006. SNPL has utilized 96.26 millions which represent 41.62% of total application only for FY 2006 to increase production capacity and for the betterment of the quality in production. It is a good sign of utilization of fund for the year 2006 rather than other year in the view of funds utilization.

(d) Decrease in Deferred Liabilities:

Decrease in deferred liabilities is a use of SNPL only for 2006 during the study period. Decrease in deferred liabilities is Rs 83.41 million which represent 36.07% out of total application. Decrease in deferred liabilities is not sound situation for the company, which indicates the decline in its profitability performance. As a result, SNPL bears decrease in deferred liabilities with decrease in net profit for 2006.

(e) Payment of Dividend:

SNPL utilize the funds by made the payment of dividend is an application of funds. Payments of dividend are in small amount such as 4.04, 0.01, 7.03 and 20.51 millions for 2003, 2004, 2005, and 2006 respectively during the study period. Payment of dividend on total funds from 2003 to 2006 are 1.37%, 0.001%, 7.39% and 8.87% respectively. Thus SNPL seems the good in utilization of funds because payment of dividend represents 8.87% of total application in the last years of study period. When company has distributed profit then made the payment of dividend.

(f) Purchase of Investment :

Statements of sources and application of SNPL shows that application of funds is also purchase of investment. Purchase of investment is Rs 6.49 and 0.61 millions only in FY 2004 and 2005 respectively and then there are no any applications on investment during the study period. From this study period its utilization on total fund is less than 1%, which shows the unsatisfactory result for SNPL on investment decision.

4.2. RATIO ANALYSIS

Ratio analysis is an important tool of financial performance of the business enterprises, which has been used to study financial viability of the company. It is the process of determining and interpreting numerical relationship based on financial statements. If the ratio has been used appropriately and continuously, these could have access on the financial, managerial and economic condition of the company. Therefore, ratio analysis is one of the modern devices used for judging the condition disclosed by financial statement.

Financial condition and performance of Surya Nepal Private limited may be compared with average ratio of the company having similar operation, but it is not possible in our country.

Here is analyzed and interpreted the financial ratio over a period of five year from 2002 AD to 2006 AD to know the direction of change and reflection, whether the company's financial position and performance have improved or deteriorated and remain constant over this period.

Many ratios can be calculated from the data contained in the financial statements. Creditor as well as owner examines the company's financial records with his own objectives in mind. Short-term creditor main objective in financial analysis is in the short-term solvency or the liquidity position but the long-term solvency and profitability of the company. Shareholders are similarly interested on long-term profitability and efficiency. Of course management is concerned with all these aspect of financial analysis. They have to work for all parties and see that the company grows profitability.

In this chapter some important ratios have been attempted to find out the real financial position of SNPL. For this purpose, we can classify ratios into four important categories. They are important tools to know the liquidity, leverage, activity and profitability position of the SNPL. These ratios can be discusses as follows

4.2.1. LIQUIDITY RATIO:

Liquidity ratio measures the company's ability to meet current obligations. It also indicates the liquid position of a business enterprise though these ratios are reflected the company's solvency. In short, it measures the company's ability to meet its maturity short-term obligations. A company should ensure that it does not suffer from lack of liquidity and also that it is not too much liquid. Liquidity ratio provides quick measure of liquidity by establishing a relationship between cash and other current assets to current liabilities. Where as, the preparation of cash budgets, cash and funds flow statements are required a full analysis of liquidity.

A company should ensure that it is not too much liquid and also that it does not suffer from lack of liquidity, high liquidity and low liquidity both conditions are not better for company. A proper balance between the two contradictory requirements i.e. liquidity and profitability is required for efficient financial management so that, liquidity is a pre-requisite for the very survival of a company for business concerns like Surya Nepal Private Limited. Current and quick ratio is included to measure the liquidity position of the company are used as follows:

4.2.1.1. Current Ratio:

Current ratio shows the relationship between current assets and current liabilities and also explains that how much current assets is there as against each rupee of liabilities. It is calculated by current assets by current liabilities. Current assets include cash & bank balance, sundry debtors, inventory, misc. current assets, etc. Current liabilities include loan & advances, provision for tax, sundry creditors, and misc. current liabilities etc in this study. so this ratio is a yardstick to judge the soundness of the short-term financial position of the business unit or company. To find out the relationship between current assets and current liabilities, the following formula is used:

$$\text{Current Ratio} = \frac{\text{CurrentAssets}}{\text{CurrentLiabilities}}$$

The current ratios of SNPL are calculated following table.

Table No. 6
Current Ratio of SNPL from 2002 to 2006.

(Amount in Million)

Year 1	Current assets 2	Current liabilities 3	Current ratios $4 = \frac{2}{3}$
2002	240.19	132.48	1.81
2003	288.60	184.05	1.57
2004	353.65	198.46	1.78
2005	369.41	177.53	2.08
2006	393.86	268.08	1.47

Source: Based on appendix- 1

The current ratios containing five years from 2002 to 2006 of SNPL are presented in table 1. The table presents the current ratio of five years from 2002 to 2006 of SNPL. The usual standard of current ratios is 2:1, which is more satisfactory. The current ratios of SNPL for the year 2002, 2003, 2004, 2005 and 2006 are 1.81, 1.57, 1.78, 2.08 and 1.47 respectively, which shows the liquidity position of the company only in year 2005 is better because the current ratio of the company is higher than standard and current ratios for the year 2002, 2003, 2004 and 2006 are less than the standard. It means the company has been facing difficulty in the payment of current liabilities and day-to-day operations. So it may be interpreted to be insufficiently liquid expect the year 2005 during the study period, the current ratio of this company is good only in 2005 and in the other years the current ratio are not favorable in paying its debt.

4.2.1.2. Quick Ratio:

The quick ratio is widely used tool for judging the short-term debt repaying ability. In other words, it measures the company's ability how quickly it can convert assets in to cash in order to meet its current liabilities. It is also called the acid test ratio, or liquidity ratio. It is calculated dividing quick assets by current liabilities. Quick assets include sundry debtors, cash in hand cash at bank and other current assets which can be realized with out difficulties or it has a nature of immediate convertibility into cash without loss in value. Where as the prepaid expenses are the expanses paid in advance for future period and are not convertible into cash for payment of current liabilities and closing stock can not easily convertible into cash .it value may decline while

converting into cash. So the quick ratio is a more refined measure of the company's liquidity.

The quick ratio is the ratio between quick assets and current liabilities. The following formula is used to calculate the quick ratio

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

Table No. 7
Quick ratios of SNPL from 2002 to 2006

(Amount in million)

Year	Quick Assets	Current liabilities	Quick ratios
1	2	3	$4 = \frac{2}{3}$
2002	162.08	132.48	1.22
2003	202.25	184.05	1.10
2004	216.88	198.46	1.09
2005	248.3	177.53	1.40
2006	251.11	268.08	0.94

Source: Based on appendix- 1

Quick ratios of SNPL represented in table no 7 covers a period from 2002 to 2006. A usual standard of quick ratio is 1:1, which indicates the ability of the company to covers it current claims by quick assets. In short, quick ratio is 1 of 1 represents sound liquidity position of the company for obligation. The quick ratios of the company for the year 2002, 2003, 2004, 2005 and 2006 are 1:22, 1.10, and 1.09. 1.40 And 0.94 respectively. This shows that the quick ratios of this company are satisfactory for first four years and able to repay the current liabilities from its own liquid assets. But in the year 2006 the quick ratio is 0.99 less than standard, which shows that the company is not able to repay the current liabilities, form its own quick assets when demanded by its creditors.

4.2.2. LEVERAGE RATIOS:

Leverage ratios are used to measure the contribution of financing by owners compared with financing provided by creditors. These ratios are also called solvency ratios or capital structure ratios. To judge the long-term financial position of the company the leverage ratios are calculated. This ratio indicates funds provided by owners and lenders. As the general rule there

should be an appropriate mix of debt and owner's equity in financing the company's assets.

Leverage ratio may be calculated from the balance sheet items and determines the extent to which borrowed funds have been used to finance the company. Leverage ratios from the income statement measure the risk of debt in other words determine the extent to which operative profits are sufficient to cover the fixed charges. In this study the selected leverage ratios are presented and analyzed, which contain long-term debt to net worth, total debts (liabilities) to net worth, net fixed assets to long-term debt, total assets to total liabilities and interest coverage ratio etc.

4.2.2.1. Long-term Debt to Net worth Ratio:

The relationship between long-term debt (long term borrowed fund) and owner's equity or net worth is known long-term debt to net worth ratio. It is calculated in following way

$$\text{Long-term Debt to Net worth Ratio} = \frac{\text{Long-term Debt}}{\text{Net worth}}$$

The long-term debt to net worth ratio of SNPL for five years period is presented below:

Table no. 8

Long-term debt to Net worth ratios of SNPL from 2002 to 2005

(amount in million)

Years	Long-term debt	Net worth	Long-term debt to net worth ratios
1	2	3	4 = $\frac{2}{3}$
2002	00	401.39	.00
2003	00	456.321	.00
2004	00	518.51	.00
2005	00	567.39	.00
2006	00	669.47	.00

Source: Based on appendix- 1

In this ratio the high ratio shows the large share of financing by the creditors or long-term debt as compare to that of net worth. This means creditors would suffer more in time of distress than the owner. This is only creditors prefer low long-term debt to net worth ratio. The long-term debt to net worth ratio represented in table 8 which is shows the zero during the study

period. In year 2002, 2003, 2004, 2005 and 2006 the long-term debt is not required or no need of the long-term debt or there is no long-term debt during the year from 2002 to 2006. So the long-term debt to net worth ratio is zero for 5 years. This condition of SNPL is seemed favorable for the study period, which is satisfactory.

4.2.2.2 Total Debt (Liabilities) to Net worth Ratio:

This ratio is also known as debt equity ratio. The relationship between lender's contributions for each rupee of owner's contribution is shown by debt-equity ratio and it reflects the relative claim of creditors and shareholders against the assets of the company. This ratio is calculated by dividing the total debts by net worth figure. Net worth consist of the entire share capital, shareholders reserve and other reserve and surplus of SNPL and total debts consist of all terms debt and current liabilities. This total debt (liabilities) to net worth ratio is computed using following formula:

$$\text{Debt to Net worth or Debt-equity Ratio} = \frac{\text{TotalDebt}}{\text{Networth}} \times 100$$

Table no. 9

Total debts to net worth ratios of SNPL from 2002 to 2006

(Amount in million)

Year 1	Total liabilities(debts) 2	Net worth 3	Equity Raito $4 = \frac{2}{3}$
2002	224.71	401.39	0.5598=55.98%
2003	277.45	456.32	0.6080=60.80%
2004	294.26	518.51	0.5675=56.75%
2005	275.26	567.39	0.4851=48.51%
2006	282.40	669.47	0.4218=42.18%

Source: Based on appendix- 1

Total debt to net worth ratio of SNPL from 2002 to 2006 are calculated and presented in above table, which shows the debt equity ratio for five years period of company. There is no rigid rule regarding total debt to net worth ratio and it will depend upon the circumstance, prevailing practices and so on. The total debts to net worth ratio of the SNPL from 2002 to 2006 are 0.5598, 0.6080, 0.5675, 0.4851 and 0.4218 respectively. The given figures of total debt to net worth ratio of the company shows the good condition because total debt is less than net worth which indicate the higher amount of net worth or share

equity than total debt. So every creditor wants to finance in this company. The lower debt to net worth ratio is better in the soundness of company, which implies smaller claims of creditors. Here the total debt to net worth ratio is lower and lower after year by year. So the financial soundness is favorable of SNPL during the study period.

4.2.2.3. Total Liabilities to Assets Ratios:

Total liabilities to total assets ratio is calculated by dividing total liabilities by total assets. In the study of SNPL the total liabilities include current liabilities long-term loans and misc. deferred liabilities and total assets include current assets, net fixed assets investment in shares and misc. assets. This ratio is used to measure the cushion against creditors' loss in the event of liquidation. It is clear that the creditors prefer moderate ratio on the other hand, the owner may seek high ratio to magnify earnings. Total liabilities to total assets ratio is calculated by using the following formula:

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

The total liabilities to total assets ratios of SNPL from 2002 to 2006 AD are calculated in the following table.

Table no. 10

Total liabilities to total assets ratio of SNPL from 2002 to 2006

(Amount in million)

Year 1	Total liabilities 2	Total assets 3	Total liabilities to total assets ratio 4 = $\frac{2}{3}$
2002	224.71	636.10	0.3589
2003	277.45	733.76	0.378
2004	294.26	812.75	0.362
2005	275.26	842.65	0.326
2006	282.40	951.86	0.296

Source: Based on appendix- 1

The above table no.10 shows the total liabilities to total assets ratios of SNPL (from 2002 to 2006AD.) fiscal year. The ratios in year 2002, 2003, 2004, 2005 and 2006 are 0.35, 0.37, 0.36, 0.32 and 0.29 respectively. The usual standard of this ratio is 0.50. So that the total liabilities to total assets

ratios of SNPL during the study period of 5 years are good because the ratios are less than standard and in decreasing way. It indicates that these are low amount of debts and other liabilities and the company should not pay the more interest at that time. So that the company shows the strong financial position to generate profit for the internal investors or owners.

4.2.2.4. Interest Coverage Ratio:

This ratio measures the debt servicing capacity of a company. It is computed by dividing net profit before interest and tax by interest.

Thus:

$$\text{Interest Coverage Ratio} = \frac{\text{Net Profit Before Interest \& tax}}{\text{Interest}}$$

This ratio is also known as time-interest earn ratio. A high ratio is a sign of low burden of borrowing of the business and lower utilization of borrowing capacity. From the point of view of creditors, the larger the coverage, is the greater the ability of the company to make the payment of interest to creditors. A lower ratio indicates excessive use of debt. In the study of SNPL, the net profit before interest and tax is known as operating profit plus interest. The comparative picture of SNPL for interest coverage ratios has been shown in the table no. 11.

Table no. 11

Interest coverage ratios of SNPL from 2002 to 2006

(Amount in million)

Year 1	Interest 2	Net profit before interest & tax 3	Interest coverage ratio 4 = $\frac{3}{2}$
2002	1.30	56.83	43.72 times
2003	0.07	68.28	975.43 times
2004	0.72	68.47	95.1 times
2005	0.92	62.13	67.53 times
2006	0.08	43.14	539.25 times

Source: Based on appendix- 2

The above table no 11 shows the interest coverage ratios of SNPL from 2002 to 2006, which indicates the very good condition in the view point of interest coverage. The company uses the lower borrowing capacity. In the year

2003 the highest interest coverage ratio is 975.43 times and lowest 43.72 times in year 2002 during the study period. The company is able to pay interest at least 43.72 times from its income. Therefore the interest coverage ratios of SNPL during the study period are favorable because the interest has been cover easily at least 43 times by EBIT.

4.2.2.5. Net Fixed Assets to Long-term Debt:

This ratio measures the long-term financial position of company and it indicates that the relationship between net fixed assets and long-term loans debts. The high ratio is a sign of low burden of long-term borrowing and lower utilization of long-term loans. This ratio is calculated by using the following formula:

$$\text{Net Fixed Assets to Long-term Debt Ratio} = \frac{\text{NetFixedAssets}}{\text{Long-termDebt}}$$

The following table no.12 shows the net fixed assets to long-term debt ratio.

Table no 12

Net fixed assets to long-term debt ratio of SNPL from 2002 to 2006

(Amount in million)

Year 1	Net fixed assets 2	Long-term debt 3	Net fixed assets to long-term ratio 4 = $\frac{2}{3}$
2002	61.29	0.00	0.00
2003	329.63	0.00	0.00
2004	346.39	0.00	0.00
2005	360.61	0.00	0.00
2006	349.11	0.00	0.00

Source: Based on appendix- 1

The above table no.12 shows the net fixed assets to long-term debt ratios of SNPL from 2002 to 2006AD. These ratios are infinitive (0.00) because these are no any utilization of long-term debts during the study period. Therefore the long-term financial position of SNPL is favorable in relation on net fixed assets to long-term debt during the study period.

4.2.3. ACTIVITY RATIOS

The relationship between sales and assets are indicating by activity ratio. This ratio is also known as turnover ratio and efficiency ratio. The efficiency of the company depends to a large extent on the efficiency with which its assets managed and utilized. These ratios are concerned with measuring the efficiency in assets management. In short this ratio reflects how efficiently the company is managing its resources. Thus, these ratios measure the degree of effectiveness in use of resources or funds by a business company. The common turnover ratios of SNPL are as follows:

4.2.3.1. Total Assets Turnover Ratio:

Although fixed assets are directly concerned with the generation of sales, other assets of the company are also equally important to generate sales. The maximization of sales depends upon the efficient management of total assets to some extent. This ratio measures the efficiency of a company in managing and utilizing its assets. The higher the total assets turn over ratio, the more efficient management and utilization of the total assets while low, total assets turnover ratios are indicative of under-utilization of available resources and presence of idle capacity. This ratio is computed by dividing the net sales by total assets, using the formula of:

$$\text{Total Assets Turnover Ratio} = \frac{\text{Netsales}}{\text{Totalassets}}$$

The following table no. 13 presents the total assets turnover ratio of SNPL from 2002 to 2006. Where total asset includes current assets and fixed assets with investment in share and misc. assets

Table no. 13

Total assets turnover ratios of SNPL from 2002 to 2006

(Amount in million)

Year	Net sales	Total assets	Total assets turnover ratio
1	2	3	$4 = \frac{2}{3}$
2002	231.75	626.10	0.37
2003	293.42	733.76	0.40
2004	368.62	812.75	0.45
2005	372.78	842.65	0.44
2006	4143.58	951.86	0.44

Source: Based on appendix- 1&2

During the whole study period total assets turn over ratio of SNPL was lower than standard (2:1). The total assets turnover ratios are 0.37 in 2002, 0.40 in 2003, 0.45 in 2004, 0.445 in 2005 and 0.44 in 2006. The total assets turnover ratios are very unsatisfactory during the study period. There has been high amount of total assets than sales for each and every year, which is not good for manufacturing company like SNPL. These ratios indicate no efficiency of management in utilization of assets. In conclusion, the assets management of the company is not good during the study period. The low turnover ratio of this company may be due to the poor selling capacity, lower labor capacity or under-utilization of available resources (plant) capacity etc in SNPL.

4.2.3.2 Debtors Turnover Ratio and Average Collection Period.

The second activity ratio is the receivable or debtors turnover ratio, which is closing related to the average collection period. It shows how quickly debtors are converted in to cash. In short, it is a test of the liquidity of the debtors of a company.

The liquidity of a company's debtors can be examined in two ways :-(1) Debtors turnover ratio and (2) Average collection period.

In the study of SNPL, debtor turnover ratio shows the relationship between sales, and debtors of the company due to unavailable data of opening and closing debtors and credit sales. Here, the following formula is used to calculate the debtor turnover ratio, thus:

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

The higher the ratio the more efficient is the management on collecting the debtors. It indicates that with in a short period the company is collecting the cash from debtors. A low ratio shows that debts are not being collected rapidly.

The second type of ratio for measuring the liquidity of a company's debtors is the average collection period. It represents the average number of days for collecting the cash from debtors. This ratio is depends on debtors turnover ratio, which can be calculated as follows:

$$\text{Average Collection Period} = \frac{\text{Days} - \text{inYear}}{\text{DebtorsTurnoverRatio}}$$

This ratio will be in number of days and minimum days are preferable, which shows that the company is collecting the cash from debtors with a short period.

Table no .14**Debtor's turnover & average collection period (2002 to 2006) of SNPL**

(Amount in million)

Year 1	Net sales 2	Debtors 3	D/T Ratio $4 = \frac{2}{3}$	Average collection period $5 = \frac{360}{4}$
2002	231.75	0.43	538.95 times	0.667 days
2003	293.82	1.26	233.19 times	1.54 days
2004	368.62	0.91	405.07 times	0.889 days
2005	372.78	0.07	5325.4 times	0.067 days
2006	414.58	80.48	5.15 times	69.88 days

(Note: working days assumed to be 360 days.)

Source: Based on appendix- 1&2

The above table no.14 shows the debtors turnover ratios and average collection period of SNPL for 5 years period from 2002 to 2006 the debtors turnover ratios are 538.95, 233.19, 405.07, 3525.4 and 5.15 for the year from 2002 to 2006 respectively.

The higher collection period than the standard i.e. 15 days and also lower debtors turnover ratio than the standard i.e. 20 time could not be found up to 2005 AD. But in the year 2006 unfortunately the debtor turnover ratio is decrease and average collection period is increased, which can't meet its standard. It indicates that there is favorable condition in the collection performance up to 2005, which are taken as satisfactory. But in last year of the study, there is a large amount of debtors, which makes the company unsatisfactory and takes long time to convert the debtors into cash.

4.2.3.3. Inventory Turnover Ratio:

Inventory turnover ratio indicates number of times inventory is replaced during the year. It is also known as stock turnover ratio. It is computed by dividing the cost of good sold by average inventory for the period, which shows as how fast the goods are sold. The method of calculating this ratio of SNPL for the 5 years period is as follows:

$$\text{Inventory Turnover Ratio} = \frac{\text{CostOfGoodsSold}}{\text{AverageInventory}}$$

$$\text{Where, Average inventory} = \frac{\text{OpeningStock} + \text{ClosingStock}}{2}$$

A high inventory turnover ratio is indicative of good inventory management on the other hand low inventory turnover implies excessive inventory level than warranted by production and sales activities.

Table no. 15

Inventory turnover ratios of SNPL from 2002 to 2006

(Amount in million)

Year 1	Cost of goods sold 2	Average inventory 3	Inventory turnover ratio 4 = $\frac{2}{3}$
2002	119.78	35.375	3.386 times
2003	147.32	37.3	3.949 times
2004	206.49	45.175	4.57 times
2005	206.80	55.825	3.70 times
2006	227.01	52.275	4.34 times

Source: Based on appendix- 1&2

The above table no 15 represent the inventory turnover ratio of SNPL from 2002 to 2006 in the period of five years, about the standard of the inventory turn over ratio could be found. The usual standard of inventory turnover ratio for manufacturing company is 4 times. The inventory turnover ratios are 3.38, 3.95, 4.57, 3.70 and 4.34 times in the year 2002, 2003, 2004, 2005 and 2006 respectively, which are nearer the standard. So this position of company is satisfactory in the viewpoint of inventory turnover, which indicates that the company sells goods very fast to earn more profit for future period.

4.2.3.4. Net Sales to Net Worth Ratio:

Net worth turnover ratio is the adequacy of sales in relation to net worth. It also measures the efficiency of the company and tries to seek answer how efficiently the company is managing its net worth or equity. The higher ratio would mean better utilization of net worth and vice-versa.

Net worth turnover ratio is calculated by dividing net sales by net worth of SNPL in this study.

Thus

$$\text{Net Sales to Net worth Ratio} = \frac{\text{Net sales}}{\text{Networth}}$$

The following table no 16 shows the relationship between net sales and net worth of SNPL from 2002 to 2006

Table no. 16
Net sales to net worth ratio of SNPL from 2002 to 2006

(Amount in million)

Year 1	Net sales 2	Net worth 3	Net sales to net worth ratio 4 = $\frac{2}{3}$
2002	231.75	401.39	0.58
2003	293.82	456.32	0.64
2004	368.62	518.51	0.71
2005	372.78	567.39	0.66
2006	414.58	669.47	0.62

Source: Based on appendix- 1&2

The above table no. 16 shows the net worth ratios of SNPL for 5 years period. The ratios are 0.58, 0.64, 0.71, 0.66 and 0.62 for FY 2002,2003,2004,2005 and 2006 respectively. The higher ratio is the preferable, so that the ratio for 2004 is higher than other year i.e. 0.71 and other are also meet the standard (i.e.50). Therefore the company SNPL is satisfactory in the viewpoint of net sales to net worth ratio.

4.2.3.5. Fixed Assets Turnover Ratio:

Net fixed assets turnover ratio shows the efficiency of utilizing fixed assets of the company. This ratio is calculated by dividing net sales by net fixed assets. A high fixed assets turnover ratio the more efficient is the management on utilization of fixed assets in generating sales and vice-versa. The fixed assets turnover ratios of SNPL have show in the table.

Table no. 17

Fixed assets turnover ratio of SNPL from 2002 to 2006

(Amount in million)

Year	Net sales	Net fixed assets	Fixed assets turnover ratio
1	2	3	$4 = \frac{2}{3}$
2002	231.75	61.29	3.78 times
2003	293.82	329.63	0.89 times
2004	368.62	346.39	1.06 times
2005	372.78	360.61	1.03 times
2006	414.58	349.11	1.18 times

Source: Based on appendix- 1&2

It is observed from the above table that highest ratio is 3.78 times in FY 2002 during five years period and the lowest ratio is 0.89 times in 2003. The fixed assets turnover ratios of SNPL 3.38, 1.06, 1.03 and 1.18 times for the year 2002, 2004, 2005 and 2006 respectively are not satisfactory as thumb standard and seems unfavorable, computing the above calculation. It means that utilization of fixed assets in generating sales is not efficient for the whole study period. So company should take attention to effective and efficiency utilization of fixed assets.

4.2.4. PROFITABILITY RATIOS:

Profitability ratio is a measure of efficiency and the search for it provides an incentive to achieve efficiency. It also indicates public acceptance of the product and shows that the company can produce competitively. In other words it shows the overall efficiency of the business concerns.

Management is not only interested in the profitability of the company but also the creditors and owners are equally interested. Creditors want to have interest regularly and return of principal at the due date. Owners and investors want to get reasonable return on their investment. Similarly employees also want to get facilities that are possible only when the company earns sufficient profits. So the profitability position of the company must be analyzed to know the financial performance of the company. The relation of the return of the company to either its sales or its equity or its assets is known as profitability ratios. Therefore, these ratios measure the management's overall performance and effectiveness of company.

4.2.4.1. Gross Profit Margin / Ratio:

Gross profit ratio expresses the relationship between gross profit margin and net sales. It is calculated by dividing the gross profit by sales. Gross profit is calculated by subtracting cost of goods sold and general expenses from sales revenue in this company. So to calculate this ratio, the following formula is used.

$$\text{Gross Profit Margin /Ratio} = \frac{\text{Gross Profit}}{\text{Net sales}}$$

A higher ratio is a sign of good management. A low gross profit may reflect higher cost of goods sold due to the company's inability to purchase at favorable terms. The table no. 18 shows the gross profit margin ratio of this company during 5 years study period.

Table no. 18

Gross profit margin ratio of SNPL from 2002 to 2006

(Amount in million)

Year	Gross profit	Sales	Gross profit margin ratio
1	2	3	$4 = \frac{2}{3}$
2002	64.71	231.75	0.27 or 27.92%
2003	84.78	293.82	0.28 or 28.85%
2004	100.81	368.62	0.27 or 27.35%
2005	99.58	372.78	0.27 or 26.71%
2006	87.24	414.58	0.21 or 21.04%

Source: Based on appendix- 2

The gross profit margin ratios of SNPL are 27.92%, 28.85%, 27.35%, 26.71 and 21.04% for the years from 2002 to 2006 respectively. In the initial two year, the ratio has been increasing trend and then decreasing trend. Although decreasing trend, gross profit margin ratios are taken as satisfactory during the study period.

4.2.4.2. Net Profit Margin / Ratio:

This ratio is the overall measure of the company's ability to turn each of sales in to net profit. Net profit is obtained rupee when operating expenses, non-operating expenses and income tax are subtracted from the gross profit and non-operating income is added on this result. This ratio is calculated by dividing net profit by net sales.

$$\text{Thus, Net Profit Margin /Ratio} = \frac{\text{Net Profit After Tax}}{\text{Net Sales}}$$

The higher the ratio is an indication of the higher overall efficiency of the business and better utilization of total resources and vice-versa. The following table no. 19 shows the net profit margin ratio of SNPL from 2002 to 2006. The net profit margin ratio of SNPL are 16.25%, 20.27%, 16.86%, 14.99% and 8.66% for the years 2002, 2003, 2004, 2005 and 2006 respectively.

Table no. 19

Net profit margin ratios of SNPL from 2002 to 2006

(Amount in million)

Year	Net profit	Net sales	Net profit margin ratio
1	2	3	$4 = \frac{2}{3}$
2002	37.68	231.75	0.16 or 16.25%
2003	58.97	293.82	0.20 or 20.07%
2004	62.18	368.62	0.16 or 16.86%
2005	55.91	372.78	0.149 or 14.99%
2006	35.89	414.58	0.08 or 8.66%

Source: Based on appendix- 2

Table no. 19 indicates that the net profit margin ratios of the SNPL are decreasing trend from second year during the study period. Net profit margin of SNPL are decreasing trend due to lack of efficiency in manufacturing, incompetent administration and unable to generate large volume of sales. The net profit ratio is about standard ie.15% up to 2005 AD and lowers for the year 2006. The company should analysis strength, weakness, opportunity and threat for the success of the company in future with generating the large volume of sales and profit.

4.2.4.3. Return on Total Assets:

Return on total assets evaluated how for the management is effective in using the total resources invested in assets whatever the source of financing may be. It measure the profitability of all financial resources invested in the company's assets. This ratio is computed by dividing net profit by total assets.

Thus,

$$\text{Return on Total Assets} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

The company said to misuse its assets if it is not able to earn a reasonable return on its assets. High ratio is favorable and vice-versa. The return on total assets ratios of SNPL for 2002 to 2006 are given in the table no.20

Table no. 20
Return on Total Assets of SNPL From 2002 To 2006

(Amount in million)

Year 1	Net profit 2	Total assets 3	Return on total ratio $4 = \frac{2}{3}$
2002	37.68	626.10	0.060 or 6%
2003	58.97	733.76	0.08 or 8%
2004	62.18	812.75	0.076 or 7%
2005	55.91	842.65	0.06 or 6%
2006	35.89	951.86	0.037 or 4%

Source: Based on appendix- 1&2

The above table recorded the higher and lowest return on total assets ratio 8% and 4% for 2003 and 2006 respectively. These ratios of SNPL are not better during the study period because the trend of ratios is in decreasing way. The table indicates that the management is going to misuse or failed its assets in its full capacity day by day. The financial condition of SNPL is seems too normal during the study period but not good in the viewpoint of return on total assets as compared to the standard.

4.2.4.4. Net Profit to Net worth Ratio:

Return on net worth ratio indicates the relationship between net profit and net worth. It is a useful measure of profitability of all financial resource invested in the company. Net worth includes share capital and shareholder's reserves in the study of SNPL.

Thus,

$$\text{Return on Net worth} = \frac{\text{Netprofit}}{\text{Networth}}$$

The higher the ratio is preferable which shows that the company is very efficient on profit earning and vice-versa. In the table no. 21 return on net worth of SNPL from 2002 to 2006 has been presented.

Table no. 21
Return on net worth of SNPL from 2002 to 2006

(Amount in million)

Year 1	Net profit 2	Net worth 3	Return on Net worth $4 = \frac{2}{3}$
2002	37.68	401.39	0.0939or 9.39%
2003	58.97	456.32	0.129or12.92%
2004	62.18	518.51	0.1199or11.99%
2005	55.91	567.39	0.0985or9.85%
2006	35.89	669.47	0.0536or5.36%

Source: Based on appendix- 1&2

The above-mentioned table represents the percentage of return on the net worth of SNPL for the five years period. The return on net worth ratios of SNPL are 9.39%, 12.92%, 11.99%, 9.85%, 5.36% for the years 2002 to 2006. By seeing this ratio of this company during the study period for 5 years, the trend of ratio is in decreasing nature but not negative. Return on net worth ratio said that financial management of this company is ineffective day by day.

4.2.4.5. Return on Capital Employed Ratio:

Return on capital employed is an effective measure of profitability of a business concern. This ratio uses to measure the profitability how successful is the company utilizing its total capital. This ratio shows how much return the company gives towards its investors. This ratio is calculated by dividing net profit after tax income by capital employed. Capital employed includes total liabilities plus net worth. Thus the favorable ratio is higher and vice.-versa. The following formula is used to calculate the return on capital employed ratio.

$$\text{Return on Capital Employed} = \frac{\text{Netprofit}}{\text{TotalCapitalEmployed}}$$

The comparative picture of return on capital employed of SNPL from 2002 to 2006 has been expressed in the table no.22

Table no. 22

Return on capital employed of SNPL from 2002 to 2006

(Amount in million)

Year 1	Net profit 2	Capital employed 3	Return on capital employed 4=3/2
2002	37.68	626.1	0.0601or6.02%
2003	58.97	733.77	0.0803or8.04%
2004	62.18	812.77	0.0765or7.65%
2005	55.91	842.65	0.0664or6.64%
2006	35.89	951.87	0.0377or3.77%

Source: Based on appendix- 1&2

The above calculation of return on capital employed ratio of SNPL are 6.02%, 8.04%, 7.65%, 6.64% and 3.77% for the FY 2002, 2003, 2004, 2005 and 2006 respectively. The highest return on capital employed is 8.04% in FY 2003 and lowest return on capital employed is 3.77 in FY 2006 during the study period. This ratio is not satisfactory as a standard. Management should give the attention for the better mobilization of internal as well as external funds properly for the purpose of good return.

4.2.4.6. Cost of Goods Sold Ratio:

The cost of goods sold ratio shows what percentage share of sales is consumed by cost of goods sold. Cost of goods sold ratio related to sales is also known, as expenses ratio. Lower ratio is favorable while a high one is unfavorable. It is computed by dividing cost of goods sold by net sales.

Thus,

$$\text{Cost of Goods Sold Ratio} = \frac{\text{CostOfGoodsSold}}{\text{Netsales}}$$

Cost of goods sold ratio of SNPL from 2002 to 2006 are presented in the following table no. 23.

Table no. 23

Cost of goods sold ratio of SNPL from 2002 to 2006

(Amount in million)

Year 1	Cost of goods sold 2	Net sales 3	Cost of goods ratio 4=2/3
2002	119.78	231.75	0.516 or 52%
2003	147.32	293.82	0.50 or 50%
2004	206.49	368.62	0.560 or 56%
2005	206.80	372.78	0.554 or 55%
2006	227.01	414.58	0.547 or 55%

Source: Based on appendix- 2

The cost of goods sold ratios is 52%, 50%, 56%, 55% and 55% in the FY from 2002 to 2006. The ratio of 2003 was lowest for the company during the study period. The ratios are in slightly constant trend during the study period and all ratios are higher. High cost of production and high direct expenses, under utilization of resources, over staffing, lock of consideration among different activities of SNPL are the main reason to become high cost of goods sold ratios. In the viewpoint of cost of goods sold ratios, the condition of company is not satisfactory.

4.3. TREND ANALYSIS

Trend analysis of business facts is very significant from the point of view of forecasting or budget. It discloses the changes in the financial and operating data between specific periods and makes possible for the analyst to form and opinion as they are reflected by the accounting data. Trend analysis enables whether the financial position of the company is improving or deteriorating in the coming year. To analyze the trend of data shown in the financial statements, it is necessary to have statement for at least five or more years and it involves the calculation of percentage relationship that each statements items bears to the same item in the base years. The amount of each statement items relating to base years is taken as 100 % and percentage relationships are calculated for other remaining years on the base of base years. Trend percentage discloses change in the financial and operating data between specific period and on this basic forecast for future can be made. For this purpose base years should be normal year. So, the trend analysis of the significant items of the company's financial statements composes figures for a number of years with tabulation and presentation of them by charts and graphs.

Therefore, trend is the basic tendency of series to grow or decline over a period of time. Ratio analysis enables company to take the time dimension into account. Trend analysis examines whether the financial position of a company is improving or deteriorating over the years. In the financial analysis the direction of change over a period of years is of crucial importance. It is one of the important aims of trend of sales, gross profit, net profit (loss) capital employed, total assets, total debt, current assets, current liabilities etc, which forecast probable financial condition and earning for a future period.

In the present section, the researcher is going to analyze some of the following significant items contained in the financial statement with the help of trend analysis of SNPL.

- Trend of gross profit, cost of goods sold and net sales.
- Trend of net profit\loss, cost of goods sold and net sales.
- Trend of net profit\loss, net sales, direct manufacturing expenses.
- Trend of current assets and current liabilities.
- Trend of total assets and total liabilities.
- Trend of net sales and inventory.
- Trend of interest, total liabilities and deferred liabilities.
- Trend of total assets and net worth.
- Trend of net-worth and share capital.
- Trend of gross profit, operating profit and net profit.
- Trend of net sales and total assets.

For the purpose of the trend analysis, the first year of the study period (FY. 2002 AD.) is selected as the base year or 100%. The amount of the subsequent years change in relative percentage to the first year (2002) base. A statement of trend percent of some relevant financial item of Surya Nepal Private Limited for the study period is presented in the table no. 24.

Table no: 24**Statement of trend percent of items of SNPL from FY 2002 to 2006AD.**

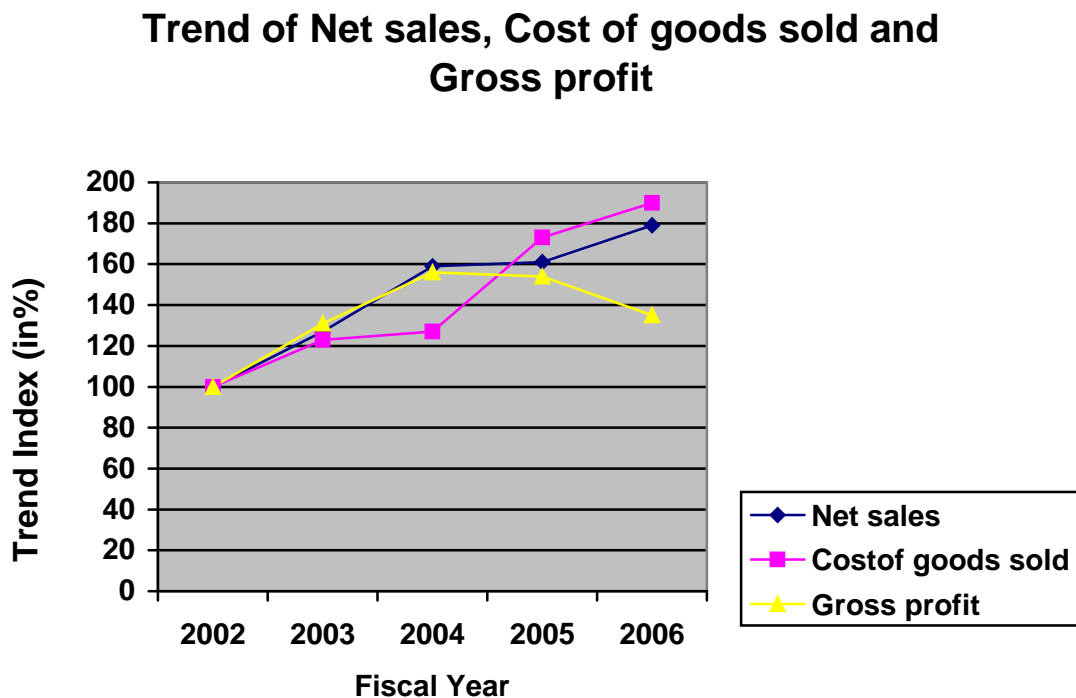
(In percentage)

S.N.	Items	Fiscal Years				
		2002	2003	2004	2005	2006
1.	Net Sales	100	127	159	161	179
2.	Cost of Goods Sold	100	123	172	173	190
3.	Gross Profit	100	131	156	154	135
4.	Net Profit	100	157	165	148	95
5.	Mfg. Expenses	100	128	160	197	226
6.	Current Asset	100	120	147	154	164
7.	Current Liabilities	100	139	150	133	202
8.	Total Asset	100	117	130	135	152
9.	Total Liabilities	100	124	131	122	126
10.	Inventory	100	111	175	155	183
11.	Interest	100	5	55	71	6
12.	Share Capital	100	100	100	100	180
13.	Operating Profit	100	123	122	110	78
14.	Deferred Liabilities	100	101	104	106	16
15.	Net worth	100	114	129	141	167
16.	S. Debtors	100	293	211	16	18716

Source: Based on appendix- 1&2

4.3.1. Trend of Cost of Goods Sold, Gross Profit and Net Sales

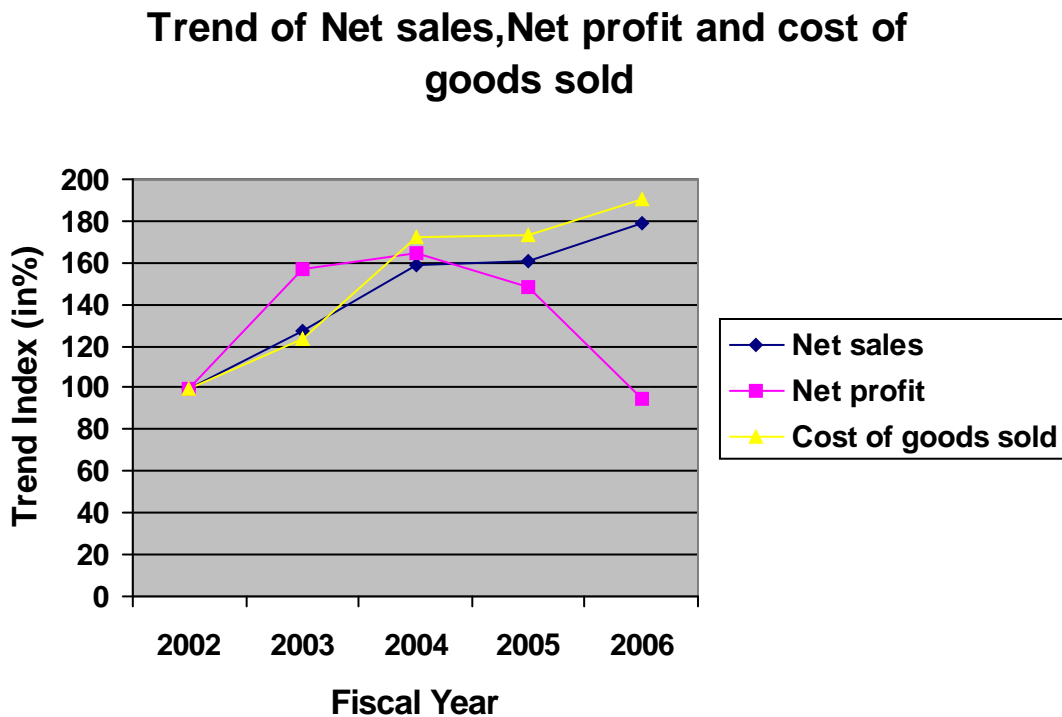
Graph no.1



The graph no. 1 shows the trend of gross profit, net sales and cost of goods sold. The trend of net sales and cost of goods sold are all exactly alike up to the study period. But gross profit line is down sloping form the year 2004. The trends of these items of SNPL are normal as compared to the base year. The trend of cost of goods sold is increasing trend with the increasing trend of net sales. So it is favorable for company. But the trend of Gross profit of SNPL during study period is up ward and down ward sloping. The trend of gross profit up to year 2004 is favorable than it is in decreasing slop, which is not better for the company. The company faces the down ward shopping of gross profit because of small volume of net sales.

4.3.2. Trend of Net Sales, Net Profit and Cost of Goods Sold:

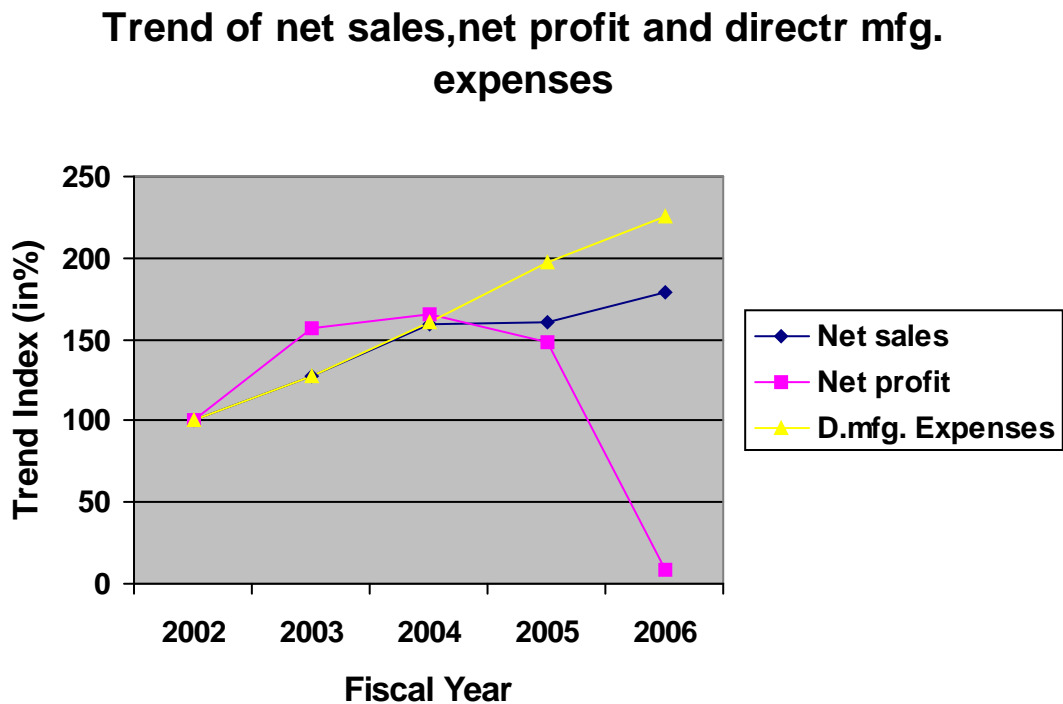
Graph no. 2



The above graph no. 2 present the trend of net sales, net profit and cost of goods sold of SNPL. The trend of net sales and cost of goods sold are increasing trend, which is better up to study period. But net profit line hardly make upward slop up to the third year (FY.2004) than it begin to slop downward to the last year (2006). The trend line of net profit is going to place in down ward sloping as compared to base year. The trend of net profit is 95% in the year 2006, which is the last year of the study period, so that is shows that the trend line net profit on the future time also take downward place. The trend of net profit is not favorable for the SNPL, for the last three year during the study period.

4.3.3 .Trend of Net Sales, Net Profit and Direct Manufacturing Expenses

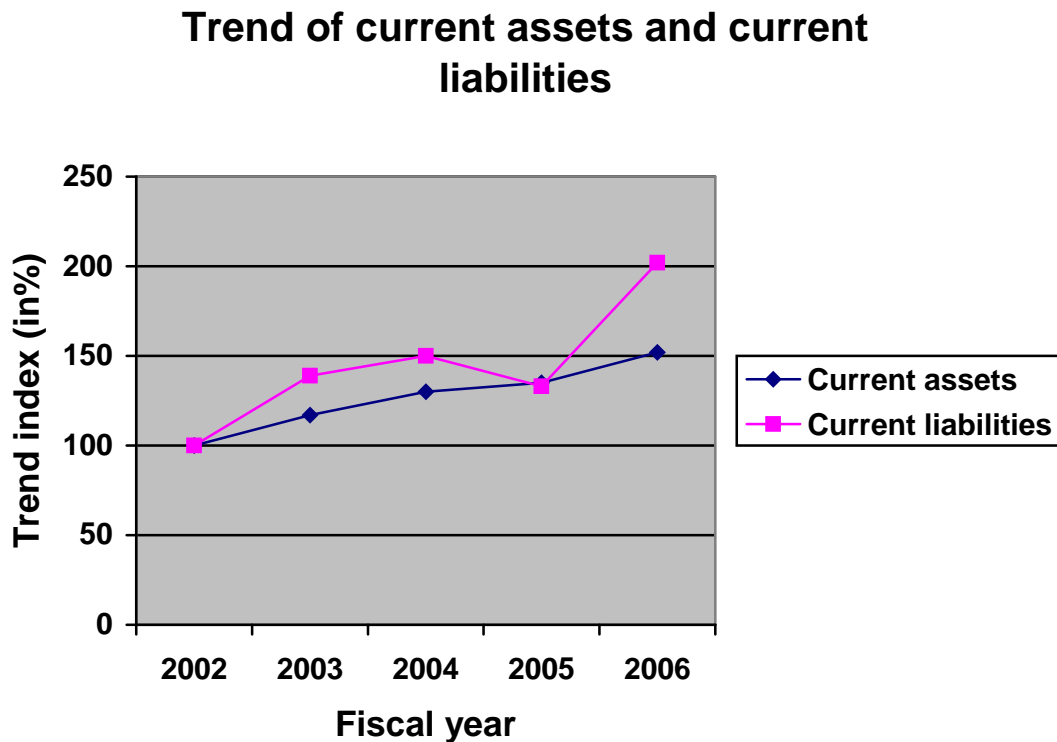
Graph no. 3



Graph no .3, is a trend of net sales, net profit and direct manufacturing expenses of SNPL. The trend of net sales and direct manufacturing expenses is increasing way during the study period. But the trend line of net profit from third years is in down ward sloping. The trend line of direct manufacturing expenses is increasing trend as compared to base year with the increasing trend of net sales, but increasing rate of trend line of direct manufacturing expenses is not favorable for the SNPL. The trend line of net profit is favorable up to FY 2004 and the unfavorable during the study period. The trend present of net profit is lower than base year in the last year of the study period (i.e. 95% <100%). The main causes of decreasing trend of net profit are absence of modern technology and large volume of direct manufacturing expenses.

4.3.4. Trend of Current Assets and Current Liabilities:

Graph no. 4

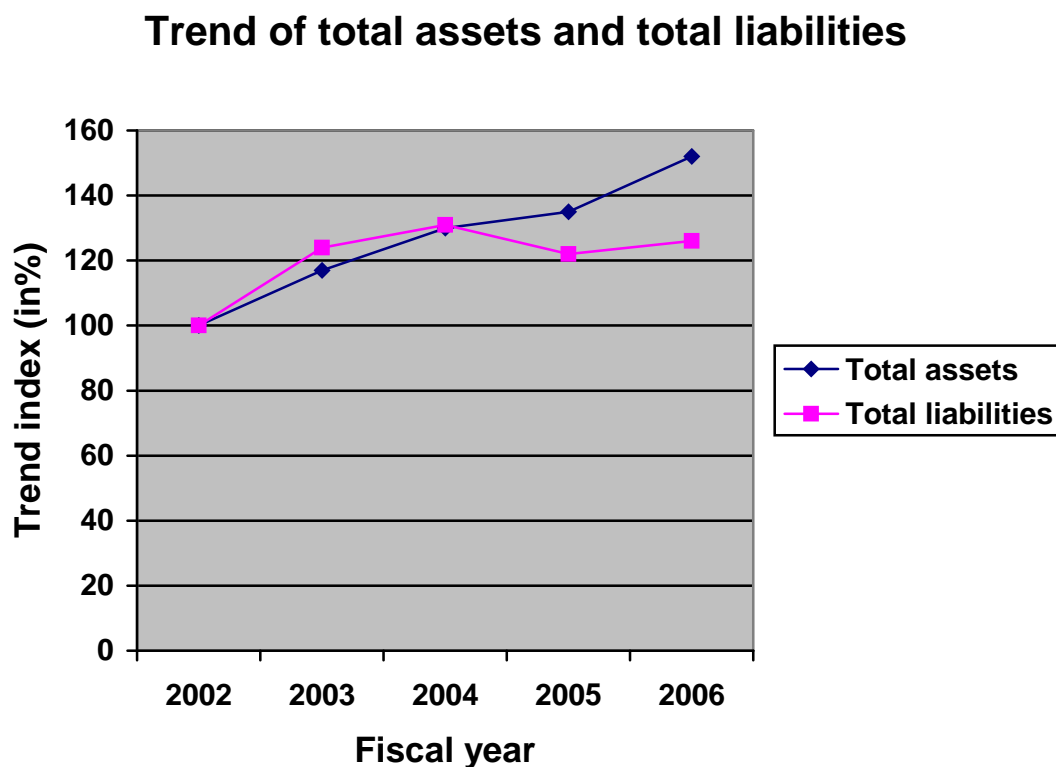


The relationship between current assets and current liabilities of SNPL is shown in graph no. 4. Both the trend lines are increasing all the year except trend lines of current liabilities in the FY. 2005. Increasing rate of trend line of current assets is greater than the trend line of current liabilities, but the trend line of the current assets is not sufficient for the year, except FY. 2005. Thus the trend of the graph shows the poor solvency position of SNPL during the study period except FY.2005, Which is unfavorable to the Surya Nepal Private Limited.

As a result, the SNPL is running with poor solvency position during the study period.

4.3.5. Trend of Total Assets and Total Liabilities:

Graph no. 5

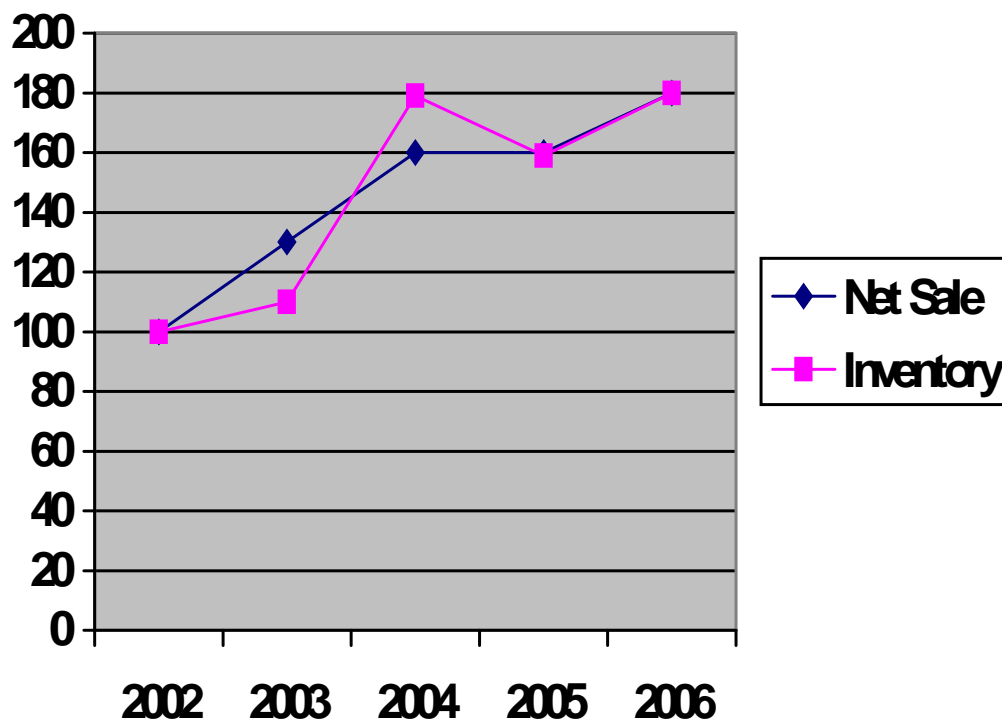


The trend of total assets and total liabilities of SNPL are not adopting particular direction. The trend of total assets is increasing trend during the study period. But the trend line of total liabilities is in fluctuating way. The trend line of the total assets is lower than the trend line of total liabilities up to FY 2004 and the trend line of total assets is greater than the trend line of the total liabilities during the study period. The trend line of the total assets and total liabilities of SNPL shows the unfavorable condition for the year 2002, 2003 and 2004 and favorable for the year 2005 and 2006 during the study period.

As the result, the trend line of total assets and total liabilities is going to take the favorable direction (place) on the last two year, during the study period.

4.3.6. Trend of Net Sales and Inventory:

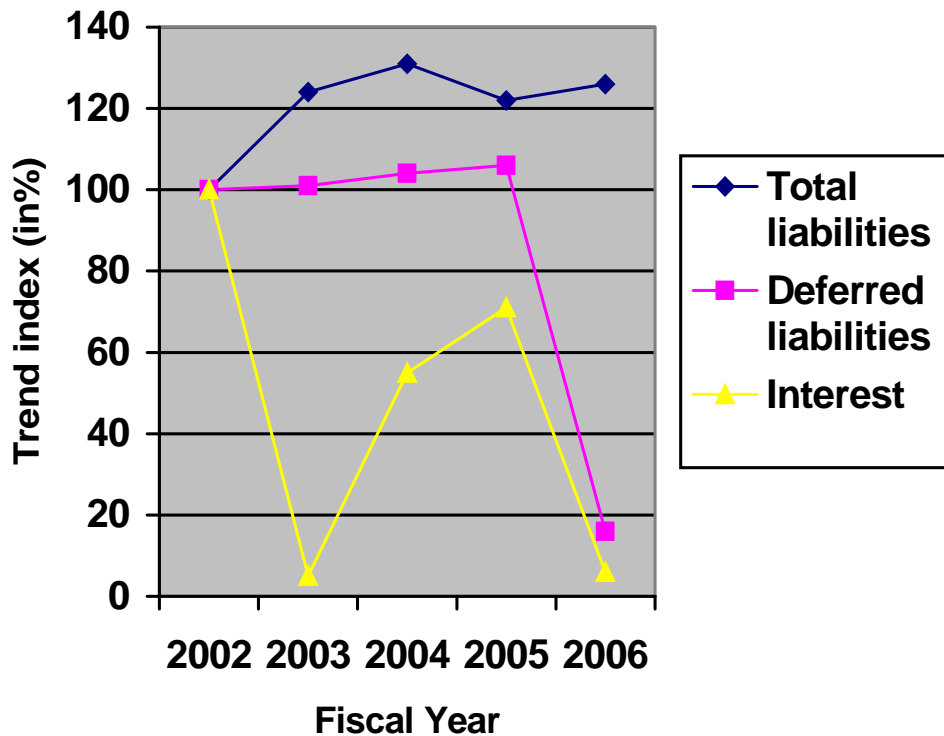
Graph No.6



The trend of net sales and inventory of SNPL from 2002 to 2006 is shown in graph no. 6. The trend line of inventory and net sales are widely fluctuating up and down without adopting a particular direction. The rate of fluctuation of inventory is higher than the net sales. The trend of net sales goes slightly upward, which is a sign of improving, or favorable, but the slightly upward trend line of net sales is not a better position. The trend line of inventory is fluctuating during the study period. The slightly upward trend of net sales and fluctuating trend of inventory of SNPL indicate the poor performance of production and inventory management in terms of cost control.

4.3.7. Trend of Total Liabilities, Deferred Liabilities and Interest:

Trend of Total liabilities, Deferred liabilities and interest

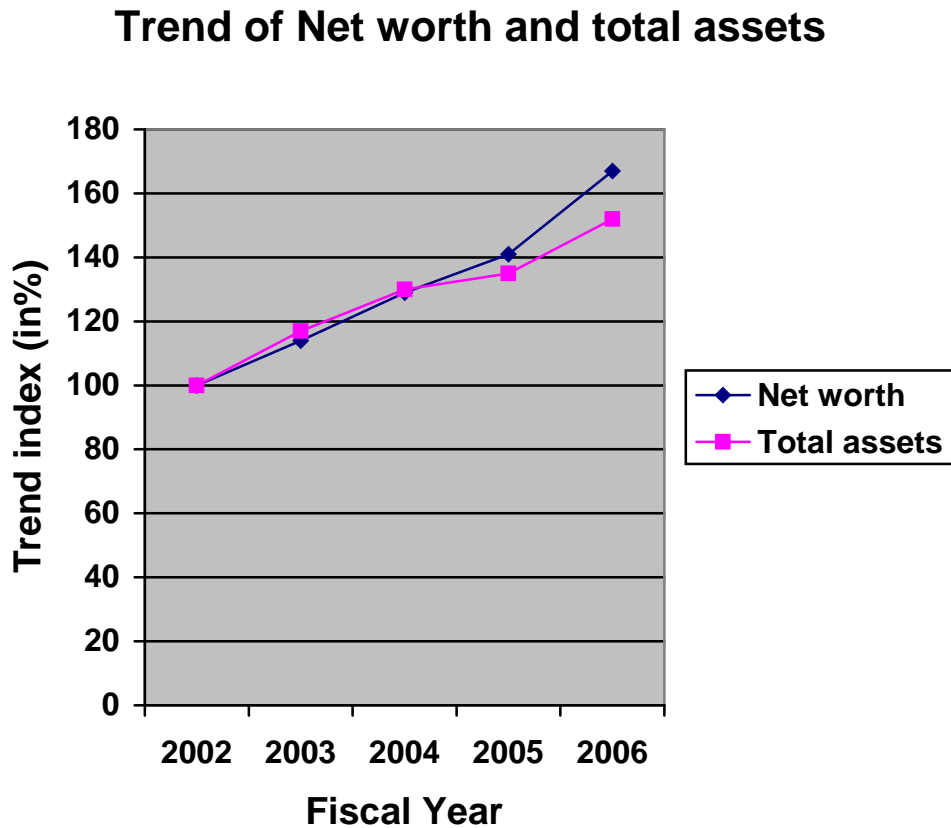


The trend line of interest, deferred liabilities and total liabilities are widely fluctuating. Trend line of total liabilities slightly increases to FY 2004 and decreases for the year 2005 and again increases for the last year. The trend line of deferred liabilities point the slowly up ward up to 2005 and deeply down ward to FY 2006 as compared to base year. Trend line of interest is also fluctuating way.

As the result, the trend of interest is lower than the trend of deferred liabilities and trend of total liabilities, which indicate that payable liabilities are in small volume. The trend line of interest, deferred liabilities and total liabilities are slightly up ward and downward as compared to base year. So the lower utilization of borrowing is favorable for the SNPL.

4.3.8. Trend of Net Worth and Total Assets:

Graph no. 8

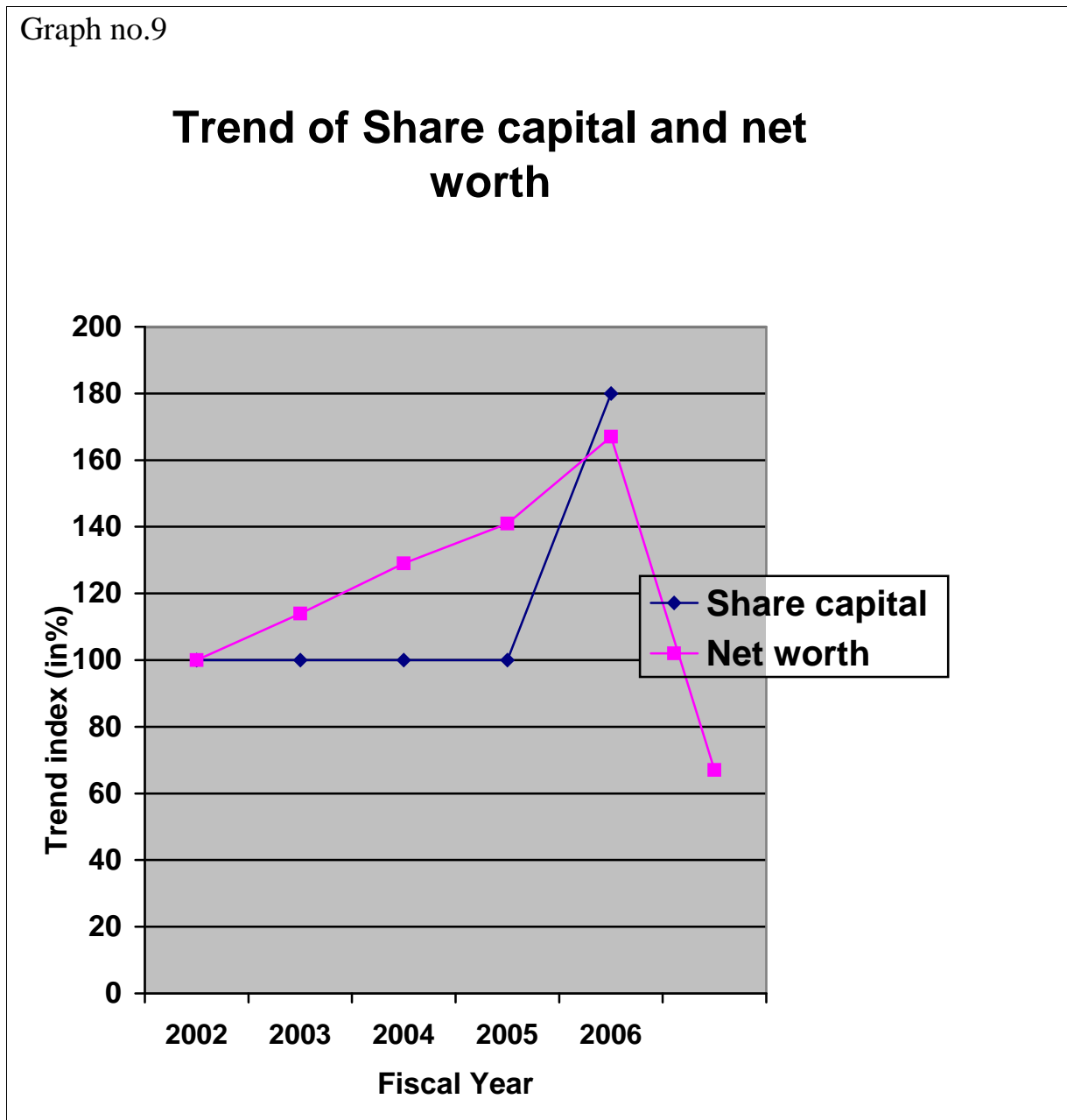


It is reveals that the trend line of net worth and total assets of Surya Nepal Private Limited from 2002 and 2006 are all exactly upward during the study period. The trend line of net worth and total assets indicate the worth of company. There fore, from the above trend line of graph no 8, it is concluded that the company is worthiness. Both the net worth and total assets trend line are increasing trend of SNPL and the company is favorable in the viewpoint of net worth and total assets trend line.

As the result the long-term financial position of SNPL during the study period is better in the view point of trend percentage analysis of net worth and total assets of its.

4.3.9. Trend of Share Capital and Net worth:

Graph no.9

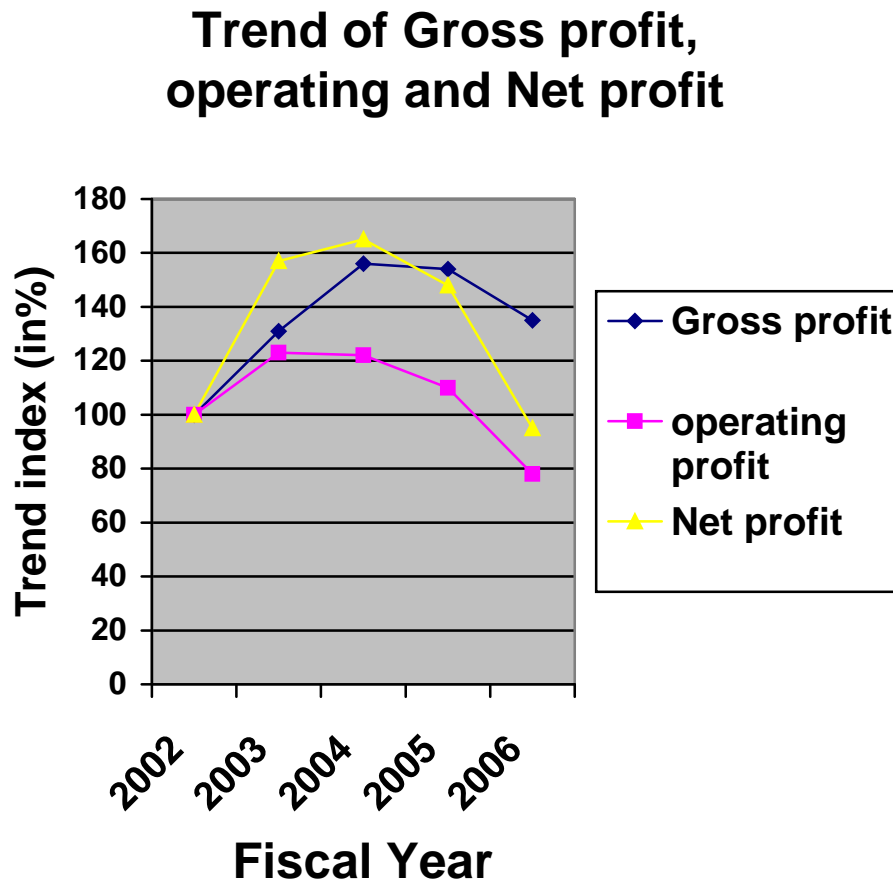


Trend line of share capital and net worth of SNPL for 5 years study period is presented in graph no. 9. The trend line of net worth is in up ward sloping during the study period but the trend line of share capital is constant up to FY 2006 and rapidly up ward for the last year during the study period.

Increasing trend of net worth for a company is favorable to financial performance. As the time of constant share capital, the increasing net worth of the company is shown the better position. Therefore, the trend line of net worth and share capital of Surya Nepal Private Limited during the study period is favorable as compared to base year. It indicates that SNPL during the study period is running with sufficient worth.

4.3.10. Trend of Gross Profit, Operating Profit and Net profit:

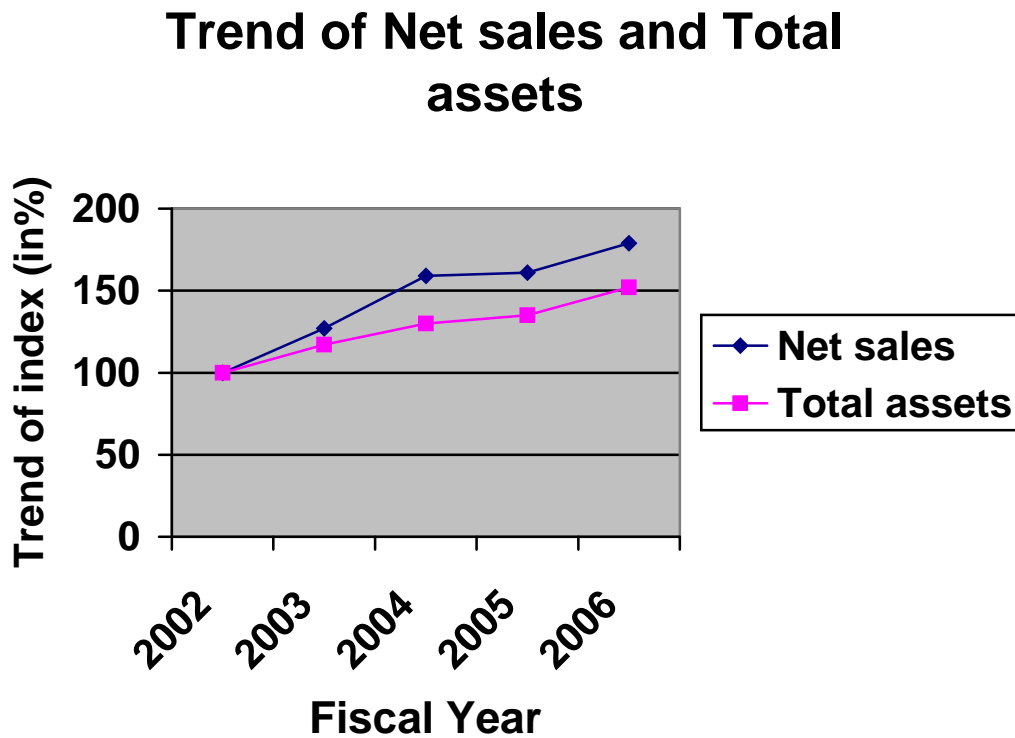
Graph no. 10



Graph no.10 shows the trend line of gross profit, operating profit and net profit of SNPL from 2002 to 2006. The trend line of the gross profit, operating profit and net profit are slightly upward from the starting year to FY 2004 than the trend line of all items (gross profit operating profit and net profit) are in down ward sloping. Trend line of operating profit and net profit are lower than the base year in the last year which are decreasing trend. It indicates that the SNPL is unable to earn sufficient net profit and operating profit because of heavy cost, absence of modern technology, labor trouble, heavy direct manufacturing and operating expenses etc.

4.3.11. Trend of Net sales and Total Assets:

Graph no 11



The trend line of net sales and total assets of SNPL during the study period (from 2002 to 2006) are upward sloping. The increasing trend of net sale is greater than the increasing trend of total assets as compared to base year. This trend of net sales and total assets of SNPL is helpful for promoting better participation of all the parties, who are related to the SNPL. In other wards, in the view point of the trend line of net sales and total assets of the company it is fruitful to all the parties relating to the Surya Nepal Private Limited.

4.4 CORRELATION ANALYSIS

The various statistical methods, correlation are a useful tool in determining the degree of relationship between two variables. In other words, correlation analysis in the statistical tool, generally used to desirable the degree of which, one variable is related to another. The relationship if any is usually assumed to be linear ones.

1. Karl Person's Correlation Coefficient

The Karl person's coefficient of correlation measures the relationship between two variables. It is denoted by 'r' in the present context the coefficient of correlation is in order to examine the relationship between two variables.

The basic purpose of computing coefficient of correlation helps the SNPL to take promotes decision.

2. Probable Error

The probable error of the coefficient of correlation helps in interpreting the value, and measures the reliability of the coefficient of the correlation.

When the value of 'r' is less than probable error, there is no evidence of correlation and if the correlation value of 'r' is greater than probable error, there is evidence of correlation

Karl Person's Correlation Coefficient and Probable Error of Gross Profit and Net Sales.

In the present case, correlation coefficient and probable error of gross profit and net sales is obtained by using the following method.

Calculation of correlation coefficient and probable error of SNPL of gross profit and net sales for study period shows in the following calculation.

Here, Let, Gross profit =x, Net sales = y

Table No: 25

Year	X	Y	x= $X - \bar{X}$	y= $Y - \bar{Y}$	t ²	x ²	xy
2002	64.71	231.75	-22.7	-104.6	515	10933	2374
2003	84.78	293.82	-2.6	-42.5	6.9	1805	111
2004	100.81	368.62	13.4	32.31	179.6	1044	433
2005	99.58	372.78	12.2	36.5	148.2	1330	445
2006	87.16	414	-0.3	78.3	0.06	6126	-24
Total	$\sum X =$ 437.04	$\sum Y =$ 1681.6			$\sum t^2 =$ 849.8	$\sum x^2 =$ 21238	$\sum tx =$ 3339

Source: Based on appendix- 2

We know:

$$\bar{X} = \frac{\sum X}{N} \text{ or } \frac{437.04}{5} = 87.408$$

$$\text{Where, } N = 5, \bar{Y} = \frac{\sum Y}{N} = \frac{1681.55}{5} = 336.31$$

$$\text{We know, } r_{xy} = \frac{\sum tx}{\sqrt{\sum t^2 \sum x^2}} = \frac{3339}{\sqrt{18048052}} = \frac{3339}{4248} = 0.785$$

Again, calculation of probable error between gross profit and net sales.

Where, $r=0.785$,

$$n=5$$

$$\text{P.E. } r = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-(0.785)^2}{\sqrt{5}} = 0.6745 \times \frac{0.384}{2.24} = 0.1156$$

From the above calculation of coefficient of correlation between gross profit and net sales of SNPL comes out to be $r_{xy} = 0.785$, thus, this correlation indicates that there is moderate degree of correlation between gross profit and net sales. It means there will not be an increase in gross profit. If the SNPL wants to increase gross profit the company has to increase net sales and decrease in cost of goods sold. Since the value of 'r' is greater than the value of P.E. r (i.e. $0.785 > 0.115$), the value of r is significant. In other word the correlation between gross profit and net sales is significant.

The Karl person's correlation coefficient between gross profit and net sales of SNPL has registered a positive correlation r (i.e. 0.785) that signifies that relationship between gross profit and net sales are significant.

4.4.2. Karl Person's Correlation Coefficient and Probable Error of Net Profit and Net Sales.

It indicates the relationship between net profit and net sales. In this study correlation coefficient and probable error of net profit and net sales is obtained by using the following procedures.

Here, Let,

Net profit= x

Net sales=Y

Table No:26

2003	58.97	293.82	8.8	-42.5	78	1805	-374
2004	62.18	368.62	12.06	32.31	145	1044	390
2005	55.91	372.78	5.79	36.5	34	1330	211
2006	35.89	414.58	-14.23	78.3	203	6126	-1114
Total	$\sum t =$ 250.6	$\sum x =$ 1681.6			$\sum t^2$ =615	$\sum x^2 =$ 21238	$\sum tx$ = 410

Source: Based on appendix- 2

We know,

$$\bar{X} = \frac{\sum X}{y} = \frac{250.63}{5} = 50.12$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{1681.55}{5} = 336.31$$

We know,

$$r_{xy} = \frac{\sum tx}{\sqrt{\sum t^2 \sum x^2}} = \frac{410}{\sqrt{615 \times 21238}} = 0.113$$

Again, calculation of probable error between net profit and net sales.

Where, n=5

$$r=0.113$$

$$P.E.r = 0.6745 \times \frac{1-r^2}{\sqrt{y}} = 0.6745 \times \frac{1-(0.113)^2}{\sqrt{5}} = 0.6745 * 0.442 = 0.298$$

The correlation between net profit and net sales is $r_{xy} = 0.113$, which is taken by above calculation. Thus this correlation indicates that there is low degree of correlation between net profit and net sales. It means there will not be an increase in net profit due to increase of different expenses in coming fiscal year.

The value of 'r' is less than the value of P.E.r, (ie. P.E.r. > r). So that there is no evidence of correlation. In other words, the correlation between net profit and net sales is not significant, which reveals that the large volume of cost in capital structure of SNPL. It seems to be disadvantage in terms of profitability for the company.

The Karl Pearson's correlation coefficient between net profit and net sales of SNPL has registered a positive correlation 'r' of 0.11.

4.4.3. Karl Pearson's correlation coefficient and probable error of net worth and total liabilities.

Calculation of correlation coefficient and probable error of net worth and total liabilities shows the relationship between net worth and liabilities.

Correlation coefficient and probable error of net worth and liabilities of SNPL have been shown in the following calculation.

Here, Let,

Net worth = x

Total liabilities=y

Table No: 27

Year s	X	Y	x= $X - \bar{X}$	y= $x - \bar{x}$	t ²	x ²	xy
2002	401.39	224.71	-121.2	-46.09	14692	2124	5586
2003	456.32	277.45	-66.28	6.65	4393	44	-441
2004	518.51	294.26	-4.09	23.46	17	550	-96
2005	567.39	275.26	44.79	4.46	2006	20	00
2006	669.47	282.40	146.87	11.6	21571	135	1704
Total	$\sum X$. =2613	$\sum Y$ = 1354			$\sum t^2$ = 42679	$\sum x^2$ =2873	$\sum tx$ =6953

Source: Based on appendix- 1

We know,

$$\bar{X} = \frac{\sum X}{y} = \frac{2613}{5} = 522.6, \quad \bar{Y} = \frac{\sum Y}{y} = \frac{1354}{5} = 270.8$$

We, know,

$$r_{xy} = \frac{\sum tx}{\sqrt{\sum t^2 \sum x^2}} = \frac{6953}{\sqrt{42679 \times 2873}} = \frac{6953}{11072.72} = 0.6279$$

Again calculation of probable error between net worth and total liabilities.

Where, $r=0.6279$, $n=5$

We know,

$$P.E.r = 0.6745 \times \frac{1-r^2}{\sqrt{y}} = 0.6745 \times \frac{1-(0.6279)^2}{\sqrt{5}} = 0.6745 * 0.2709 = 0.18$$

From the above calculation of correlation coefficient between two variables of net worth and total liabilities of SNPL comes out to be $r_{xy} = 0.6279$. Thus, this correlation indicates that there is moderate degree of correlation between net worth and total liabilities.

And the calculated value of probable error is lower than the value of r (i.e. $0.18 < 0.62$). The r is significant or the correlation between net worth and total liabilities is evidence.

4.4.4 Karl Person's Correlation Coefficient and Probable Error of Net Sales and Net Worth.

It indicates the relationship between net sales and net worth of SNPL during the study period. In this study the correlation and probable error of net worth and net sales is obtained by using following method.

The correlation and probable error of net worth and net sales of SNPL is shown in following calculation.

Here, Let,

Net worth =x, Net sales=y

Table No: 28

Year	X	Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2002	401.39	231.75	-121.2	-104.6	14692	10933	12678
2003	456.32	293.82	-66.28	-42.5	4393	1805	2817
2004	518.51	368.62	-4.09	32.31	17	1044	-132
2005	567.39	372.78	44.79	36.5	2006	1330	1635
2006	669.47	414.58	146.87	78.3	21571	6126	11500
Total	$\sum x = 2613$	$\sum Y = 1681.5$			$\sum t^2 = 42679$	$\sum x^2 = 21238$	$\sum tx = 28498$

Source: Based on appendix- 1&2

We know,

$$\bar{X} = \frac{\sum X}{N} = \frac{2613}{5} = 522.6$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{1681.55}{5} = 336.31$$

We have,

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{28498}{\sqrt{206.58 \times 145.73}} = \frac{28498}{30106.6} = 0.946$$

Again, calculation of probable error between net worth and net sales.

Where $r = 0.946$, $n = 5$

$$P.E.r = 0.6745 \times \frac{1-r^2}{\sqrt{y}} = 0.6745 \times \frac{1-(0.946)^2}{\sqrt{5}} = 0.6745 \times 0.0469 = 0.031$$

The calculation of correlation coefficient and probable error of net worth and net sales of SNPL are pointed to be $r_{xy} = 0.946$. and $P.E.r = 0.031$. Thus this correlation indicates that, there is high degree of correlation between net worth and net sales. It means, there is better relationship between net sales and net worth of SNPL during the study period.

Since, the value of probable error ($P.E.r < r$) is lower than the value of correlation, the value of 'r' is significant.

Thus Karl Pearson's correlation coefficient between two variable net worth and net sales of SNPL has been registered a positively perfect correlated.

4.4.5 Karl Pearson's Correlation Coefficient and Probable Error Between Net Sales and Total Assets.

Correlation coefficient and probable error of net sales and total assets of SNPL is a significant tool to show the relationship between two variables. The following table has been used to calculate the correlation and probable error of SNPL for the study period.

Here, Let,

Net sales = x

Total assets = Y

Table No: 29

Year	X	Y	t = X - \bar{X}	x = Y - \bar{Y}	t ²	x ²	tx
2002	231.75	626.10	-104.6	-167.3	10933	27989	17500
2003	293.83	733.76	-42.5	-59.64	1805	3557	2535
2004	368.62	812.75	32.31	19.35	1044	375	625
2005	372.78	842.65	36.5	49.25	1330	2426	1798
2006	414.58	951.86	78.3	158.46	6126	25110	12407
Total	$\sum x =$ 1681.6	$\sum Y =$ 3967			$\sum t^2 =$ 21238	$\sum x^2 =$ 59457	$\sum xy =$ 34865

Source: Based on appendix- 1&2

We know,

$$\bar{X} = \frac{\sum X}{N} = \frac{1681.5}{5} = 336.31$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{3967}{5} = 793.4$$

we have,

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum t^2 \sum x^2}}$$

$$= \frac{34865}{\sqrt{21238 \times 59457}} = \frac{34865}{145.73 \times 243.83} = \frac{34865}{35535} = 0.98$$

Again, calculation of probable error between net sales and total assets.

Where, r=0.98, n=5

We know,

$$P.E.r = 0.6745 \times \frac{1-r^2}{\sqrt{y}} = 0.6745 \times \frac{1-(0.98)^2}{\sqrt{5}} = 0.6745 * 0.01 = 0.0119$$

From the above calculation between net sales and total assets of SNPL come out to be $r_{xy}=0.98$. Thus, it indicates that there is positively perfect correlation between the two variables (i.e. net sales and total assets of SNPL). It

means, there is favorable condition of company in the viewpoint of relationship between net sales and total assets.

The value of 'r' is greater than the value of P.E.r.(i.e.0.98>0.011). So it is evidence of correlation. In other words, the correlation between net sales and total assets is significant.

4.4.6. Karl Person's Correlation Coefficient and Probable Error Between Net Worth and Total Assts.

Calculation of correlation coefficient and probable error of net worth and total assets of SNPL is obtained by using following methods. It has been shown in the following calculation.

Here, Let,

Net worth =x

Total assets=Y

Table No: 30

Year	X	Y	t = X - \bar{X}	x = Y - \bar{Y}	t ²	x ²	tx
2002	401.39	626.10	-121.2	-167.3	14692	27989	20277
2003	456.32	733.76	-66.28	-59.64	4393	3557	3953
2004	518.51	812.75	4.09	19.35	17	375	-80
2005	567.39	842.65	44.79	49.25	2006	2426	0026
2006	669.47	951.86	146.87	158.46	21571	25110	23273
Total	$\sum t =$ 2613	$\sum x =$ 3967			$\sum x^2 =$ 42679	$\sum x^2 =$ 59457	$\sum xy =$ 49629

Source: Based on appendix- 1

We know, $\bar{X} = \frac{\sum X}{N} = \frac{2163}{5} = 522.6$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{3967}{5} = 793.4$$

We have ,

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum t^2 \sum x^2}}$$

$$= \frac{49629}{\sqrt{42679 \times 59457}} = \frac{49629}{206.58 \times 243.84} = \frac{49629}{50372} = 0.9852$$

Again, calculation of probable error between net worth and net sales.

Where, $r = 0.985, n = 5$

We know,

$$P.E.r. = 0.6749 \times \frac{1-r^2}{\sqrt{y}}$$

$$\therefore P.E.r. = 0.6745 \times \frac{1-(0.985)^2}{\sqrt{5}} = 0.6745 * 0.0133 = 0.008$$

From the above calculation of correlation coefficient between two variables of net worth and total assets of SNPL find out to be $r_{xy} = 0.985$. Therefore, the calculation indicates that there is high degree of correlation between net worth and total assets. In short there is positively perfect correlation between net worth and total assets of SNPL. Or increase total assets helps to increase in net worth.

The value of 'r' is greater than the probable error (i.e. $0.985 > 0.008$) in the above calculation. So the correlation between net worth and total assets of SNPL is significant.

4.5. COMMON-SIZE STATEMENT ANALYSIS

The common size statement analysis is a useful tool to indicate the relationship of various items with some common items (expressed as percentage of the common items). In other words common size statements are converted in to percentage to some common base. When this method is used in the income statement the sales figures is taken as base and other figures are expressed as percentage of sales. In this study all other figure includes cost of goods sold, stock consumed, direct expenses, gross profit, interest, depreciation, income from other sources. So percentage of profit earned or loss suffered to sales along with the percentage of individual cost or expenses items to sales is clearly shown by analysis of common size income statement.

Analysis of common size balance sheet indicates the each individual asset and liability classification as a percentage of total assets and total liabilities. Total assets and total liabilities have been taken equal to 100 percent. In this study the comparative common size income statements of SNPL from 2002 to 2006 shows the position relating to profitability as well as indicates items of

cost responsible for increase or decrease in percentage of profit and common size balance sheets shows the increase or decrease of financial position during the study period.

4.5.1 Common Size Income Statement Analysis

The comparative common size income statement of Surya Nepal Private Limited from 2002 to 2006 is presented in table no. 31.

Comparative common size income statement of SNPL from 2002 to 2006 (in term of percentage) are presented below:

Table no:31

Comparative common size income statement of SNPL In terms of percentage from 2002 to 2006

Year	2002	2003	2004	2005	2006
Particular	%	%	%	%	%
Sales	100	100	100	100	100
Less: cost of goods sold	51.69	50.14	56.02	55.48	54.76
Less: general expenses	20.39	21.00	16.64	17.81	24.20
Gross profit	27.92	28.85	27.35	26.71	21.04
Less: interest	0.56	0.02	0.20	0.25	0.01
Less: depreciation	3.40	5.62	8.77	10.05	10.71
Operating profit	23.96	23.22	18.35	16.42	10.39
Add: income from other sources	0.75	1.73	0.97	1.02	0.59
Pre-tax profit	24.71	24.94	19.35	17.44	10.98
Less: tax	8.63	4.9	2.48	2.45	2.32
Net profit	16.08	20.07	16.87	14.99	8.66

Source: Based on appendix- 2

The common size income statement percentages reveal that cost of goods sold and all of the items have observed fluctuating percentages of sales. The percentages of cost of goods sold are increasing trend up to FY 2004 and in

decreasing trend during the study period. The decreasing percentage of cost of goods sold out of sales is the favorable situation for the company. Because of the percentage cost of goods sold of last year is higher i.e. 54.76 than the percentage of cost of goods sold of base year i.e. 51.59 which indicate the unfavorable situation as compared to base year for the company. The general expenses percentages of sales are 20.39, 21, 16.64, 17 and 24.20 for the FY2002 to 2006 respectively. The lower limit of the general expenses is 16.64% of sales for the FY2004 and the percentage of general expenses are in increasing way during the study period. Increasing percentage of expenses of sales helps to reduce the net profit percentage. So, this increasing percentage of expenses out of sales does not show the good financial performance for the SNPL.

The percentages of gross profit on sales at the SNPL are 27.92, 28.82, 27.35, 26.71, and 21.04 from 2002 to 2006 respectively. Gross profit percentage of sales has in decreasing trend from the second year during the study period. It shows that the company bears the heavy cost of good sold and large amount of general expenses (operating expenses). This decreasing percentage of cost of goods sold of sales does not indicate the favorable situation during the study period for Surya Nepal Private Ltd.

The percentages of interest to sales are less than 1% for the whole study period. It shows that the SNPL doesn't use the large amount a borrowed funds. Therefore the interest percentage to sales has not effect the net profit as well as the financial position of the company for the study period. But the depreciation has effect the net profit during the five years period of study, due to the increasing percentage of depreciation out of sales.

The percentage of operating profit, pre-tax profit and net profit of sales are in decreasing trend for the whole study period. We can see that the profit of percentage of sales is lower and lower from FY 2002 to 2006 in comparison to previous years. The reason behind the loss is high cost of production, high quantity of closing stock, high manufacturing and general expenses etc. That means no serious consideration was given to control the cost by the company. Therefore the decreasing percentage of profit out of sales concludes that the company does not give proper attention to profit plan. There should be taken serious steps to control the cost and prepare the plan and policy to evaluate the financial performance, in such a way the company can easily earn reasonable profit from its operation.

4.5.2 Common Size Balance Sheet Analysis:

The common size balance sheet of Surya Nepal Private Limited from FY 2002 to 2006 are presented and analyzed to find out the financial position and

changes of individual assets and liabilities as the percentage from total assets and liabilities.

Table no:32
Common size Balance sheet of SNPL
In terms of percentage from 2002 to 2006

Year	2002	2003	2004	2005	2006
Particular	%	%	%	%	%
Capital & Liabilities:					
Share capital	17.29	14.76	13.32	12.85	20.47
Shareholders' reserves	46.82	47.43	50.48	54.48	49.86
Loans & advances	0.00	0.18	0.03	0.20	0.14
Sundry creditors	2.90	5.19	4.67	2.27	4.35
Provision for taxation	9.96	10.45	10.56	9.97	9.84
Misc. current liabilities	8.30	9.27	9.15	6.63	13.84
Deferred liabilities	14.73	12.72	11.79	11.60	1.54
Total	100	100	100	100	100
Assets:					
Cash & Bank balance	5.43	5.41	0.37	5.68	0.41
Sundry debtors	0.07	0.17	0.11	0.01	8.86
Inventory	12.48	11.77	16.83	14.37	15.0
Misc. current assets	20.39	21.98	26.20	23.78	17.51
Fixed assets (net)	9.79	44.92	42.62	42.79	36.68
Investment in share	16.86	15.27	13.86	13.37	11.83
Misc. assets	34.98	0.48	0.01	0.00	10.11
Total	100	100	100	100	100

Source: Based on appendix- 1

The above table shows the common size balance sheet of SNPL for the five years period from 2002 to 2006. It helps to highlight the significant facts

and point to those items individually with relative changes in each group of assets and liabilities. The common size balance sheet shows that assets items as a percentage of total assets. The percentage of cash & bank balance of total assets are seemed about equal in FY 2002 and 2003. Then decrease by 5% and again increased by 5.5% and again for the last year decreased by 5%. It indicates that there is no consideration on cash & bank balance of SNPL during the study period. Therefore the fluctuating of increase and decrease in cash & bank balance are not reasonable satisfactory for the company. Thought, the percentage of sundry debtors out of total assets are fluctuating during the study period, there is no large different between the percentage of sundry debtors out total assets till FY 2005. The small percentage of total assets carried out by sundry debtors for the FY 2002, 2003, 2004 and 2005 and increased by 8% for FY 2006 AD. Misc. assets and cash & bank balance share this increased 8% for the FY 2006. It states those debtors are not collected in time by the company. So the management should investigate the reasons for the difficulties in the collection of debtors with modern tools of cash management.

Inventory as the percentage of total assets are 12.48, 11.77, 16.83, 14.37 and 15 for the FY 2002 to 2006. Those percentages indicate that there is a large amount of inventory during the study period. They should manage the inventory using the appropriate methods of inventory management for the mobilization of current assets.

The percentages of other current assets are different during five years period from 18% to 26%. That is no large different on the percentage of misc. current assets out of total assets. Thus, the result of misc. current assets as the percentage of total assets is satisfactory. Net fixed assets increased percentage to FY 2003 from 2002 by 33% as the percentage of total assets, as the result the misc. assets decreased by the same amount. From the FY 2003 the percentages of net fixed assets are similar during the study period. The percentages of investment in share are also about equal during the study period. Thought there is fluctuating percentage in the individual items of fixed assets; the percentages of total assets for the fixed assets are seemed similarly for the whole study period.

In the liabilities & capital side of common size balance sheet of SNPL, there are fluctuating percentage on items as the percentage of total capital & liabilities. The fluctuating percentages range of items during study period as the percentage of total capital & liabilities are not large. Therefore, the percentage of items of total capital & liabilities side of common size balance sheet are similar for Surya Nepal Private Limited during the study period. The company seemed to be doing well till this time in the view point of common size balance sheet for capital structure.

In this way, the financial performance of SNPL in terms of profitability, capital structure, efficiency, reliability and solvency position have been analyzed with the help of funds flow analysis, ratio analysis, trend analysis, correlation analysis and common -size statement analysis. After the analysis of above tools and techniques, the profitability, efficiency, reliability, solvency and capital structure position in terms of resources mobilization to generates sales and profit of SNPL have revealed that all the position are fluctuating with dissatisfactory and normally satisfactory because of resulting the return is placed in the decreasing trend during the study period.

4.6 MAJOR FINDINGS OF THE STUDY:

From the above analysis of some accounting and financial data, observations and informal discussion, it can be said that thought profitability position of SNPL is good and quite satisfactory. It is suffering from the various problems in evaluating the financial positions. There are internal as well as external factors those are distributing to its financial performance and control. From the financial performance point of view, SNPL has not adopted the systematic and comprehensive tools and techniques of financial performance. The future picture of the company in profit performance will be clear and fruitful if it adopts tools and techniques of financial performance in systematic way. The company has also some burden of different cost. But it's good that till this study SNPL don't have any bank and long –term loans. Some major findings are as follows:-

- 1) Specific goals and financial target are not defined clearly to achieve the basic objectives.
- 2) Overhead are not classified systematically so while analyzing expenses properly it has created problems that affect the financial performance.
- 3) Even if the company has nearly monopoly in the market sales in the first four years is in decreasing trend by percentage.
- 4) There is no proper co ordination between the various responsible departments due to lack of defined authority and responsibility of SNPL Company.
- 5) Financial performance is not better because there is no effective cost control mechanism to reduce expense.
- 6) Raw materials are purchased from international market so non-availability of sufficient raw material for full capacity utilization and continuous production.
- 7) The company fails to maintain its periodic performance and there is no proper reward and punishment system.

- 8) Low productivity of plant and manpower.
- 9) Working capital is higher in last 4 years; it states that there is not proper balance between current assets and current liabilities.
- 10) Operating profit is in fluctuating trend due to unnecessary, excessive and unproductive expenditures on finished products.
- 11) The liquidity position is not satisfactory as the thumb standard.
- 12) SNPL is failure in achieving due to wrong and inadequate evaluation of relevant variables. Different reasons are significant such as political intervention, absence of proper pricing, under utilization of capacity, lack of proper budgetary control in sales and production achievement, during the study period.
- 13) Advertising activity is not sufficient to increase the sales volumes in SNPL.
- 14) Large volume of inventory.
- 15) Less return to capital employed
- 16) Excessive fixed cost.
- 17) The future path of company has not been defined. Management has no enthusiasm to develop the successful strategies for future. The modern tools and techniques of financial performance have not developed.

Chapter – Five

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

Nepal is agro - oriented country. So the agriculture sector plays predominant role for production and employment as well as economic growth. Industrialization is still in its infancy with many major areas. In this reference, labor alienated factory like Surya Nepal limited is not well-developed but it is very helpful for development of country.

Nepal is also land locked under development and just a the beginning of the development process. Geographical and political histories have further conspired against the economic advancement of the nation. More then 80% of the total population is still engaged in subsistence agriculture. Current 2-3 years indicate some what different figure that non agriculture income of the country is leading to agriculture income of the nation. To some extent this is satisfactory in the sense that each and every development country has to follow the flow of industrialization for their betterment.

Industrialization is the most essence element of rapid economic development for the developing country like Nepal. Therefore these countries should be well informed about the need and significance of industrialization. So for the rapid development of developing nations like Nepal development in agriculture sector alone is not sufficient it is essential to develop industrial sector too. Thus industries have an important role to play in accelerating the rate of economic development.

A financial performance examines the numerical performance of action, which generally covers the area of position of management profitability. Capital structure, relationship between variables of SNPL. Thus SNPL has applied the concept of compressive financial performance.

Financial performance is one of the most important management tool used to find out the financial strength and weaknesses of business concern. So, these days, financial performance has become one of the modern management technique used to watch financial performance and take corrective action as a remedial measures.

This research paper has tried to examine the application of financial performance in SNPL. The practices and effectiveness of financial performance is reviewed in the estate with the help of funds flow analysis, financial ratio analysis, trend analysis, correlation analysis and common size statement analysis. Data and information collected from primary and secondary sources

are analyzed with the help of statistical and financial tools. Analytical and descriptive research design is followed.

This study has been organized into five main chapters, which are (i) introduction (ii) review of literature (iii) research methodology (iv) data presentation and analysis and (v) summary conclusion and recommendations.

In the first chapter the utility of SNPL is discussed as the development of industrialization in developing country Nepal with the brief history of SNPL. And then focus of the study is stated how efficiently the management of SNPL has been used its finance in production, which is examined by mentioning the objectives as to find out the financial performance of SNPL.

In the second chapter, a brief view of related studies is reviewed with the study of the tools and techniques of financial performance for their actual applications. For the purpose of this study methodology is described in the third chapter. This chapter highlights the research design as the analytical and descriptive type with data collection and processing procedures.

In the fourth chapter, financial performance of SNPL is measured applying the analytical tools, funds flow analysis, ratio analysis, trend analysis, correlation analysis and common size statement analysis for profitability, capital structure, efficiency reliability and solvency position.

This chapter concludes all the position (profitability, efficiency, solvency etc.) is normally satisfactory. As observed by using different tools and techniques of financial performance has been found that heavy management expenses and lower sales volume are the main reasons behind the some dissatisfaction.

Operating profit as primary sources of funds and purchase of assets as a main application are shown by funds flow analysis. Quick ratio debt equity ratio, interest coverage ratio, debtor's turn over ratio; average collection period, net profit ratio is quite standard in ratio analysis. Trend of sales, net profit, interest, deferred liabilities, and others are favorable in trend analysis. The correlation between sales and net worth are positive and significant in correlation analysis. So overall financial performance of the company is quite satisfying but still more efficient management is needed.

There is lack of specific goals and clean objectives. Still we can see that there is lack of modern technology and expertise, high production cost & management cost, weak financial base and slow working are found. So, to improve those weaknesses of the company, application of tools and technique of financial performance will be helpful. In the last few years (study period) data, we can see that there is not any loss but to earn more profit for better financial performance the company has to remove those weaknesses.

5.2. CONCLUSIONS

The main conclusions of the study in respect of financial performance in Surya Nepal limited are as follows;

- 1) Financial evaluation system is not well developing in SNPL.
- 2) The following strengths and weaknesses of the SNPL have been identified by this research

A. Strengths:

- i) SNPL produces best qualities, which have covered 90% of Nepalese market.
- ii) Availability of sufficient production capacity.
- iii) Availability of cheap and local labors (for peak reason)
- iv) Easy to sale on less transportation expenses.

B. Weaknesses:

- i) High production cost.
 - ii) Excess burden of fixed cost.
 - iii) Market competition from other brands of similar products.
 - iv) Non-availability of raw material at 5 time from international market.
 - v) Burden of large amount of tax.
 - vi) Non-interim performance measure system rather than annual.
 - vii) Non-identify of modern technology and expertise according to situation.
- 3) Cost of production of SNPL is very high. Lack of technological advancement, excessive burden of fixed cost, high operating cost is the major factors for high production cost.
 - 4) There is no effective program to increase the productivity of manpower. Lack of employees' motivations and incentives are major causes for lower productivity. Efficient personals are discouraged, due to fixed payment basis.
 - 5) Costs are not classified into fixed and variable. These costs are also not designed as controllable and uncontrollable costs. The company has not made any efforts to reduce controllable costs. So cost control programs are not effectively applied in Surya Nepal limited.
 - 6) The operating position is not so good, because of higher cost of goods sold, high fixed costs, high administration expenses and the company can not earn profit as its capacity.
 - 7) The liquidity position of company is weak. There is no proper balance between current assets and current liabilities. So it has faced difficulties in meeting its obligations.
 - 8) SNPL has not adopted any sales promotion tools and techniques for increasing sales it has used any effective advertisement activity to give the attention to consumers.

- 9) SNPL is intensive company (industry) but it has no detail plan of manpower and systematic approach of labor planning and co-ordinating. The company has not introduced for direct labor hour and direct labor cost needed to produce the qualities of goods. All permanent staffs are paid in administrative expenses. The company is not able to control the labor cost.
- 10) There is not any suitable system of reward and punishment on the basis of their job performance.
- 11) There is a large amount of inventory, which covers more than 15% out of total assets. The company has not introduced the modern inventory management's techniques for the internal mobilization of resources in Surya Nepal limited.
- 12) Success of Business Company is the essence of effective and responsible management in the current days of global industrialization age. SNPL has not practiced the modern management to mobilize the resources efficiently and properly.
- 13) The main reason of low capacity utilization or lower level of production is lack of availability of sufficient raw materials at right quality, right time, at right place as the concept of physical distribution management in SNPL.
- 14) There is lack of proper documentation of reports. The records of previous year are not available at the time of requirement in Surya Nepal limited.
- 15) Cost at different stages of production (manufacturing & processing) has not determined separately by SNPL. Hence, the company fails to distinguish production cost, administration cost, and selling and distribution cost. So, cost control system has not practiced in different stage due to the lack of cost allocation in SNPL.
- 16) Although there is some weakness in the company, there is not any loss during the study period in SNPL.
- 17) The future path of company has not been defined. Management has no enthusiasm to develop the successful strategies for future. The modern tools and techniques of financial performance have not developed.

5.3. RECOMMENDATIONS

After the detail study of financial performance of Surya Nepal Limited, Some suggestions have been recommended on the basic of major findings to improve the performance of the Surya Nepal Limited. It should adopt the comprehensive financial evaluation from the very beginning to the end. The following actions should be implemented to improve the best financial performance in Surya Nepal Limited.

- 1) It should clearly define its objectives to achieve the basic objectives; annual goals and targets are to be fixed. It should follow the practices of setting financial specific goals for future activities and should develop major programmers to accomplish the formulated objectives and goals.

- 2) Company should fixed a target of sales revenue and make attempt to increase sales revenue adding of new product line or increasing the sales in terms of Surya Nepal by increasing the customers.
- 3) It should analyze SWOT (strength, weakness, opportunity, and threats) analysis to improve the company's capability.
- 4) SNPL should adopt the effective advertising system for boosting the sales with the significance of products. Because the advertisement is the eye of company.
- 5) Particular management, Management by objectives (MBO) and effective financial performance education should be introduced (communicated) in the time of formulation of plan for improvement of the SNPL to lower level management.
- 6) SNPL should follow the depreciation policy as written down value method not the straight-line method, which has overstated the profit of company.
- 7) Punishment and reward system should be practiced to improve employee morale and productivity on the basic of work performance and trained and qualified manpower should be developed as well as appointed marketing specialist in Surya Nepal limited.
- 8) SNPL should be developed alternative supply source of raw materials to control the excess expenses.
- 9) Company should improve and maintain the quality of product to win the competition as Patents Company.
- 10) Company should utilize the various pricing policies such as, cost plus pricing policy, going rate pricing policy, break even pricing policy, discriminatory pricing policy, etc according to situation to earn maximum profit.
- 11) It should apply scientific tools and techniques of inventory management (such as, EOQ, ROI, ABC analysis etc, to remove the problem of under and over inventory.
- 12) The company should provide more incentives, commission and facilities to the employee to improve quality and productivity.
- 13) Plastic and paper pouches package should be introduced to convince of the consumers.
- 14) SNPL should follow periodic performance reporting system to take corrective action and to improve the performance.
- 15) All the departments should be delegated full authority and accountability by company to decide and create new ideas in current days of global competitive Industrialization age to formulate the various policies.
- 16) Cost should be separated into fixed and variables as well as controllable and uncontrollable effectively applied cost control programmed by SNPL as appointed expert accountant.

- 17) SNPL should appoint expert personnel with good knowledge of finance, who can analyze financial strengths and weakness and suggest remedial measures from time to time how to improve financial performance.
- 18) Collection floats has to be speeded up by the company, using the tools and techniques of cash management.
- 19) Finally, the company should apply the comprehensive concept of financial performance considering the basic fundamentals of financial tools and techniques in Surya Nepal limited.

BIBLIOGRAPHY

- Adhikari, N.K, “ *Financial Management*” Sukunda pustak Bhawan, Katmandu 1st Edition, 2057.
- Agrawal, N.P “*Analysis of Financial Statement*”, National Publishing House New Delhi, 1981.
- Batlibui, J.R, *Advanced Accounting*” The Standard Accountancy Publications Pvt Ltd. Bombay 32nd Edition, 1992.
- Bhattacharya, S.K And Darden “ *Accounting For Management*” Vikash Publishing House Pvt. Ltd. India, 1980
- Bhurtel, Bhesraj, “*Financial Analysis of Manufacturing Company*” Unpublished Master thesis, T.U Kritipur, 2005
- Chaudhary, S.B, “*Management Accounting*” Kalyani Publisher. New Delhi, 4th edition 1978.
- Chaudhary, Anil and Roy B “*Financial Ratio and working Capital*” Easter Law House Calcutta, 1985
- Dongol, Ratna Man “*Management Accounting*” Taleju Prakashan, Kathmandu, Re-Print Edition, 2056
- Foulka ROY, “*A Practical Financial statement Analysis*” Tata McGraw Hill Publishing Company New Delhi.
- Gupta, R.L. “*Advanced Accounting*” Sultan Chandra Sons Company, 3rd Vol 1976
- Gupta, S.C. “*Fundamental of Statistics*” Himalayas publishing House, India, 5th edition, 1996
- Hampton, Jone. J. “*Financial Decision Making*” Prentice Hall of India, 1974
- Jain, S.P & Narayan, K.L. “*Financial and Management Accounting*” Kalyani Publisher, New Delhi, 3rd edition, 1993
- James, C. Van Horne “*Financial Management and policy*” Prentice Hall of India, 8th edition, 1992
- James C. Von Horne and Wachuwicz, J.M. “*Fundamental of financial Management*” Practice Hall of India, 9th edition, 2002
- Khan, M.Y. and Jain P.K. “*Management Accounting and Financial Management*” Tata McGraw Hill publishing company, New Delhi, 1st edition 1989
- Khan, M.Y and Jain P.K. “*Management Accounting*” Tata McGraw Hill Publishing Company, New Delhi 2nd edition, 1974
- Khanal, Sati ram. “*Financial performance of BJM*” unpublished thesis, P.G Campus Biratnagar, 1994
- Kennedy, R.D. “*Financial Statement for Analysis and interpretation*” Richard P. Irwin Inc. Chicago, 1947
- Lama, Ranjit “*An Evaluation of financial0 position of NIDC*” Unpublished Masters Thesis, Kritipur 1986
- Lawrence D.S. and Charles W.H “*Introduction to Financial Management*” McGraw Hill Book company, London, 4th edition, 1994
- Meigins, W.B and others “*International Accounting*” McGraw Hill, New York, 1978
- Munakarmi, Shiva prasad, “*Text Book of Accounting and Auditing*” Educational Enterprises (Pvt.) Ltd, Kathmandu, 2nd Edition, 2004.
- Mayer, Jhon. N. “*Financial Statement Analysis*” Prentice Hall of India, 1974
- Pandey, I.M “*Management Accounting*” Vikash Publishing House, New Delhi, 1983
- Pokhrel, Khagendra “*An Analysis of financial position of D.K textile (Pvt.) Ltd., Nepal*” Unpublished Thesis P.G campus, Biratnagar 1995

Ronald, L.Robinson. *"The Management of Bank Funds"* McGraw Hill Book company, New York, 1951

Shrestha, Binod Krishna *"An evaluation of financial performance of DDC, Nepal"* Unpublished Master's Thesis, Kritipur, Kathmandu. 1988

Shrestha, Laxman, *"Financial performance of popular plastics (Pvt. Ltd. Dharan, Nepal"* unpublished Masters thesis, P.C campus, Biratnagar, 2004.

Sherestha, Sunity and Dhurba prasad *" Statistical Methods in Management"* Taleju Prakashan Kathmandu, 2nd edition, 2057.

Sukla, M.C, Grawal, T.S and Gupta, S.C *"Advanced Accounting "* S.chanda and company, limited, New Delhi, 13th edition, 2002.

Webster's *"New Collegiate Dictionary"* Springfield mass G and C Marine, 8th edition, 1975

Weston, J.F and Cope land T.E. *"Managerial Finance"* the Dryden Press, New York, 9th edition, 1984.

Wilcox, K.A. and Et. A.L, *"Introduction to Financial Accounting"* Hamper and Row Publisher, New York 2nd edition, 1984

Wolf, Howard and Pant, Prem Raj. *"A Hand Book for Social Science Research and thesis Writing"* Buddha Academy Enterprises, Kathmandu, 2nd edition 2004

Surya Nepal Private Limited
Tankisinuwari-2, Biratnagar
COMPARATIVE BALANCE SHEET

(Rs. In million)

YEAR	2002	2003	2004	2005	2006
ASSETS					
A. Current Assets	240.19	288.60	353.65	369.41	393.84
1. Cash & Bank Balance	33.97	39.69	3.03	47.83	3.94
2. Sundry Debtors	0.43	1.26	0.91	0.07	80.48
3. Inventory	78.14	86.35	136.77	121.11	142.73
4. Misc. Current Assets	127.65	161.30	212.94	200.40	166.69
B. Fixed Assets	61.29	329.63	346.39	360.61	349.11
5. Gross Block	100.96	384.76	432.67	483.85	514.99
I. Plant & Machinery	16.64	223.43	228.10	231.62	238.36
II. Others	84.32	161.33	204.57	252.23	276.63
Less: Depreciation	39.67	55.13	86.28	123.24	165.88
C. Investment in Shares	105.53	112.02	112.63	112.63	112.63
D. Misc. Assets	219.09	3.51	0.08	0.00	96.28
TOTAL ASSETS	626.10	733.76	812.75	842.65	951.86
LIABILITIES & CAPITAL					
E. Current Liabilities	132.48	184.05	198.46	177.53	268.08
6. Loans & advances	0.00	1.29	0.26	1.70	1.35
7. Sundry Creditors	18.13	38.05	37.99	19.11	41.37
8. Prov. for taxation	62.39	76.71	85.83	84.04	93.67
9. Misc Cur Liabilities & prov.	51.96	68.00	74.38	72.68	131.69
F. Deferred Liabilities	92.23	93.40	95.80	97.73	14.32
10. Long Term loans	0.00	0.00	0.00	0.00	0.00
11. Misc. Def Liabilities	92.23	93.40	95.80	97.73	14.32
G. Share Capital	108.27	108.27	108.27	108.27	194.89
12. Ordinary Share	108.27	108.27	108.27	108.27	194.89
13. Bonus Share	0.00	0.00	0.00	0.00	0.00
14. Preference Share	0.00	0.00	0.00	0.00	0.00
H. Shareholders Reserve	293.12	348.05	410.24	459.12	474.58
15. General Reserve	0.00	0.00	0.00	0.00	0.00
16. Capital Reserve	167.09	167.09	167.09	167.09	167.09
17. Housing Reserve	0.00	0.00	3.94	3.59	2.66
18. Other Reserve	0.00	0.00	0.00	0.00	0.00
19. Inappropriate profit (loss)	126.03	180.96	239.21	288.44	304.83
TOTAL LIABILITIES & CAPITAL	626.10	733.76	812.75	842.65	951.

Source-www.nepalstock.com

SURYA NEPAL PRIVATE LIMITED
Tankisinuwari-2, Biratnagar
COMPERATIVE PROFIT AND LOSS STATEMENT

(Rs. In Million).

YEAR	2002	2003	2004	2005	2006
1. NET SALES	231.7	293.82	368.62	372.78	414.58
2. Cost of Goods Sold	119.78	147.32	206.49	206.80	227.01
Stock Consumed	83.12	105.0 5	149.26	143.01	164.76
Opening Stock	28.54	21.95	27.42	61.70	46.82
Purchase	96.79	131.75	184.77	131.36	175.67
Less Closing stock	42.2	52.65	62.93	49.95	57.73
3. Wages & Salaries	17.32	21.45	30.99	38.12	43.77
4. Direct Mfg .Expenses	19.34	24.82	30.99	38.12	43.77
5. General Expenses	47.26	61.72	62.32	66.40	100.33
6. Gross Profit	64.71	84.78	100.81	99.58	87.24
7. Interest	1.30	0.07	0.72	0.92	0.08
8. Pre. Dep. Profit	63.41	84.71	100.09	98.66	87.16
9. Depreciation	7.88	16.50	32.34	37.45	44.10
10. Operation profit	55.53	68.21	67.75	61.21	43.06
11. Income from other sources	1.74	5.08	3.56	3.82	2.47
12. Pre-Tax Profit	57.27	73.29	71.31	65.03	45.53
13. Provision For Taxes	62.39	76.71	85.83	84.04	93.67
14. Net Profit	37.68	58.97	62.18	55.91	35.89

Source- www.nepalstock.com

Appendix-3

Surya Nepal Private Limited Comparative statement of fixed assets of SNPL

[Amount in Million]

Particular	Fiscal Year				Particular	F	
	2003	2004	2005	2006		2003	2004
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
To balance b/d	61.29	329.63	346.39	360.61	By depreciation a/c (diff.)	15.46	329.63
To purchase (application)	283.81	47.91	51.18	31.10	By balance c/d	329.63	360.61
	345.09	377.54	397.57	391.71		345.09	391.71

Source: Based on Appendix 1

Surya Nepal Private Limited Comparative statement of Adjustment profit & loss of SNPL

[Amount in Million]

Particular	Fiscal Year				Particular	F	
	2003	2004	2005	2006		2003	2004
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
To depreciation a/c	15.46	31.15	36.96	42.64	By operating profit a/c (Source)	74.43	93.70
To net profit a/c	58.97	62.18	55.91	35.89			

	74.43	93.37	92.87	78.53		74.43	93
--	-------	-------	-------	-------	--	-------	----

Source:

Based on Appendix 1

Surya Nepal Private Limited
**Comparative Statement of Shareholders Reserve of
SNPL**

[Amount in Million]

Particular	Fiscal Year				Particular	Fiscal	
	2003	2004	2005	2006		2003	2004
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.
To Dividend a/c(Application)	4.04	0.001	7.03	20.51	By Balance b/d	293.1	348.05
To Balance c/d	348.05	410.3	459.1	474.8	By Net profit a/c	58.97	62.18
	352.1	410.3	466.2	495.3		352.1	410.3

Source:

Based on Appendix 1 & 2

BIBLIOGRAPHY

- Adhikari, N.K, “ *Financial Management*” Sukunda pustak Bhawan, Katmandu 1st Edition, 2057.
- Agrawal, N.P “*Analysis of Financial Statement*”, National Publishing House New Delhi, 1981.
- Batlibui, J.R, *Advanced Accounting*” The Standard Accountancy Publications Pvt Ltd. Bombay 32nd Edition, 1992.
- Bhattacharya, S.K And Darden “ *Accounting For Management*” Vikash Publishing House Pvt. Ltd. India, 1980
- Bhurtel, Bhesraj, “*Financial Analysis of Manufacturing Company*” Unpublished Master thesis, T.U Kritipur, 2005
- Chaudhary, S.B, “*Management Accounting*” Kalyani Publisher. New Delhi, 4th edition 1978.
- Chaudhary, Anil and Roy B “*Financial Ratio and working Capital*” Easter Law House Calcutta, 1985
- Dongol, Ratna Man “*Management Accounting*” Taleju Prakashan, Kathmandu, Re-Print Edition, 2056
- Foulka ROY, “*A Practical Financial statement Analysis*” Tata McGraw Hill Publishing Company New Delhi.
- Gupta, R.L. “*Advanced Accounting*” Sultan Chandra Sons Company, 3rd Vol 1976
- Gupta, S.C. “*Fundamental of Statistics*” Himalayas publishing House, India, 5th edition, 1996
- Hampton, Jone. J. “*Financial Decision Making*” Prentice Hall of India, 1974
- Jain, S.P & Narayan, K.L. “*Financial and Management Accounting*” Kalyani Publisher, New Delhi, 3rd edition, 1993
- James, C. Van Horne “*Financial Management and policy*” Prentice Hall of India, 8th edition, 1992
- James C. Von Horne and Wachuwicz, J.M. “*Fundamental of financial Management*” Practice Hall of India, 9th edition, 2002
- Khan, M.Y. and Jain P.K. “*Management Accounting and Financial Management*” Tata McGraw Hill publishing company, New Delhi, 1st edition 1989
- Khan, M.Y and Jain P.K. “*Management Accounting*” Tata McGraw Hill Publishing Company, New Delhi 2nd edition, 1974
- Khanal, Sati ram. “*Financial performance of BJM*” unpublished thesis, P.G Campus Biratnagar, 1994
- Kennedy, R.D. “*Financial Statement for Analysis and interpretation*” Richard P. Irwin Inc. Chicago, 1947
- Lama, Ranjit “*An Evaluation of financial0 position of NIDC*” Unpublished Masters Thesis, Kritipur 1986
- Lawrence D.S. and Charles W.H “*Introduction to Financial Management*” McGraw Hill Book company, London, 4th edition, 1994
- Meigins, W.B and others “*International Accounting*” McGraw Hill, New York, 1978
- Munakarmi, Shiva prasad, “*Text Book of Accounting and Auditing*” Educational Enterprises (Pvt.) Ltd, Kathmandu, 2nd Edition, 2004.
- Mayer, Jhon. N. “*Financial Statement Analysis*” Prentice Hall of India, 1974
- Pandey, I.M “*Management Accounting*” Vikash Publishing House, New Delhi, 1983
- Pokhrel, Khagendra “*An Analysis of financial position of D.K textile (Pvt.) Ltd., Nepal*” Unpublished Thesis P.G campus, Biratnagar 1995

Ronald, L. Robinson. *"The Management of Bank Funds"* McGraw Hill Book company, New York, 1951

Shrestha, Binod Krishna *"An evaluation of financial performance of DDC, Nepal"* Unpublished Master's Thesis, Kritipur, Kathmandu. 1988

Shrestha, Laxman, *"Financial performance of popular plastics (Pvt. Ltd. Dharan, Nepal"* unpublished Masters thesis, P.C campus, Biratnagar, 2004.

Sherestha, Sunity and Dhurba prasad *" Statistical Methods in Management"* Taleju Prakashan Kathmandu, 2nd edition, 2057.

Sukla, M.C, Grawal, T.S and Gupta, S.C *"Advanced Accounting "* S.chanda and company, limited, New Delhi, 13th edition, 2002.

Webster's *"New Collegiate Dictionary"* Springfield mass G and C Marine, 8th edition, 1975

Weston, J.F and Cope land T.E. *"Managerial Finance"* the Dryden Press, New York, 9th edition, 1984.

Wilcox, K.A. and Et. A.L, *"Introduction to Financial Accounting"* Hamper and Row Publisher, New York 2nd edition, 1984

Wolf, Howard and Pant, Prem Raj. *"A Hand Book for Social Science Research and thesis Writing"* Buddha Academy Enterprises, Kathmandu, 2nd edition 2004

Surya Nepal Private Limited
Tankisinuwari-2, Biratnagar
COMPARATIVE BALANCE SHEET

(Rs. In million)

YEAR	2002	2003	2004	2005	2006
ASSETS					
A. Current Assets	240.19	288.60	353.65	369.41	393.84
1. Cash & Bank Balance	33.97	39.69	3.03	47.83	3.94
2. Sundry Debtors	0.43	1.26	0.91	0.07	80.48
3. Inventory	78.14	86.35	136.77	121.11	142.73
4. Misc. Current Assets	127.65	161.30	212.94	200.40	166.69
B. Fixed Assets	61.29	329.63	346.39	360.61	349.11
5. Gross Block	100.96	384.76	432.67	483.85	514.99
I. Plant & Machinery	16.64	223.43	228.10	231.62	238.36
II. Others	84.32	161.33	204.57	252.23	276.63
Less: Depreciation	39.67	55.13	86.28	123.24	165.88
C. Investment in Shares	105.53	112.02	112.63	112.63	112.63
D. Misc. Assets	219.09	3.51	0.08	0.00	96.28
TOTAL ASSETS	626.10	733.76	812.75	842.65	951.86
LIABILITIES & CAPITAL					
E. Current Liabilities	132.48	184.05	198.46	177.53	268.08
6. Loans & advances	0.00	1.29	0.26	1.70	1.35
7. Sundry Creditors	18.13	38.05	37.99	19.11	41.37
8. Prov. for taxation	62.39	76.71	85.83	84.04	93.67
9. Misc Cur Liabilities & prov.	51.96	68.00	74.38	72.68	131.69
F. Deferred Liabilities	92.23	93.40	95.80	97.73	14.32
10. Long Term loans	0.00	0.00	0.00	0.00	0.00
11. Misc. Def Liabilities	92.23	93.40	95.80	97.73	14.32
G. Share Capital	108.27	108.27	108.27	108.27	194.89
12. Ordinary Share	108.27	108.27	108.27	108.27	194.89
13. Bonus Share	0.00	0.00	0.00	0.00	0.00
14. Preference Share	0.00	0.00	0.00	0.00	0.00
H. Shareholders Reserve	293.12	348.05	410.24	459.12	474.58
15. General Reserve	0.00	0.00	0.00	0.00	0.00
16. Capital Reserve	167.09	167.09	167.09	167.09	167.09
17. Housing Reserve	0.00	0.00	3.94	3.59	2.66
18. Other Reserve	0.00	0.00	0.00	0.00	0.00
19. Inappropriate profit (loss)	126.03	180.96	239.21	288.44	304.83
TOTAL LIABILITIES & CAPITAL	626.10	733.76	812.75	842.65	951.

Source-www.nepalstock.com

SURYA NEPAL PRIVATE LIMITED
Tankisinuwari-2, Biratnagar
COMPERATIVE PROFIT AND LOSS STATEMENT

(Rs. In Million).

YEAR	2002	2003	2004	2005	2006
1. NET SALES	231.7	293.82	368.62	372.78	414.58
2. Cost of Goods Sold	119.78	147.32	206.49	206.80	227.01
Stock Consumed	83.12	105.0 5	149.26	143.01	164.76
Opening Stock	28.54	21.95	27.42	61.70	46.82
Purchase	96.79	131.75	184.77	131.36	175.67
Less Closing stock	42.2	52.65	62.93	49.95	57.73
3. Wages & Salaries	17.32	21.45	30.99	38.12	43.77
4. Direct Mfg .Expenses	19.34	24.82	30.99	38.12	43.77
5. General Expenses	47.26	61.72	62.32	66.40	100.33
6. Gross Profit	64.71	84.78	100.81	99.58	87.24
7. Interest	1.30	0.07	0.72	0.92	0.08
8. Pre. Dep. Profit	63.41	84.71	100.09	98.66	87.16
9. Depreciation	7.88	16.50	32.34	37.45	44.10
10. Operation profit	55.53	68.21	67.75	61.21	43.06
11. Income from other sources	1.74	5.08	3.56	3.82	2.47
12. Pre-Tax Profit	57.27	73.29	71.31	65.03	45.53
13. Provision For Taxes	62.39	76.71	85.83	84.04	93.67
14. Net Profit	37.68	58.97	62.18	55.91	35.89

Source- www.nepalstock.com

Appendix-3

Surya Nepal Private Limited Comparative statement of fixed assets of SNPL

[Amount in Million]

Particular	Fiscal Year				Particular	F	
	2003	2004	2005	2006		2003	2004
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
To balance b/d	61.29	329.63	346.39	360.61	By depreciation a/c (diff.)	15.46	329.63
To purchase (application)	283.81	47.91	51.18	31.10	By balance c/d	329.63	360.61
	345.09	377.54	397.57	391.71		345.09	391.71

Source: Based on Appendix 1

Surya Nepal Private Limited Comparative statement of Adjustment profit & loss of SNPL

[Amount in Million]

Particular	Fiscal Year				Particular	F	
	2003	2004	2005	2006		2003	2004
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
To depreciation a/c	15.46	31.15	36.96	42.64	By operating profit a/c (Source)	74.43	93.70
To net profit a/c	58.97	62.18	55.91	35.89			

	74.43	93.37	92.87	78.53		74.43	93
--	-------	-------	-------	-------	--	-------	----

Source:

Based on Appendix 1

Surya Nepal Private Limited
**Comparative Statement of Shareholders Reserve of
SNPL**

[Amount in Million]

Particular	Fiscal Year				Particular	Fiscal	
	2003	2004	2005	2006		2003	2004
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.
To Dividend a/c(Application)	4.04	0.001	7.03	20.51	By Balance b/d	293.1	348.05
To Balance c/d	348.05	410.3	459.1	474.8	By Net profit a/c	58.97	62.18
	352.1	410.3	466.2	495.3		352.1	410.3

Source:

Based on Appendix 1 & 2