CHAPTER ONE

INTRODUCTION

1.1 General back ground

To develop a country in a proper manner all the valuable resources should be optimally used. It needs proper study better evaluation and healthy environment to utilize scare resources. As the industrial and agricultural growth rate is still slow the pace of economic development of Nepal is sluggish.

Industry plays a vital role in the economics of the country. So, industrialization is a process of economic development in which growing part of the national resources is mobilized to technically up to date diversified domestic economic structure characterized by dynamic manufacturing consumer goods, capable of assuring a high rate of growth for economy as a whole and achieving economic and social progress. The developed countries in regarded as a development and non-industrialization due to lack of industries inexistence.

Industries are facing the problem of technology and scientific ideas and technology. It becomes poorer due to resources mobilizations and day by day increasing corruption. As a result their financial position continues to become weaker and return to government investment to diminish.

"Among the modern industries were large manufacturing plants, including many public sector operations. The major manufacturing industries produced jute, sugar, cigarettes, beer, matches, shoes, chemicals, cement and bricks. The garment and carpet industries targeted at export production, have grown rapidly since the mid 1980s where jute production has declined. Industrial estates were located in Patan, Balaju, Heduda, Pokhara, Dharan, Butawal and Nepalgunj. The government provided the land and buildings for the industrial estates, but the industries themselves were mostly private owned."[1]

In the context of Nepal Biratnagar Jute Mills was first was established in 1936 A.D. to generate national market. During II world war some other public enterprises were established. However they could not make any substantial progress.

Most of the organizations have to use different types of funds to conduct business such as long-term funds. These funds are obtained from different sources like an owner, banks, financial institutions and some funds from retail earning. Every fund has its own financial policy. In the short-term financial management is very important in the business organization. The concepts of "short-term financial management" cover all decisions of an organization involving cash flows in the short run which emphasis on the management of investment in current assets and their financing.

For the conduct of business organization mostly used short-term funds. In the short-term financing, they follow aggressive financing policy. Short-term finance is analysis of decision that effect current asserts and current liabilities and frequently has an impact on the firm within a year. Therefore every organization has to obtain low cost of financing by using the trade credit, receivable financing and inventory financing. Organization has to calculate financing which is most cost effective in using the funds. The interest rate of resources has to calculate the funds, and optimums level of the utilization among available resources of the organization.

[1] Internet Google search

Manufacturing Industry- History

Nepal is poor in industry but industry plays a vital role in the economic of the country. This century, Nepal is going to highly support in industry for development of the economy. Nepalese economy is primarily based on agricultural but agricultural industries are not professional in agriculture sector. So, agricultural industries of Nepal have introduced revolutionary professionalism in agriculture sector which is considerable. These absorb more than 75% of the total active population of the country which is estimated to be involved in this sector.

"The history of industrial development in Nepal is not so long. The process of industrial development was started with the establishment of Biratnagar Jute Mill and Industrial Council in 1936 A.D. Nepal's industrial sector is still in infancy. The contribution of manufacturing sector including cottage industries to gross domestic product is only about 10%. This sector has provided employment to only about 2% of the total labor forces. However, according to population census production and industry sector has given employment to 8.8% of labor force. Still main large industries are in the public sector. The production of industry sector consists mainly of consumer goods such as shoe, clothes and processed food. Although the output of the industry sector as a whole is decreasing the out put of woolen carpet and ready made garment is increasing. These products are mainly the output of cottage and small industries."[2]

Productions are before the Ranarchy but they are not managed, Rana's were tried to manage them. Jung Bhadur treaty with Sikkim; prevented other foreign countries from getting involved in Nepal's trade relations with Tibet and Sikkim. Bir Shumsher promoted export through Nepal India trade and made some profits. Dev Shumsher suggestions for the extension of trade and industry; introduced Japanese technology to promote

[2] Dr Shyam Joshi managerial Economic Policy Analysis 2064.

agriculture and cottage industry. Bhim Shumsher promoted cotton farming waived pasturage tax and customs charges. Juddha Shumer developed agro based industries; established industrial council; passed 2 industrial law – Nepal company Act and Private Company Act. Also established Nepal Bank and Jute Mill at Biratnager. Padma Shumsher established two textile mills at Janakpur and one at Nepalgunj (for total cost Rs 3 lakh), Jut Mill at Biratnagar and sugar factory at Birgunj.

"The number of industries is increasing slowly. For example in 1965/66 the number of manufacturing industries was 1257 which increased to 4903 in 1981/82. According to s survey of 1991/92 there were 4271 industries running in the country the total fixed assets of these industries was 20,067,126 thousand rupees. These industries had provided employment to 223463 persons. But unfortunately the capacity of main industries was only about 50%."[3]

"Early industrial ventures spurred by domestic shortage in the 1930s and 1940s, fared badly due to inexperience. By 1960 there were 63 registered industries, unsupported by adequate institutional organization or infrastructure with the influx of foreign aid targeted at both the industrial sector and the transport and communications infrastructure, a mix of modern industries and cottage industries slowly developed, numbering 3,557 institutions by 1997. They are small by international standards. Industrial activity, according for about 21% G.D.P. employs only 3% of the population. Most of these industries are located around urban centers such as the Kathmandu Valley and Tin the Tarai region."[4]

Most of the industries are based on agricultural raw materials or dependent on various imported materials, mostly from India large manufacturing plants are owned and operated by the government. Traditional cottage industries such as basket and carpet weaving are also important to Nepal's economy.

[3] Dr Shyam Joshi Managerial Economic Policy Analysis 2064.
[4] From Internet Google search.

Nepal's economy is characterized by heavy dependence on foreign aid, a narrow range of exports, increasing economic disparity between the mountain areas and excessive governmental control and regulation, and inefficient public enterprises and administration. In addition, the economy has not kept pace with the high population growth of the country. The slow growth of agriculture has resulted food shortage and malnutrition for some of Nepalese.

The government has to make situation for investor and in manufacturing industry. Nepalese government has to prepare policy frame work of grand participation, improvement to existing policy in a bid to create an investment friendly environment. The world is going in globalization, but economy of the world is falling down badly. In the world trade organization, developed countries are dominating developing countries. Developing country can not compete in the world trade due to lack of industries and technologies.

Basically a public organization fails to perform a sound management on their business. Nepalese government has to be financial supportive to the public organizations. As a result, the financial positions of the organizations become weaker and in return the investment of government is diminishing. Public organization are inefficiency in utilization of investment, not utilization of resources, uncompetitive in global economy, high operating cost, number of unfavorable impact etc.

Nepalese industry lies in infancy fulfils only 10% share of national income (Joshi; 2057:194). Cottage industry and productive sector cover around 10% of total domestic production (Joshi; 2057:194). These industries provide around 2% employed of total human resources (Joshi; 2057:1940. All the major big industries are operated by public sector but industries only, mainly they produce shoe, textile, refine food, iron, handicraft, carpet and other consumer goods etc.

Nepal suffers from a lack of both internal and external investment. This stems from low domestic saving, a small domestic market a severe shortage of skilled labor, chronically corrupt and inefficient public administrations, high transport and operating costs, the inadequacy of power resources and increasingly political instability. There have been recent attempts to encourage investment and privatization though the industrial policy 1992 and foreign investment and one window policy 1992, and the creation of industrial centers with government land and building on lease for private ventures.

In order to encourage industrialization in private sector, an appropriate type of clear policy and practicable programs based in reality would be required. The development planners have felt that lack of industrial development strategy, in Nepal ahs posed a crucial problem in designing and industrial program which in most case has been a more listing of the projects in the country's developments plans. In other hand, stable and liberal policies will also encourage to foreign invertors.

1-2.1 Short- terms financing in Nepal

The reason behind Nepal's under development is not due to lack of resource but due to not proper utilization of the available resources in efficient manner. For proper and efficient utilization of resources it needs proper plan and strategy development huge amount of current capital investment is required.

The history of trade credit in Nepal dated back to the era before to the business operated, but at that time there was not only rules and regulation (legalization). They issued trade credit on trust. Now a day, some are legalized in Nepal, like net 45, net60 MOE etc. There was no any discount on before payment only trade credit facilities. Principle of trade credit system is not practice in Nepal till now. Also Nepalese government dose not make any strong strategic and low on trade credit and its principle.

In Nepal pledging is not in practice. Pledging arrangement the borrower simply pledges accounts receivable as collateral for a loan obtain from either a commercial bank or a finance company. Generally a lender advance between 50% to 80% of their face value. Limit of advance amount depends on the quality of the receivable.

The history of short-term financing in Nepal dates back to the era before establishing Nepal Bank Ltd, there was not any strategic on short–term financing. Commercial Banks was follows short-term loan against collateral pledging, A/R and inventory financing for the event of default but the government dose not issue any suitable role and regulation for the part. Commercial banks only provided short-term loan against non-moveable assets or fixed assets or trust receipt. Only some commercial banks and financial institution accept pledging and discount or provide packing credit on certain on trust. But there is not any particular rule and regulation up to now, some trend is practices.

Performance of industries depends on the availability of funds on one hand and people utilization and management of funds on the other hands but these enterprises have poor financing policy and they have not funds for investment. By choosing suitable financing mix these industries can improved their financial performance. The relationship between growth of manufacturing industries and management of short-term financing in particular requires stopping tie up to achieve the goal of economy development. Short-term resources availability is an urgent need for the uplift the financial performance of manufactures industry as well as the national economy.

Financial mix helps to improve the financial performance of the industry. The relationship between growth of financial performance and short-term financial management requires strong tie up to achive the goal of economy development. Utilizations of short-term resources uplift the financial performance of organizations as well as national economy. In the short-term finance, they follow aggressive financing policy. The aggressive financing policy is called for the greatest used of short-term debts. Short-term finance is analysis of decision that effect current assets and current liabilities and frequently has an impact on the firm within a year. Therefore every organization has to obtain low cost of financing by using the trade credit, receivable financing and inventory financing. Organization has to calculate financing which is must cost effective in using the funds. The interest rate of resources has to calculate the funds and optimums level of the utilization among available resources of the organization.

1-2.2 Objective of short-term financing in Nepal

The main objectives of short-term financing are social economic development and social welfare of the country. Other general objectives are as follows:

1. Economic objective

a. Accelerating the rate of economic growth
b. Attaining the goals of planned economic development
c. Make available essential goods and services cheaply and adequately
d. Mobilization of short funds for future plans.
e. Acting as model entrepreneur
f. Saving foreign exchange.
g. Saving foreign exchange.
h. Maintaining economic stability.

2. Social objectives

a. Attaining social justice and social welfare.
b. Make healthy and efficient.
c. Reduction in disparity of income.

3. Political objectives

a. National defiance.
b. For national interest.

As discussed earlier that the financial performance of most manufacturing companies of Nepal has been very poor. Most manufacturing companies haven not been able to earn desirable volumes of profit. In this situation there is necessary to analysis the find resource of manufacturing enterprise. Among the number of reasons leading to inefficient of manufacturing companies ineffectiveness utilizing of short-term financing in consider to be are one of the key reasons.

Janak Education Materials Centre Limited

BRIEF INTRODUCTION

Janak Education Materials Centre Limited

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1-3.1. Janak Education Materials Centre Limited- An Overview

Janak Education material center ltd. was completed 30th years at 2065 ashojh 8th B.S. But actually this manufacturing organization was established 53 yrs ago at 2012 B.S. at Tachal. The dawn of democracy in Nepal in 1950 A.D. a well-conceived educational programme was launched. Teachers were trained on a massive scale and this center came into existence in the shape of a small printing house with the objective of printing teacher training materials.

2012 B.S. printing press was established at Lizampat of Chate Bhavan. 2013 B.S. this manufacturing organization was re-organized as Bureau of publication, collage of education. To improve the education of a country at 2018 B.S. His Majestery govt and American government both makes Education Material production center and write center in the form of two centers was established. From 2018-2022 B.S. only primary levels textbooks were published. At 2023 B.S. both center was made a single center was established at Sano Themi. 2024 B.S. Jestha 29th B.S. at that's period's King Shree 5 Mahendra Bir Bikram Sha add a name of Nationality personality (Epic king) "Janak" was prefixed before its name and since then it has been known as Janak Education Material Center. From 2028 B.S. all secondary level's student's books were published as well as sales. In the year 2028, Nepal embarked into a modern education system with the announcement of New Education system plan.2030 B.S. this was changed as development committee, after 5 years 2035 B.S. this center to makes independent company act 2021 was applicable as limited. So, this center was converted into a public limited company under the company Act in 2035 B.S.

As a result of continued slackness in the domestic and international trade, industrial production, tourism business and other economic activities, revenue mobilization declined. The effect of which is also adversely affecting the manufacturing sector making it more difficult to achieve the desired growth. In spite of the problem the manufacturing industry sector is facing, Janak Education Material Center Ltd. assures that they would deliver all the possible efforts to yield better results.

The center's philosophy is ***"Optimum educations have four stages peace, indifferent, harmony and employment."***

In this way from 2012 B.S. it gives its service. This center is established at 232 ropani. Different office, press house, gowadons all together there is 15 press and equally binding machine were there. Center has equally distribute all the publish books in same price in accessible or inaccessible area. Center doesn't take any government financial help from start to up to now.

1-3.2. Vision

- For quality product for satisfaction of consumer is always our first priority.
- Employees have direct input and control over work processes.
- Employees are treated equitably, with respect and good faith.
- We are transparent in our dealings and conduct.
- To produce and distribute, efficacious and quality in reasonably fair prices to the general public in away that led the country towards self-sufficiency.

1-3.3. Values

- Teamwork
- Driven
- Initiative
- Adaptable to changes

- Professional
- Always striving to improve quality of service
- Cost conscious
- High ethical standards
- Compliance

1-3.4. Objective / mission statement

This is non-profit motive organization. Since the implementation of NESP this center has been involving in printing school level textbooks designed by the government. This center is a non- profit making service-oriented organization. The price charged for its publications is very nominal which just meets the production cost. Center shall be the preferred provider of different outputs by embracing to our clients by embracing good governance, service excellence and professional culture in order to active sound business growth.

According to its article of memorandum and Act objectives are

1. Up to secondary level's textbooks were published according to the government's syllabus.
2. Teacher's guide, exercise books, development of press, charts, charts were develop in press as well as sales theme at reasonable price.
3. According to government's request by taking reasonable price center broad-casting about education, voting materials, old age education materials were also published.
4. Provide final product to our costumers at higher satisfaction level.
5. Practice total quality management and embrace good governance.
6. Optimize our assets to achieve sound business growth.

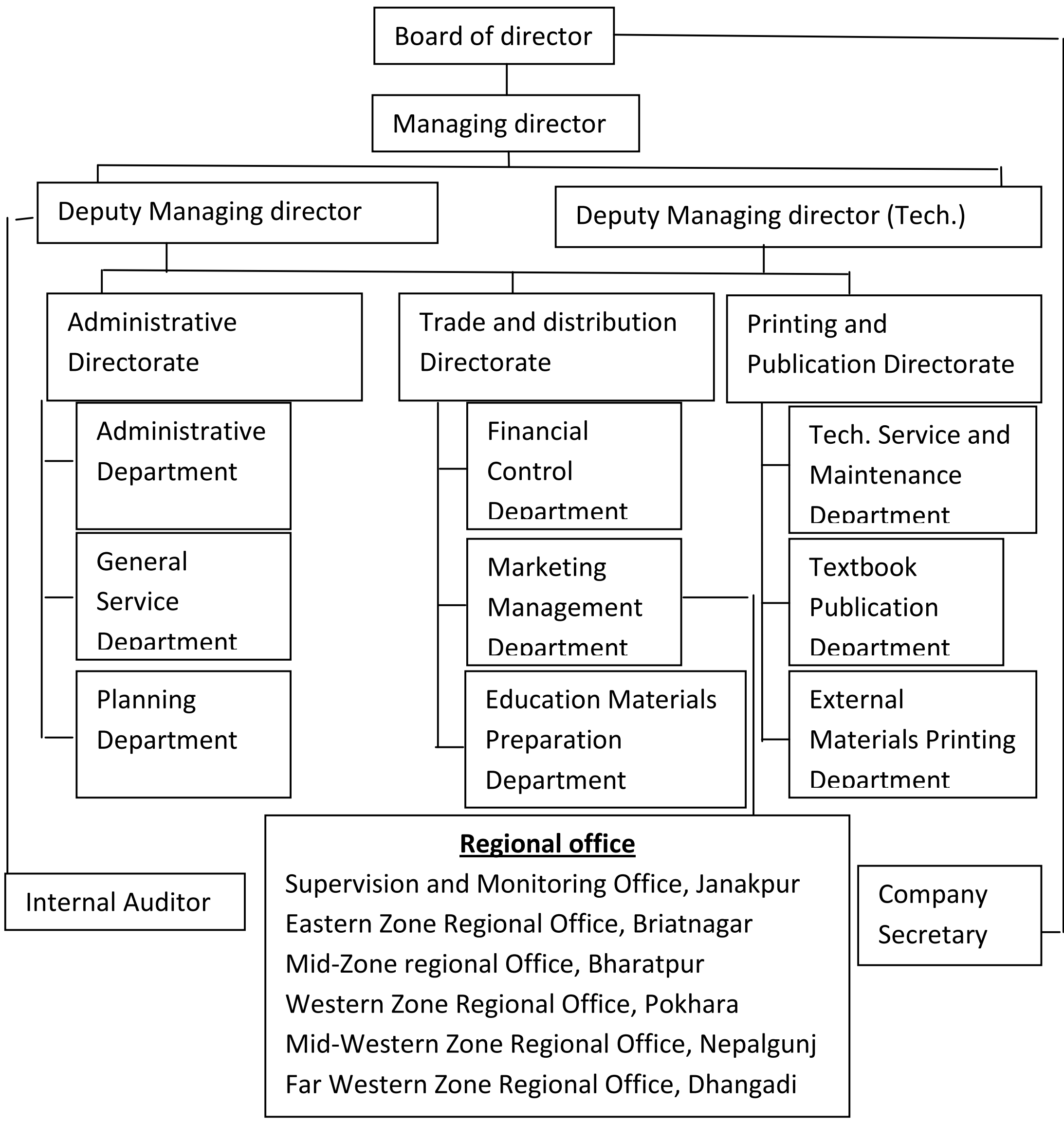
1-3.5. Department and organizational chart

All the published secondary level books were distributed in same price at accessible and inaccessible area of all over the country. For that purpose center has 5 departments in 5development regions. Marketing in one of them. Its main objective is to well distribute all the published books. For marketing purpose departments were established at Biratanagarregional office, Bharatpur regional office, Pokhara regional office, Nepalajgung regional press and Dhangadi regional office. All these regional office distributes published books. This center established supervision and monitoring department at Janakpur. Any kinds of published items were sold supervision and follow up by this department and also kept all the sales data from this department.

This center established Janak Multipurpose Co-operative to sold the retail published items. Only this is not able to distribute the published items so this center gives authority to Saja Prakashan for all the published items are distribute on time. For distribute easily as well as on time Saja Prakashan established depo at Mugu, Karnali, kalikot.

1-3.6. Organizational chart.

This center is under the ministry of education. All the decisions and rules are under the ministry of education.


Board of director
Managing director
Deputy Managing director
Deputy Managing director (Tech.)
Administrative Directorate
Trade and distribution Directorate
Printing and Publication Directorate
Administrative Department
General Service Department
Planning Department
Financial Control Department
Marketing Management Department
Education Materials Preparation Department
Tech. Service and Maintenance Department
Textbook Publication Department
External Materials Printing Department
Regional office
Supervision and Monitoring Office, Janakpur
Eastern Zone Regional Office, Briatnagar
Mid-Zone regional Office, Bharatpur
Western Zone Regional Office, Pokhara
Mid-Western Zone Regional Office, Nepalgunj
Far Western Zone Regional Office, Dhangadi
Internal Auditor
Company Secretary

1-3.7. Capital structure

At the time of establishment it was started from Rs 4 core (4,00,00,000) authorized capital. But different era different donated nations give directly cash or physical materials now its authorized capital is changed positively.

Now its authorized capital is 50 core (50,00,00,000). It is divided in Rs100 per share so, number of share is 50 lakhs (50,000). But now paid-up capital is Rs45 core (45,00,00,000). Out of this different nations also donated in the form of capita as well as Nepalese government investment.

Authorized Capital ---- Rs 50,00,00,000

Paid-up Capital ------- Rs 45,00,00,000.

Auditor always audits the center's financial statement. Center yearly paid taxes to the government. 5 yearly tax paid to the government are as follows

Fiscal Year	Tax paid amount
2059/60	93,19,059.22
2060/61	55,07,928.79
2061/62	1,16,68,586.53
2062/63	2,68,22,906.94
2063/64	2,07,45,944

Profits of the center's are

Fiscal Year	profit amount
2060/61	3,41,412.90
2061/62	5,83,758.58
2062/63	12,16,724.82

1-3.8. Production description

Production description from center as well as from private press from 2064 shawern to adhad 2nd production description. (in Rs)

From 2064 shawern to 2065 ashad 2nd production description

Class	Shawern	Bhadra	Aashwen	Kartik	Marga	Poush	Magh	Falgun	Chaitra	Bsishak	Jestha	Aashad
1	245930	172410	270665	305460	210835	113550	21830	227590	193335	66570	143455	
2	44250	48654	82725	65780	247400	84339	15225	40950	104100	179200	45475	
3							47950	112520	330817	430860	374585	
4	259160	167625	329035	29500	467580	264350	83930	2280	93550	206800	15400	
5	17990	179515	196160	242535	791710	102725	2550		62640	16600	7575	
6	86875	212059	33775			57267	225345	212640	345500	70725	36010	
7		89085	190183	3735	154310	27450	187605	170455	89284	66250	65715	6500
8				39625	255820	9145		212840	63837	70761	77100	
9										204084	525711	17610
10			490						174975	212942	492123	22475
total	654205	869348	1103033	686605	2127655	658826	584435	979275	1458038	1524792	1783149	46585

Production description from center as well as from private press for the academic session of 2065 up to Ashad 15th (in numbers).

month	Class 1 to 5		Class 6 to 10		Class 1-10 total	Remarks
	Out press	center	Out press	center		
Falgun	0	383340	0	618735	1002075	
Chitra	278553	784444	0	673596	1736593	
Bishak	484330	900030	31700	678294	2094354	
Jestha	351907	816810	114750	1324989	2608456	
Ashad	326487	525655	113311	532786	1498239	
Total	1441277	3410279	259761	3828400	8939717	

Government gives the priority for the private press. Textbooks published and sales are given to the private press to well manage. For this government used 2065 directive. But government dose not clearly said to the center for to produce this much of textbooks. Fiscal year 2064/65 gives all the primary level textbooks were for private press.

Publication department used machine's capacities are as follows

Shift production (32 page forma)

Machine (production)	1st shift	2nd shift	12 hour shift	12 hour shift	Remarks
Highdoulburg 1981	8500	8500	17000	17000	Double color
Miller (1981)	6000	6000	12000	12000	Double color
Comori 235 (1994)	2400	24000	50000	50000	Single color
Comori 236 (1994)	24000	24000	50000	50000	Single color
Wave (2000)	42000	42000	70000	70000	Single color
Sakurai (1994)	8000	8000	16000	16000	Single color
Small comori (1981)	2500	2500	5000	5000	Double color
H.M.T.A. (1979)	2000		4000		Single color one shift
Harish A (1967)	2000		4000		Single color one shift
Harish B (1967)	2000		4000		Single color one shift
Harish C (1967)	3000		5000		Single color one shift
Highdolburg D (1967)	1000		2500		Single color one shift
H.M.T. 28(2007)	10000	10000	20000	20000	Double color
H.M.T. 29(2007)	10000	10000	20000	20000	Double color
Highdolburg speed master (2008)	4000	4000	8000	8000	Double color (cover)
Total capacity	151,000	139,000	291,000	268,500	

Binding machine's capacities

Name of machine	1st shift	2nd shift	12/12hour shift
1. No. Gathering	7000		14000
2. No. Gathering	7000	7000	15000
Covering	8000	8000	16000
Cutting	8000	8000	16000
Anax building (gathering, cover & cutting)	10000	10000	20000
Danida building			
Gathering	12000	12000	25000
Stitching	5000	5000	11000
Covering	8000	8000	18000
Cutting	15000	15000	30000
Tying	10000	10000	22000
Nail folding one machine	15000	15000	30000
Total	40,000	33,000	80,000

1-3.9. Raw materials

Paper is the main raw material for a printing industry followed by ink, Chemicals as auxiliary ones. Paper constitutes sixty-seven per cent of the total cost of production of a book. Paper had to be imported from out side in the past. After the establishment of two paper factories in the country, locally manufactured paper is also in use. Remaining raw materials are imported. The annual consumption of paper and ink is 3500 and 10 metric tons respectively for the production of 17 million books and 45 million exercise books. Every tear the inputs are increasing significantly as the production of books rises.

Center extension planning

1. Center good chance for success of security press establishment.
2. To increase the capacity of center a lag-up fir JAICA and JAICA takes positively.
3. Now, English translator was developing.

1-3.10. Process to produce the textbooks

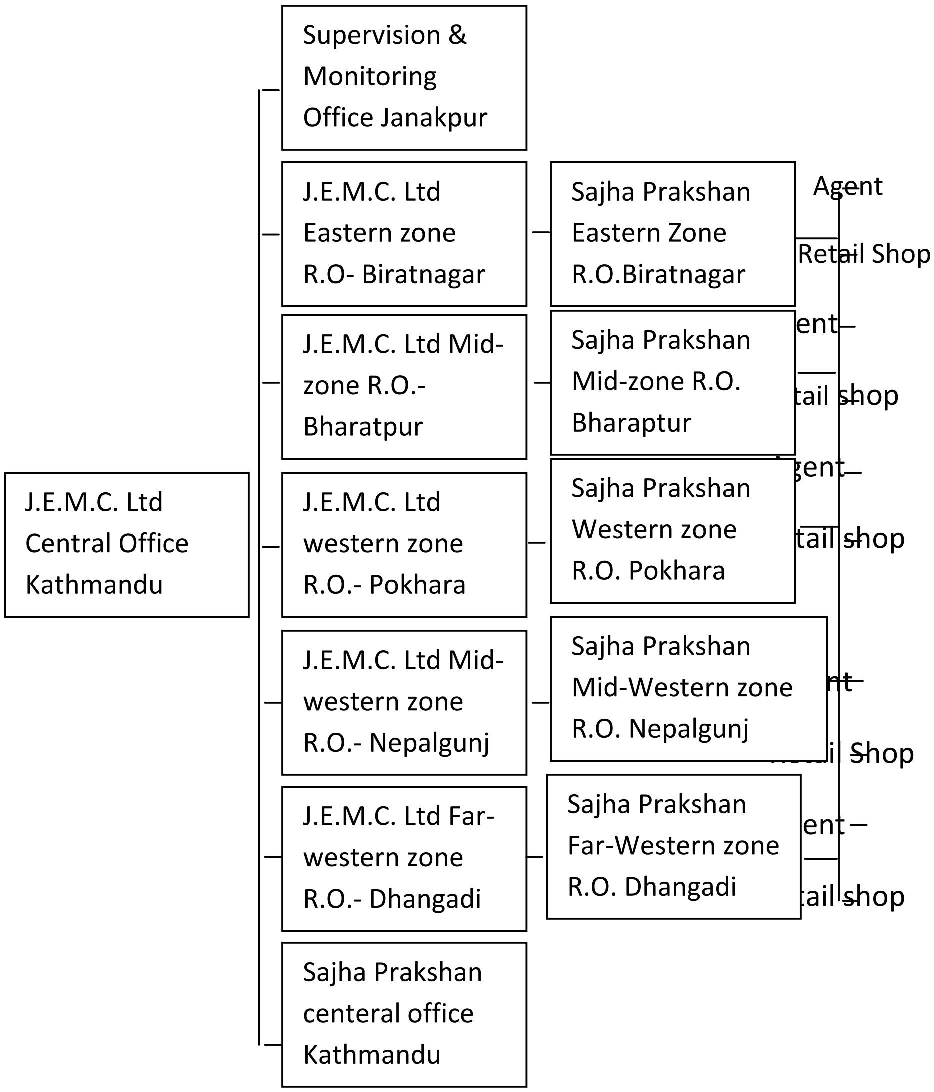
The process to produce the textbooks begins from CRC in JEMC. Before it His Majesty the government curriculum development center prepares CRC of the books that are written by the selected or nominated writers. The CRC which comes from CSC is sent to the publication department of JEMC. From there plate is designed after making film and stripping. Then this plate is fitted on the printing machine and it is developed in printing.

It comes in shape of forma with printing and it is folded, gathered, stitched and cut with the help of machines or by hands. Then the prepared books are stored in market management department from where the books are sent to every corner of the nation through its five regional offices and its authorized agent Saja Prakashan in every year.

1-3.11. Authorized dealer

As it has been mentioned earlier, Sajha Publication is the only authorized dealer of the center for the distribution of textbooks. Books are handed over to Sajha from center’s six depots. They are in one central and five regional offices. Sajha, in turn, channels these books either through its own outlet scattered all over the country or its agents and private retailers.

Distribution system



1-3.12. Future plan

To accelerate the center in efficiency and expanding its features, the JEMC has designed some plans, which are as follows:

1. The feasibility survey will be done to make management more effective and dynamic with changing situation.
2. Color printing will be introduced in textbooks to make them more effective.
3. The audio materials based on textbooks will be produced to make them interesting for primary level.
4. The picture of great sculptures places, maps, charts, posters, etc which could be able to illustrate the nation and nationality will be developed for sell and distribution in schools.
5. In the context of poor result of S.L.C, specially in government schools, the center has planned of tuition classes for those students through the F.M. radios and any other public media.

1-4. Focus on study

Different studies about manufacturing companies in Neal show that they have poor financing performance. Most of the manufacturing companies have not been able to earn desirable volume of profit. In this situation there is necessary to analysis the financial resources of the manufacturing companies but only the resources analysis is not enough if the companies are not using appropriate financing policy.

The manufacturing companies have to be professional, they consider about long-term and short-term financing. Financial manager, even been consider about maximum utilization of available resources, creation of value, profit maximization, investment decision, financing decision, dividend decision and financial manufacturing. So, focus on studies is maximum utilization of available resources, creation of value and financing decision.

Nepalese organization doesn't think about trade credit, receivable financing and inventory financing in which financing is much better to daily operation. No, officer prefers about financing which is much cost effective for the organization. They only prefer the financing which is easily available.

Business depends on current assets. In our business organization, there is no any result and regulations 9legalization) ablut short-term financing. The trade credit is main source of working capital which is fulfilling the scarcity of working capital, but Nepalese organization issued trade credit on trust. Nowadays, some mechanisms are practices in Nepal, like net 30, net45 etc. there is no, any discount on payment before the net period. But actually Client Company already add some amount which doesn't make free cost, only difficulties to calculate the cost of financing. There is no practice or mechanism, like 2/10 net 30 or 2/15 net 45 etc. which makes us easy to calculate cost of financing.

The commercial banks provided short-term loan against collateral for the event of default but they didn't think about account receivable financing and inventory financing also the collateral. We people have to legalize pledging, factoring on account receivable. We have to develop the concept of account receivable financing, so pledging, discounting and factoring on account receivable (credit checking lending and risk bearing). We have same practices on as pledging account receivable and discounting account receivable on export L/C, but this is only by reputed organization but we are not entering on factoring on bill receivables.

Our inventory financing situation is very poor or we can say that there is no, any practice in inventory financing we have three types of inventory financing system they can use these financing.

1. Blanket inventory system
2. Trust receipts
3. Field were house financing

Thus inventory system is very suitable for business organization whose organization have no, adequate current assets or working capital.

It makes credit system more reliable and more efficient. The new management team is working on creating international standard loan risk rating system based on matrix system. So, the main focus is on: which types of problems face by manufacturing, what is the trend going on our manufacturing and which financing are much utilize trend on manufacturing and which trend is much cost effective for the manufacturing and relationship between every financing.

Thus this studies focus on to find out the source of short-term financing of Nepalese manufacturing companies and are they using appropriate financing policy or not. More often looking problem in term of short-term financing and they by put my view point in term of in dependent suggestion and recommendation so then manufacturing companies could manage short-term financing effectively and efficiently.

1-5. Statement of the problem

A capital adequacy is an important consideration in the management of the organization. This study attempts to analyze some of these issues in the context of Nepalese short-term financing. Large amount dose not fulfill by short-term financing.

Only limited amount of financing requirement can be fulfilled by using trade credit. Cost of not taking discount could be very high and excessive use of trade credit makes the firm's financing pos0ition weak. Trade credit is unsuitable for poor credit-worthiness.

The management of short-term financing is in itself a decision area with in the framework of the overall financial management. It has been regarded as one of the conditioning factor in the decision making issue. It is no doubt, very difficult to point out as to how much short-term financing needed by manufacturing companies. An organization which is not willing to take more financial risk can go for more short-term liquidity and vice-versa. The less current liabilities implies less short-term financing heading to the lower return resulting from the use of more high cost long term financing. Different study on manufacturing companies shows that most of the manufacturing companies have not well recognized the importance of proper short-term financial management and this company are not successful in taping short term financing according to needs so it is very essential to analyze and find out problems and its solution to make efficient use if fund for minimizing the risk of loss to attain profit objectives.

Interest rate on commercial paper is generally lower than prime rate. Without maturity it cannot be redeemed. If firm does not need the funds any more, it cannot repay it until maturity and will have to pay interest. Similarly, its maturity period cannot be extended.

A firm that needs funds regularly thought the year for variety of purposes may negotiate a line of credit with its bank. A line of credit is an informal agreement between a bank and borrower specifying the maximum amount of unsecured credit that the bank will make available to the firm (borrower) over a given period of time. The banks does not have a legal commitment to supply the funds when the firm request them, but banks tend to feel morally obliged to provide the loan up to agreed amount. There are different prohibitive terms and condition. So, there is fixed obligations.

Following are the major problem that have been identified for the purpose of this study

a. What is the trend in using the short-term financing by Nepalese manufacturing companies?
b. Are the manufacturing companies more depended on short-term financing than long-term financing?
c. What form of short-term financing should be given due priority?
d. To what extent opinions of responded vary with respect of various aspect of short-term financing?
e. What forms of short-term financing has mostly used by Nepalese manufacturing companies, trade credit, bank loan, accruals, commercial paper etc?
f. Are the manufacturing companies in Nepal have well recognized the importance of proper management of short-term financing?
g. How dose the company obtain trade credit? On what term? For how long? Dose it affect their credit rating?

1-6. Theoretical framework

Short-term financing is the principle mean by which assets are funded. There is numerous types ranging from spontaneous credit in the form of amount payable and accruals to negotiate interest bearing debt. The proportion of short-term versus longer-term financing is function of a company's funds requirement. Seasonal versus more permanent as well as of the aggressiveness of management in making its financing with its funds requirements.

The firm can use short-term sources to achieve a number of goals, including flexibility, low cost financing and secure additional funds. A short-term loan can be obtained much faster than long-term lender will insist on a more through financial examination before extending long-term credit. Therefore if funds are needed in the hurry the firm should look to the show term markets.

Managing the short-term resources of the firm has a major impact on the relationship between risk and return. In general the shorter the maturity schedules of a firm's debt obligation the greater the risk that it will be unable to meet principle and interest payment. On the other hand, the longer the maturity schedule, the less risky the financing of the firm all other things the same. So difference in risk between short and long term financing must be balanced against different in interest costs. The longer the maturity schedule of a firm debt, the more costly the financing is likely to be for one thing, the expected cost of long-term financing usually is more than that of short-term financing. In periods of high interest rates the rate on short-term corporate borrowing may exceed that on long-term borrowing but over on extended period of time the firm typically pays more for long-term borrowing. In additional to the higher expected cost of long-term borrowing a company may pay interest on debt over periods of time when the fund are not needed. Thus, there usually is an inducement to finance find requirement on a short-term basis.

There are numerous sources of short-term funds which are categorized in two parts secured and unsecured financing. Funds are obtains from a variety of source. Some capital is provided by supplier, creditor and owner, until others funds arise form retain earning etc. Each source of capital has its own benefit as well as defect. The aggressive financing policy called for the greatest used of short-term debt. Short-term finance is analyses of decision that affect current asset and current liabilities and will frequently have an impact on the firm within years. For most companies, short-term financing is the principle means by when asset are funded. There are numerous types ranging from spontaneous credit in the form of account payable and accruals to negotiate interest bearing debt. Short-term financing provide both the highest and lowest cost funds in the firm capital structure. Some forms of short-term financing are most costly than intermediate or long-term funds. On the other hand some short-term source provide fund as not last as all to the firm.

1-7. Objective of the study

The primary objective of the undertaken thesis is to fulfill a course requirement of the M.B.S. program at Tribhuvan University Shanker Dev during the final year. The main reason behind Janak Education Material Center Ltd. is to get acquainted with the new happenings of emerging manufacturing. In addition, the main focus was Short-term financing as this is totally a new concept in Nepal.

The major objective of the study is to analyze various form of short-term financing employed by manufacturing companies and to measure the effectiveness of short-term financing.

a. To examine the trend of short-term financing used by manufacturing companies

b. To study the various form of short-term financing used by the manufacturing companies.
c. To analyze the various financial variables and test their relationship to know the impact on short-term financing in manufacturing companies.
d. To analyze cash conversion cycle.
e. To analyze the relations between return on equity and short-term financing.
f. To analyze the success/ failure Nepalese manufacturing companies.
g. To conduct an opinion survey on various aspect of short-term financing.

On the basis of analysis provide suggestions for the improvement of short-term financing management of manufacturing companies in Nepal in future.

1-8. Limitation of the study

This study has some boundary. These boundaries are called limitation of the study. The thesis undertaken is not assumed to be exhaustive or precisely representative of all information pertaining to actual and potential manufacture companies taking benefit of short=term financing due to following constraints

a. The selection of variable: only short-term financing.
b. Five year trend and data are analyzing.
c. The accuracy of this study depends upon the data available for the management of manufacturing company.
d. To prepare the study all the data are secondary published on annual report of the company.
e. Geographical constraints: the project undertaken includes study conducted within Kathmandu valley.

f. Time Constraints: the duration of the thesis was short span of time to complete.
g. Financial Constraints: the thesis was financed solely by the students themselves.
h. Sample Constraints: the sample considered for three targeted groups may not be sufficient for generating significant results.

1-9. Organization of the study

The study has been organized into five chapters. Each chapter is devoted to some aspect of the study of short-term financing of manufacturing in Nepal. The titles of each of the chapters are as follows:

Chapter One: Introduction

Chapter Two: Review of literature

Chapter Three: Research methodology

Chapter Four: Data Presentation and Analysis

Chapter Five: Summary, Conclusions, and Recommendations

The contents of each of the chapters of this study are briefly mentioned below.

The first chapter is the introduction which deals with background of study, introduction, and objective of the study, statement of the problem and limitation of the study.

The second chapter deals with the review of the literatures relating to short-term financing. The available literature discussion on the theoretical framework and a brief review of the major empirical works. Review of article/ journals review of study and research gap.

The third chapter deals with the research methodology employed for the study. It consists of research design samples and population sources and types of data, data gathering instruments and procedures data tabulation and processing and method of analysis.

The fourth chapters, which are main aspects of the study, analyze the collected data and information using statistical as well as financial tools in order to fulfill the objective and problem of the study.

In the last fifth chapter, summery and recommendation of the study have been given. At last, end of study deals with bibliography. Bibliography includes name of reference books, writer of books and its page.

CHAPTER TWO

Review of Literature

2.1 Financing review

What role dose “finance” policy in the successful operation of the firm? As well as we see that follow, proper financing management will help any business provider better products to its customers as lower prices, pay higher salary to its employers and still provide greater return to investors who not the find needed to firm and operate the business the economic. Both national and international-consists of customers, employers, and investors’ sound financial management contributes to the well-being of both individuals and the general population.

Finance is an art and science of managing money. This is also branch of economics concerned with providing funds to individuals, business, and government within the over as of banking and related institutions. Finance allows these entities to use credit instead of cash to purchase goods and investment in projects. For examples as individual can borrow money from bank to buy a home. An industrial firm can raise money through investors to build a new factory. Government can issue bonds to raise money for projects.

Finance plays an important role in the economy. As banks, credit unions, and other financial institutions provide credit, they help expand the economy by directing funds from savers to borrowers. For example: a bank acquires large amounts of money from the deposits of individual avers. The bank does not let this money sit idle but instead provides loans to borrowers who might then build a house or expand a business. The savings of millions of people percolate through may financial institutions, spurring economic growth.

Finance "involves the investment, financing and dividend policy decisions of an organization". The main functions of financial managers are to plan for, acquire and use fund to make the maximum contribution to the efficient operation of an organization. This requires familiarity with the financial markets from which funds are drawn as well as with the product/markets in which the organization operates. All financial decision involves alternative choices between internal versus external funds, long term versus short term projects, a higher growth rate versus a lower rate of growth. The basic financial statements, which encapsulate the effects of operating and financial decisions, are also explained.

Finally, financing is the acquisition and uses of resources in a market system perform an important social role. Without decision rules development from the value maximization principle the allocation and use of a society's limited resources will be arbitrary and inefficient.

According to R.W. Jhnson and R.W. Melicher "Financial management is the acquisition management and financing of resources for the firm by means of money."

2.2 Review of short term financing

Short term financing consists all the liabilities or obligations that are originally, scheduled for repayment in one year or less. Short term financing/credit doesn't always correspond exactly to the current liabilities shown on the firm's balance sheet because current liabilities also include that portion of long term debt scheduled for repayment during the next year. Even though short term financing is required within one year, some sources provide funds that are continuously rolled over. For example, the funds provided by payables may remain relatively constant because, as some accounts are paid, other accounts are created.

Short term needs for purchase raw materials, paid salary, wages, tax, rent and credit salary also short term funds are necessary. Without short term financing organization aren't run for long term. Even organization needs daily expenditure for their organization run smoothly. These daily expenditure are fulfilling by the short term financing. For raw product goods are kept as stock, salary, wags paid and for finished goods also kept on good downs. For advertisement there is a need of funds when goods are sold all goods are not to be on cash (credit) all those cost are fulfill by the short term financing. So short term financing are continuously fulfill. If there isn't sufficient short term organization will collapse within short period. So to make good condition and life support of the firms there must keep well short term funds.

However commercial bank or other financial institution requires the firm to clean up (zero balance) its short-term obligation. Funds provided by source of short-term financing are used to support a large portion of the firm's current assets such as cash, marketable securities, inventory etc. Some portion of total current assets typically permanent current asset is financed with intermediate or long-term sources of financing. Short-term loan raised to finance inventory requirement is known as selfliquidating because the sale of goods provides the cash to repay the loan. A firm may also need a short-term bridge loan to finance the purchase of new equipment or a new project. In this case the loan serves as interim financing until the purchase is completed and long-term financing is arranged.

Short term financing is arranged the term now widely used in peace of working capital management. The concept of short term financial management covers all decision of an organization involving cash flows in the short run with emphasis on the management of investment in current assets and their financing.

Characteristics of short term financing

1 cost of funds:- cost of short term financing may be most costly or least costly or even with no cost at all. For example account payables (trade credit) may be cost free or most costly. Accrual may be cost free.

1 Rollover effect:- this occurs when short term liabilities are continuously refinanced from period to period. Even though short term financing is repaid within one year, some sources provide funds that are continuously rolled over. Especially the funds provided by payables may remain relatively constant because, as some accounts are paid, other accounts are created.

2 Clean up:- this is the case when commercial banks or other financial institutions require the firm to pay off its short term obligation. Just as some sources are rolled over, some must be reduced to zero or cleaned up at one point in the year.

2.3 Merits and demerits of short term financing

Merits of short term financing

1. Generally short term funds are less expensive.

2. There is sufficient flexibility in short term financing to meet the seasonal and cyclical funds requirements. They can when there is no need for such funds by avoiding long term commitments.
3. Short term financing can be obtained more quickly than long term debt that requires detailed investigation.

4. Short term credit agreement is less restrictive than long term ones containing covenants.

5. Collateral may not be required for short term financing.

Demerits of short term financing

1. It can be used for acquiring fixed assets.

2. Short term financing normally exposes the firm to greater risk than does the long term debt.

2.4 Factors determining short term financing

In choosing a short term financing will be concerned with the following aspects of each financing arrangement

1. Cost:- Generally, the financial manager will seek to minimize cost of financing, which usually can be expressed as on annual interest rate (effective cost). Therefore, the

financing source having lowest effective cost will be chosen. There are, however, other factors which may be important in particular situation.

2. Reliability:- Some sources are more reliable than others in that fund are more likely to be available hen they are needed. That is why, some time the firm chooses revolving credit instead of line of credit even though cost of revolving credit arrangement is high.

3. Restrictions:- Restrictions also effect the decision while choosing the source of financing. Restriction might include amount limit on individual, management salaries and capital expenditure.

4. Flexibility:- Some sources are more flexible than others. Due to greater flexibility the firm can increase or decrease the amount of funds provided very easily. So flexibility helps to reduce cost and grab market opportunity.

5. Others:

   * Impact on credit rating

   * The period of time when financing is required.

   * The availability of the required credit amount.

2.5 An overview long term financing

Long term financing is related to long term investment decision of a firm. They have to be financed with long term source of finance, which are approving for more than one year. That is called long term funds. Long term finance is also called fixed capital.

Long term debt has initial maturity of more than one year. But typically it has maturity between 5 to 20 years. (Some texts classify debt in the categories on the basis of maturity period. (i) Short term (ii) intermediate term (iii) long term. Debts with maturities between one and five are treated as intermediate source of financing. But this topic strict short term and long term classification. Debts with maturities of one year or less are considered short term and debts with maturities greater than one year are considered long term). Bonds and term loan from financial institutions are two major sources of long term debt financing. The suppliers of debt capital are called creditors or lenders. Usually, they do not have voice in management and cannot exercise control over the company. Since coupon payment or interest rate is fixed, they cannot participate in the residual earning of the company. In liquidation, the bondholders and creditors have prior claim to that of preferred stock holders and common stock holders. The main sources of long term financing are internal sources and long term finance.

The internal sources of long term funds are companies' depreciation charge and retained earning. The depreciation changes are normally used to replace the concerned fixed assets. Retain earning are used to expansion and diversification of the company.

The external sources of long term funds are equity share, preference share, term loan, convertibles, warrants, options, debenture, leasing and hire purchase financing and venture capital financing and some funds are obtained from securities and some from capital market. All the funds are used to expansion and diversification of the company.

2.6 Review of long term versus short term financing

As the manufacturing company both of long term or short term funds is used long term finance is mostly used on fixed assets and infrastructures of the company. But short term finance is used to working capital of the company which is mostly used for daily operation of growth sales. Long term finance obtained from share holders' equity debenture, term loan and other sources but short term finance obtained from secured and un secured collateral creditors like commercial paper, trade credit receivable financing and inventory financing. Short term finance approved only for one years but long term finance for more than one year. Long term finance is used for expansion and diversification of the company and short term finance is used for sales maximization.

Long term financing is used for promotion and expansion of the firm needs established and expansion the firm needs huge amounts of funds so, long term financing was need. But short term financing is used for smooth operation of business. A firms needs daily transaction those transaction needs sufficient working capital. Firms must keep working capital in adequate manner. If the working capital is excess it harmful and if it is inadequate than it is danger for the firm.

Long term finance is used in investment in fixed assets. Any firm runs smoothly where there are sufficient fixed assets. Those fixed assets are purchased by the fixed capital (long term funds). Sometimes, when another firm is purchase at that time long term funds are used for noncurrent assets like good will, patent right. If the firm well managed of short term finance then the firm's reputation and good will are increase. If there is well short term finance then the firm will get easily short term loan, can get certain percent of discount when purchase and paid loan.

Long term funds helps on expansion and modernization of the firm. Demand of the technology, customer's needs makes the firm expansion and modernization. For this firm's need long term funds. Well short term finance increase in moral of management. Current assets refer to those assets which can be converted into cash within one year. For example:- cash, inventories, account receivable marketable securities etc. Current liabilities which are paid within a year. For example:- account payable, bills payable, bank overdraft, outstanding expenses etc.

Short-term financing is fully related with current assets and current liabilities of the firm. But short-term financing is not related with all current assets and current liabilities of a firm. All current assets and current liabilities of a firm are managed by the working capital management. Short- term and working capital are used for short specified period. But both of them are not same.

Current assets investment policy refers to the policy regarding the total amount of current assets to be carried to support the given level of sales. There are three alternative currents investment policies are (i) Relaxed policy (ii) lean and mean policy (iii) moderate policy.

An overview of working capital

Working capital is known as statement of change in working capital. The difference between current assets and current liabilities are known as working capital.

Working capital management is concerned with the management of current assets, current liabilities and the interrelationship that exist between them. Working capital policy involves decisions about a company's current assets and current liabilities. What they consist of? , how they used? And how their mix affects the risk versus return characteristics of the company. The interaction between current assets and management. When firm's increase reputation and good will then there is increase in morale of management.

When there is replacement of old machine there is need of long term funds. Continuous uses of old machine decrease its output and in the market new machine were arriving. So, to purchase new machine are replace the old machine used by the long term funds.

Firms' needs research and should develop new. For this purpose long term funds are used. After a certain time firm should research for different types of problem. When research is end then new things should be developing at that time funds are required. Those funds are fulfilled by the long term funds. Short term financing helps for provision for economic depression and emergencies. When there is well manage of short term funds then economic depression and emergencies makes less loss to the firm.

Flexibility in one of the merits of using the short term sources. Short term financing allows the firm to match its funds against its need over an annual seasonal or cyclical period. A firm doesn't want to use long term debt because when raising the long term debt flotation on cost are generally high and of a firm thinks its need for funds may diminish in near future, it should choose short term debt for the flexibility it provides and lastly short term credit agreements are generally much less provision that the long term loan agreements which constrain the firm's future action.

2.7 An overview of current assets and current liabilities

Current assets refer to those assets which can be converted into cash within one year. For example:- cash, inventories, account receivable marketable securities etc. Current liabilities are those liabilities which are paid within a year. For example:- account payable, bills payable, bank overdraft, outstanding expanses etc.

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Working capital is known as statement of changes in working capital. The difference between current assets and current liabilities are known as working capital.

Working capital management is concerned with the management of current assets, current liabilities and the interrelationship that exist between them. Working capital policy involves decisions about a company's current assets and current liabilities. What they consist of?, How they are used? And how their mix affects the risk versus return characteristics of the company. The interaction between current assets and current liabilities is, therefore, the main theme of the theory of working capital management. There are two concepts of working capital (i) Gross working capital (ii) Net working capital. The term gross working capital, also referred to as working capital, means the total current assets. The term net working capital can be defined in two ways (a) the most common definition of new working capital is the difference between current assets and current liabilities and (b) alternative definition of net working capital is that portion of current assets which is financed with long term funds. Overall working capital policy involves analyzing the joint impact of the working capital investment decision and the working capital financing decision on the firm's risk and profitability.

2.8 An overview of working capital and short term financing

A firm's net working capital position is not only important as on index of liquidity but it is also used as a measured of the firm's risk. Short term financing is used to support a large portion of the firm's current assets such as cash, marketable securities inventories etc. The basic goal of working capital management is to manage the firm's current assets and liabilities in such a way that a satisfactory level of working capital is maintained. The basic goal of short term financing is to select the best method which is less costly.

The term net working capital is often associated with short term financing decision making. The focus of short term financing on net working capital seems to suggest that it is an accounting subject. However money making net working capital decision still relies on cash flow and net present value. Short term financing management is the term now widely used in peace of working capital management. The concept of short term financial management covers all decision of an organization involving cash flows in the short run with emphasis on the management of investment in current assets and their financing.

A firm has to achieve low cost financing by using the short term financing. The interest free sources provide low cost financing for the firm by reducing its borrowing need. For interest bearing sources. By using the short term financing it has to secure additional funds because in some cases, a firm may not be able to issue equity and may be nearing its borrowing capacity from medium or long term funds.

The firm's basic policies regarding target level of each category of current assets and how current assets will be financed. So, first of all the firm has to determine how many funds should be invested in current assets and current liabilities in gross concept. This is manage by the working capital management policy but short term financing is one way support the working different financing policy according to the financial manager's attitude towards the risk return trade off. One of the most important decisions of finance managers is how much current liabilities should be used to finance current assets. Every firm has to find out the different sources of funds so one of them is short term financing.

These decisions involve trade off between risk and profitability. The greater the relative proportion of liquid assets, the lesser the risk of running out of cash all other thing being equal. Profitability, unfortunately, also will be less. The longer the composite maturity schedule of securities used to finance the firm, the lesser the risk of cash insolvency all other things being equal.

Again the profits of the firms are likely to be less. Resolution of the trade off between risk and profitability with respect to these decisions depends upon the risk performance of management.

2.9 Source of short term financing

Various sources of short term financing are available to a firm. Thus source may be grouped as spontaneous and non-spontaneous sources. Spontaneous sources of financing, which arise naturally as a part of doing business, include trade credit and other payables. As the firm's sales increase, accounts payables increase in response to the increased purchased required to produce at higher level. Similarly, in response to increasing sales, the firm's accruals increase as wages and taxes rise due to the greater labor requirements and the increased taxes on the firm's increased earnings. Thus, accounts payables, accruals are spontaneous source of short term financing. The non-spontaneous (negotiated) sources of short term financing must be arranged on a formal basis. Bank loan, commercial papers are major source of negotiated source of short term financing.

Short term financing can also be classified as unsecured and secured sources. Unsecured short term financial mean a firm borrows funds without having pledge and specific assets and other lender depend primarily on cash generating ability of firm to repay the debt. An unsecured source of short term financing is divided into spontaneous and non-spontaneous. Spontaneous sources of financing include those entire sources which are available upon demand or which arise naturally as a part of doing business. As the firm's sales increases accounts payable increase in responses to the increased purchase required to produce at higher levels. Wages and taxes also rise as a result of greater labour requirements and the increased taxes on the increased earnings. There is normally no explicit cost attached to these sources although they do have certain implicit cost.

(i) Trade credit/ account payable:- trade credit is the most important unsecured, non-interest carrying, spontaneous source of short term financing which is common to almost all business. It is inter firm debt arising through credit sales. In credit sales, there may be various types of contracts and instruments:

(1) Open account
(2) Notes payable or promissory note
(3) Trade acceptance (Bill of exchange/ commercial draft)
(4) Bankers' acceptance.

The most common type is the open account arrangement. They include all transactions in which merchandise is purchased but no formal note is signed evidencing the purchaser's liability to the seller. Sometimes promissory notes/ notes payables are employed. The buyer sings a note that evidences a debt to the seller. A trade acceptance is another arrangement by which the seller gets clear commitment from the buyer. Under this arrangement, the seller draws a draft on the buyer, ordering the buyer to pay the draft of some date in the future. The seller will not release the goods until the buyer accepts the time draft. If the customer's credit is for any reason suspected, banker's acceptance can be used. In other words, the seller may ask the customer to arrange for his bank to accept the time draft. In this case, the bank guarantees the customer's debt. These bank acceptances are often used in overseas trade.

Credit term:- The credit term states the payment date cash, credit period, the size of cash discount, the cash discount period and the date the credit period. The credit terms are net 30, 2/10 net 30, 2/10net 30 EOM, 2/10 net 30 MOM.

		Payment dates	
Invoice date	Terms	Cash discount taken	Cash discount forgone
Sept 10	2/10 net 30	Sept 20	Oct 10
Sept 10	2/10 net 30EOM	Oct 10	Oct 30
Sept 10	2/10 net 30 MOM	Sept 25	Oct 15

Cost of trade credit:- there is an implicit cost associated with giving up a cash discount. The cost of giving up a cash discount is the implied rate of interest paid to delay payment of an account payable for an additional number of days.

Accruals and deferred income

Accruals represent short term liabilities for the services that have been provided to the firm but payment has not yet been made. The most common accruals are wages payable and taxes payable. Because business firms generally pay employees on monthly, biweekly or weekly basis, as result, accrued wages are created. Similarly the firm's own estimated income tax, property tax, tax deducted of source, income tax with held from employee payrolls and sales taxes collected are generally paid after specified period. Thus, accrued taxes are created. Since taxes are payments to the government they can't be manipulated by the firm. However, a company can increase the average amount of accrued wage by lengthening the period between paydays.

Accruals tend to rise fall with the level of the firm's level of activity. Accruals represent costless source of short term financing, postponement of payments to employee for longer period may have negative effect on employee's attitude towards the company. Employees may respond wish absenteeism or reduce efficiency or they may seek employment elsewhere. So, a company must be careful in postponing wages.

Deterred income represents funds received by the firm for goods and service which it has agreed to supply in future. These receipts increase the firm's liquidity in the form of cash; therefore they constitute a source of short term funds. Advance payments made by customers are primary source of deferred income. These payments are not recorded as revenue until delivery of goods and services to the customers. They are, therefore, shown as a liability in the firm's balance sheet and called deferred income.

2.9.1 Non-spontaneous

Non spontaneous sources are also called negotiated sources. The negotiated sources of short term financing must be arranged on a formal basis. Bank loan, commercial papers are major sources of negotiated source of short term financing.

Bank loans

One of major sources of obtaining unsecured short term fund is bank loan. Bank loans are more popular because they are available to firms of all sizes. Commercial banks provide unsecured short term credit in three basic forms. They are (i) line of credit (ii) revolving credit (iii) transaction loans. Maturities of all types of loan are normally one year or less but sometimes revolving credit management can be for a period of more than one year. Interest rates of bank loans depend on the credit worthiness of the borrower and the level of interest rates in the economy as a whole.

(i) Line of credit: - A line of credit is generally an informal agreement or understanding between borrower and the bank as to the maximum amount of credit that the bank will provide the borrower at any one time. The bank dose not have a legal commitment to supply the funds when the firm requests them but banks tend to feel a moral obligation to do so. It is possible for a firm to borrow more than the amount of its line of credit but at no time can be loan balance exceeded the line of credit. Line of credit usually requires that the borrower maintain a minimum balance in the bank throughout the loan, which increases the period, called a compensating balance.

(ii) Revolving credit agreement:- A revolving credit agreement is a legal commitment by a bank to extend credit up to the maximum amount. It is nothing more than a guaranteed line of credit. Since the bank guarantees the availability of funds to the borrower a commitment fee is normally charged on a revolving credit agreement. Two types of costs are associated with line of credit and revolving credit with line of credit and revolving credit arrangement (a) explicit cost which interest rate prime rate plus premium. (b) Implicit cost which occurs due to discount interest, compensating balance, commitment fees etc.

(iii) Transaction loans/ single payment notes:-borrowing under a line of credit or under a revolving credit arrangement is not suitable when the firms needs short term funds for only one purpose. A commercial bank will lend a strong business customer a lump sum repayable with interest in a single payment and a month specified maturity usually 30 days to 9 months or more. A note is a legal instrument that is signed evidencing the debt. Transaction loan may have fixed or floating interest rate and payment of interest may be in discount collect or add on basis.

Commercial paper

Commercial paper consists of short term, unsecured promissory notes issued by firms that have a high credit rating. Generally only few quit large reputed firms with the greatest financial strength quality to issue commercial paper. Although there is no set denomination commercial paper is generally issued in multiple of Rs 1,00,000 or more and having an interest rate some what below the prime rate. Most commercial paper has maturities ranging from a few days up to 270 days. New issues of commercial paper are either placed directly or dealer placed. Dealer placement involves the use of a commercial paper dealer, who sells the issue for the issuing firm. Interest is charged on face value of the commercial paper. Generally, interest is discounted. Another cost associated with commercial paper is flotation cost, which may includes fees, charge, commission (issuing cost) etc.

2.9.2 Secured short term financing

A secured loan occurs when the borrower pledges a specific asset, called collateral to bank a loan. The collateral may be security, receivable a physical assets. The lender is given a claim to the collateral through the signing of an agreement that may be filed in a public office, normally a country or state agency. This security arrangement spells out the terms of the loan, the assets pledged as collateral and provision affecting the safe guarding of the collateral. By filing the security agreement the borrower is legally establishing the lender's first claim on these assets in the event of default. The filling also places prospective lender on notice that certain asset are not available to beak additional looks.

Many firms cannot obtain credit on an unsecured basis, either because they are new and unproven or because bankers do not highly regard the firm in ability to service debt. In order to make a loan, lenders require security that will reduce their risk for loss. With security, lenders have two sourced of loan payment, the cash flow ability of the firm to service the debt and if that source fair for some reason, the collateral value of the security. Most lenders will not make a loan unless the firm has sufficient expected cash flows to make proper servicing of debt probable. To reduce their risk further, lenders require security.

The secured lending arrangement are most costly to administer that unsecured loan and that the incremental cost in passed on the borrower in the form of fees and higher interest cost tan should otherwise be the case, because the market for loans is a competitive one. If unsecured credit is available some where as less total cost one can be sure that a borrower will go there to get it. Beyond a point in risk, however all lender in the market will want some type of safeguard is addition to the general credit standing of the company. This safeguard can come and the form of security or a set of protection covenants that afford the lender the ability to take corrective step prior to maturity if the borrower financial condition should deteriorate.

Account receivable financing

Account receivables represent money owed to a business by the individuals or firms to which is has extended credit. It is one of the most liquid assets of the firm, which can be used as security/ collateral for a short term loan. Two basic procedures can be used in arranging for financing based on receivables. They are pledging of receivable and the selling of receivable (factoring).

Pledging accounts receivable:- Under the pledging arrangement the borrower simply pledges accounts receivable as collateral for a loan obtained from either a commercial bank or a finance company. Generally a lender advances between 50% to 80% of their face value. Limit of advance amount depends on the quality of the receivable. A receivable pledging can be on either a non-notification or a notification basis. Under the non-notification basis customers of the firm are not notified that their accounts have been pledge to the lender. If a pledge of accounts receivable is made on a notification basis, the customer is notified to remit payment directly to the lender. This arrangement is safer from the point of view of the lender. Accounts receivable loans generally carry explicit interest rate that is 2 to 5 percent higher than the bank prime rate. Commercial finance companies may charge on even higher rate. In addition to the stated interest rate a service fee up to 3% may be charged.

Factoring accounts receivable:- Factoring accounts receivable involves the outright sale of firms accounts to a financial in situation called a factor. A factor is a financial institution that purchases accounts receivable from business. Factoring is normally done on a notification basis and non-recourse basis. This means the factor receives payment directly from the customer and he also agrees to accept all credit risks; if purchased accounts turn out to be uncollectible, the factor must absorbs the loss. However, sometimes-factoring agreements made with resources. Factoring cost includes commission, interest charged on advances. Factoring commissions are payments to the factor for the administration costs, cost of credit checking and collection as well as for the risk. Commission generally 1 to 3 percent discount from the face value of factored accounts receivables. Interest charged on advances is 2 to 4 percent above the prime rate and typically paid in advance.

Inventory financing

Inventories are commonly used as collateral for short term loans from financial institution. Firms hold three types of inventories: raw materials, work-in-process and finished goods. However, only raw materials and finished goods represent reason reasonably liquid assets and are there fore suitable as collateral for short term loan. The amount of the loan that can be obtained depends on both the marketability and durability of the inventory. Highly marketable and durable goods are good for collateral and relatively larger amount of loan can be obtained using these goods as collateral. There are several methods by which inventory can be used for secured short term financing. They are as follows:

1 Blanket or floating lien agreement
2 Chattel mortgage agreement
3 Trust receipt loan or flooring planning
4 Warehouse receipt loan

a) Field warehouse loan
b) Terminal warehouse loan

1. Blanket or floating agreement: Under floating lien agreement the borrower gives the lender a lien against all its inventories. The borrowing firm maintains full control of the inventories and is allowed to use (or sell) the inventory collateral. So, a lender may be willing to secure a loan with inventory under a floating lien if the firm has a stable of inventory that consists of a diversified group of merchandise and that generally advances less than 50% of book value of the average inventory.

2. Chattel mortgage agreement: Under a chattel mortgage agreement the inventory is identified especially by serial number or by some other means. The borrower retains title to the inventory but can not sell the items without the lender's consent.

3. Trust receipt loan or flooring planning: a trust receipt loan is secured by specific and easily identified. Collateral that remains in the control or physical possession of the borrower. This type of lending arrangement is known as floor planning and is often used in financing automobile dealers, farm and industrial equipment dealers and seller of customer durable goods. The borrower is free to sell the merchandise but is trusted to remit the required amount lent against each item along with accrued interest to the lender. Commission is charged on advance but if there is instruction it may be charged on face value.

4. Warehouse receipt loan: A warehouse receipt loan is a form of short term financing that is secured by a pledge of inventory controlled by the lender or third party. The lender, which may be a commercial bank, financial company, selects the inventory that is accepted as collateral for the loan. Two types of warehousing arrangement are in practice.

a) Field warehouse loan: under field warehouse arrangement, the lender hires a field warehousing company to set up a warehouse on the borrower's warehouse. The pledged goods are isolated from other inventory and placed in the possession of a guard or warehouse man who is not allowed to release the goods without authorization from the lender.

b) Terminal warehouse loan: It involves transporting the inventories pledged as collateral to a public or terminal warehouse that is physically removed from the borrower's premises. The warehouse company issues a warehouse receipt, which evidences title to specified goods that are located in the warehouse. A terminal are house is normally used by the lender when the inventory is easily and in expensively transportable. The lender has a high degree of safety or security because the inventory is totally removed from the borrowers' control. But the cost of this type of arrangement is increased because the borrower has to pay warehousing charge and transportation expenses.

2.10 Review of literature

The review of literature is a crucial aspect of planning of the study. The main purpose of the literature review is to find our works have been done in the area of the research problem under study and what not been in the field of the research study being under taken. As far as possible most of the studies and the theoretical and conceptual perspectives available in this respect in Nepal have been reviewed. In this context different books reports and journals, research studies published institutions and some thesis submitted by master level students has been reviewed.

2.10.1 Review of articles/journals

Articles, books, journal, bulletins and news are of great significances for the thesis writing. So, various articles published books, newspaper and bulletins. There published articles are relating to short term financing with respect to trade credit receivable financing and inventory financing management. The study is only related to short term financing with respect to trade credit, receivable financing and inventory financing but these are the part of working capital management and cash management thus both working capital and cash management are also considered which are presented below.

In the Nepalese contest, trade credit, receivable financing and inventory financing has very signification for country's business. Kantipur reporter in an article "Surakchhit karabar addyadas aaune". (kantipur; Bhadra 22, 2062 B.S.). The Nepalese government made ready for Surakchhit Karobar regulation for to make effective transaction with consumer and purchases. The regulations main objective is to make effective of debts collateral against current assets/movable assets. Loan borrowers and proprietor, both are benefited by Surakchhit Karobar regulation. They can borrow loan against the ownership of movable/current assets, but the low has no, effect on fixed assets.

After low, inventories and agricultural products are also priority against reward loans. Surakchhit Karobar programme was organized by Nepal chamber of commerce. There were participated by president of law reform commission; manager of Asian Development Bank, president of chamber of commerce and other businessman. The main aspect of this regulation to stop one asset put in two and more the two places against the collateral when borrow loan or funding. This is time change of trend of world trade structure. This regulation is very suitable for Nepal its make easy to operate security deposit, pledging stamen and other boundary of collateral of funding.

Himalayan news services:- Write in an article "NIC banks new scheme". NIC bank introduces the new scheme in loan against the current assets. The Nic bank lunching of NIC small business loan is a move to boost and support small business units. The new scheme is a simple and cost effective tool to cater to the financing needs of a wide range of small and medium business enterprises. The new scheme is brought to address the need to made credit access to the needy business persons. Generally don't have easy access to finance and even available cumbersome procedures, lengthy paper work and high cost of finance are believed to be major deterrents. The feature of NIC small business loan, the bank could loan from RS.0.5 million to 10 million and interest rates minimum of 8.99% per annum under the scheme. The repayment criteria have been fixed on monthly basis over six years, there is an overdraft facility, so that surplus funds can be deposited and withdrawn any time, resulting in saving on interest and flexibility of account operations. Business enterprises have posted profit for two on seductive years eligible for the loan.

No doubt every industry enterprise need sufficient amount of capital to run its activities smoothly. In absence of sufficient capital industrial enterprises are compelled to hold up may of their profit propensities. In view of different industrial enterprise capital they have different status regarding production, employment, wages and even the profit, large industrial enterprises with few capital and small enterprises with huge capital both are the single boat on ocean (A.B. James. “Finance of small and Big Business”, The Baker Magazine

- Most of the selected enterprises haven been achieving a trade off between risks and return there by following neither on aggressive nor a conservative approach. Almost all the selected companies have a positive net working capital.
- When quick asset are compared with current liabilities, it is revealed that the former are in sufficient to cover current liabilities on many occasions.
- The Nepalese manufacturing public enterprise have on average half of their total assets in the form of current assets.

In Nepalese context, it isn’t known to what extent short term financing has been used and what are their different forms. Hence this study attempts to find out the use of short term financing on Nepalese context.

2.10.1 Review of thesis

Master degree thesis has been review related to this study.

Kalpana Poudel study on “Predicting Power of the Ratio of Nepalese manufacturing enterprises” Kalpana Poudel, “The predictive Power of the ratio of Nepalese MPES (T.U. Kritipur 1991) pp 1-110 was conducted for period 6 yrs from 2039/40 to 2044/45 of manufacturing enterprise. This study has shown that the average short term debt to total capitalization ratio of loss making manufacturing enterprise excluding the Raghupati Jute Mills is 4.41 times where as profit making MPES is 0.45 times which indicate that profit making MPES have used more short term debt than loss making MPES group.

From the review of above mentioned research work, it is clear that only few researches have been done on short term financing of manufacturing companies. The past study on short term financing cover the period up to 1993. After this period many manufacturing companies are liquidated, many manufacturing public enterprise were privatized during the 9th plan and many had already been established. The past study also shows that the researcher hadn’t used statistical tool to compare current liabilities with other financial variables. So this study on short term financing of selected manufacturing companies is quite different from previous research work which include date after period 1993 to 1999 and different statistical tools also has been used.

2.11 Research gap

In the concern of short term financing under trade credit, account receivable financing and inventory financing there are no any researcher till yet. All the researcher or student studies on only working capital management. All researcher study different patent based on working capital like relation between liquidity and profitability position, relation between total assets to current assets cash and receivable management. Mainly students focused on the components of working capital such as cash, inventory, receivable and current liabilities and its utilization, solvency, liquidity and profitability position. This study has completely different objective than those studied one, the main objective of this study is short term financing with respect to trade credit, receivable financing and inventory financing and its relationship much cost effective on its operation and utilization ratios between trade credit, receivable financing and inventory financing and utilization trend in Nepalese business organizations.

CHAPTER THREE

Research Methodology

3.1 Introduction

This chapter deals with the research methodology adopted for the present study on short term financing adopted by manufacturing companies. The basic objective of this study is to interpret and examine the present practices of short term financing and its effectiveness in Nepalese manufacturing enterprises. It needs an appropriate research methodology. The main objective of research methodology is to achieve the basic objective and goals of the research study. In order to conduct this study, descriptive cum analytical research design has been adopted. Howe ever, descriptive research design has been utilized mainly for conceptualization of the problem whilst analytical research design has been followed to analyze the functional relationship between short term financing and its various determinants.

It is widely accepted that research in simply the process of arriving at dependable solution to problem through the planned and systematic collection, analysis and interpretation of data. It is most important tax advancement of knowledge and accomplishment of process. Thus the research methodology is the plan, structure and strategy of investigation to obtain the objective of research and solve the research objective. Research methodology refers to the various sequential steps along with a relational. On each such steps, to be adopted by a researcher in studying a problem with certain objective in view. In other word research methodology describe the method and process applied in the entire aspect of the study.

Research has different objectives the research is complete at that time when the main aspects of research are out come. So, the main objective of this research is to analyze, examine compete and finding. Financial performance of Janak Educational Material Ltd. and recommend suggestion to make strong financial position. Therefore the main purpose is to analyze and fulfill the objectives of the study. Research methodologies refer to the various sequential steps to systematically analyze on study and easy to makes decisions. Hence in this chapter focus on research design, population sample, nature and source of data, data collection method, data processing, limitation of the methodology, level of confidence.

3.2 Research design

Research design in the main part of the thesis on any research work to achieve has general objective of the research. The research has collected data and information relating to short term financing of Nepalese manufacturing company on the basis of financial statement and other available data. Attempt has been made to investigate the level of short term financing with the help of analytical tools. Literature on short term financing has been reviewed to acquire theoretical basis and recent approach to short term financing.

The research design of this study is both of exploratory as well as analytical type. The resent work is mainly related with the quantitative plans and account of Janak Education Material ltd. So, analytical approach ahs been considerable adapted to presents the data but the alternative aspects of the dissertation of short term financing in Janak Education Material ltd. This study is an examination and evaluation of short term fund utilization, threat, and their capacity utilization and to evaluate production.

3.3 Population sample

Population mean wholly or totality of observation that have selected for study. Sample is a part of population, which represents population with regard to the study. Now a day a number of manufacturing companies have been rapidly emerging day by day some are established some are in progress of establishment currently, over thousands manufacturing companies are in Nepal. In Nepal, there are many joint venture manufacturing companies involving in education related products.

The selection of samples is done by judgment sampling. The manufacturing company in Nepal is grouped in different industry group. There are 15 industries group according to type of industries. The samples are so selected so that they represent different industry group. Two selected industry represent food manufacturing, one is manufacturing of electrical, industrial machinery apparatus, appliance one is under manufacturing of textile and the other are under manufacturing of chemical product. Beside this other things are also taken is consideration, as all manufacturing companies doesn't provide, the information because some of them are established just few years. Now, some are operating just while established in many years ago and many listed companies are already liquidated. And those companies are selected which provides 5 years regular data and quantitative information available in Nepal stock exchange.

3.4 Nature and sources of data

On the study period it is needed to decided which method is significant for data collection either primary data collection method or secondary data collection method or secondary data collection method. Data collection method depends on characteristic of objectives of study, quality of data, available time and sources of economy, nature, scope of study and researcher's situation. Normally researcher use secondary data but when secondary data can't conclude or met the objective of study, at that time primary data has to be used. Some time both methods have to be uses. Secondary data gather easily. So it is mostly used on research but most reliable and qualitative data is primary data collection method.

Primary data collection: - direct observation and own feelings and self concierge for data collection for primary data collection. For this method, researcher has to visit the spot and observe the whole subjective portion and collect the perfect needed and he is not using questionnaire. Here the researcher is using the own intelligence for collecting data to observe situation and habit of data in spite of questionnaire.

Secondary data:- although this data based on primary data but all the data are based on annul report because annual report is that report which made by reputed auditor organization. All data collection from Janak Education Material ltd's five years annual report, which is yearly broadcast by Janak Education material ltd.

3.5 Data collection method

This study is based mainly on the secondary sources of data. The information taken from the individual company. There are two types of data collection method they are

a) Observation method
b) Interviews method

a) Observation method:- direct observation method is famous for primary data collection. In this method researcher has to visit the sport and observation about whole subject portion and collect the perfect needed data. They shouldn't use questionnaire. They have to use their own feelings and self concierge for data collection are researcher have to use their own intelligences for collections data to observe situation and habit of data in spite of questionnaire. The collected data are collection from observation of all trade credit, receivable financing trend, and utilization of receivable and inventory financing system which from raw data.

b) Interview method:- some time specific causes makes impossible for direct observation method of data collection. For this situation the researcher has to use interview method, which is suitable for data collection. In this method researcher keep in touch with that person who is directly related to particular subject and take interview with them for data collection. Selection of visible person is most significant like people expert on related subject, who can give correct answer of related questions and who aren't aggressive. In this study, interview method is used because sometimes business organization uses different business words on different place which makes perplexity on data collection. Janak Education Material ltd. has excellent management and there are professional officer who use vast business word on difference place. This method makes a clear vision on data collection and its concept and also provides reliable data for analysis.

3.6 Data processing

This study mainly based on secondary data. Thus, after collection of financial report of the company and necessary supporting data were extracted and tabulated as per to meet the objective of the study. In order to processing the data, financial report and other information were reviewed. These data were grouped in different table on the basis of nature of financing.

A detail review related research was also conducted to collect relevant information. In this regard the literature available in the center library of T.U. was also conducted. After collection of data, they are refining in the form of tables and then necessary items. Out of many have been picked up for analysis and interpretation. Primary data and were collected through interview and questionnaire with the manufacturing enterprises in many necessary aspects.

3.7 Data analysis tools

Analyses are used by two method quantitative and qualitative method. Data analysis method is used by quantitative method. Quality analyses are related to the output's performance. But quantitative is related to the number of output. Quantitative method of analysis by using financial and statistical tools.

Qualitative method: A list of question will be asked to fill out in paper to the key person of the sample companies answer received there up on will be analyzed. Period interview will be taken with the key person of sample companies to drawn out their reaction and for improvement.

Quantitative method of analysis: Under this financial and statistical tools are used to analyze the effective of short term financing.

1) Financial tools

Various financial method used to analysis the effectiveness of short term financing of manufacturing company ratio analysis, funds flow analysis, cash conversion cycle, company have been used as financial method.

i) Working Capital: The net working capital is the excess of current assets over current liabilities. Net working capital, as it is closely related to the operating cycle of the business. The net working capital is thought as a pool of funds to be used in the smooth operation of the business. However, there are two concept of working capital, i.e. gross concept and net concept. The gross concept of working capital means the firm's total investing in its current assets. In its net concept, working capital is the difference between firm's current assets and current liabilities.

Working capital = Current Assets – Current Liabilities.

For the determination of increase or decrease in the working capital, the following rules are applied:

- Increase in current assets causes an increase in working capital,
- Decrease in current assets causes decrease in working capital,
- Increase in current liabilities causes decrease in working capital,
- Decrease in current liabilities causes increase in working capital.

ii) Ratio analysis: In order to make decisions in keeping with the objectives of the company and its financial liability an analysis is under taken by every interested party such as creditors, investors and also by the company itself. Such analysis various according to the specific interest of party involved.

Ratio analysis is a widely used tool of financial analysis. It can be used to compare the risk and return relationship of firms of different sizes. It is defined as the financial statements so, that the strengths and weakness of a firm as well as its historical performance and current financial condition can be determined. The term ratio refers to the numerical or quantitative relationship between two or more than two variables. The relation can be expressed as follows: percentage, fraction, proportion of number.

The relationship between two accounting figures expressed automatically. The significant of financial ratio analysis may be view in different ways. For example a trade creditor is interested in the liquidity of the firm because his claim is short term and the ability of a firm to pay the claim is best judged by mean of a trough analysis of its liquidity. Similarly, a shareholder might concentrate his analysis on the profit ability of the firm because he is concerned principally with the earning of the firm and its stability about a trend management also employs financial analysis for purpose of internal control.

a) Liquidity ratio: Liquidity ratio is the ability of an asset to be converted to cash quickly at low cost ratios that show the relationship of a firm's cash and other current assets to its current liabilities. The purpose of this ratio is to test the solvency position for the payment of short term liabilities. Solvency position or liquidity denotes ability for payment of short term liabilities.

b) Current ratio: The current ratio measures the extent to which the claims of short term creditors are covered by short term assets. This ratio is calculated by dividing current assets by current liabilities. Current assets are viewed as relatively liquid, which means they can generate cash in a relatively short time period. If the current ratio is too low, the firm may have difficulty in meeting short run commitments as they mature. If the ratio is too high, the firm may have an excessive investment in current assets or be underutilizing short term credit.

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

Less or more than standard ratio is not preferable. If it is less than standard ratio shows the solvency position is not better and vice versa. Generally a current ratio of 2:1 is considered satisfactory. A poor current ratio may imply that only one or that several of the specification current assets and liabilities are at an undesirable level.

c) Quick/liquid/Acid test ratio: the purpose of this ratio is to test the ability of the firm for immediate payment of current liabilities. This ratio calculated by deducting inventories from current assets and dividing the remainder by current liabilities. Inventories are excluded because it may be difficult to liquidate then at their full book value.

$$\text{Quick ratio} = \frac{\text{Current assets -inventories}}{\text{current liabilities}}$$

$$\text{Or} = \frac{\text{Quick assets}}{\text{current liabilities}}$$

More or less than standard ratio isn't favorable for a company. Generally quick ratio of 1:1 is considered satisfactory as a firm can easily meet all current liabilities.

d) Debtors to short term financing: This is calculated by dividing debtors by short term financing.

$$\text{Debtors to short term financing} = \frac{\text{Debtors}}{\text{short term financing}}$$

e) Cash to short term financing: This is calculated by dividing cash by short term financing.

$$\text{Cash to short term financing} = \frac{\text{Cash}}{\text{short term financing}}$$

f) Inventory to short term financing: this is calculated by dividing inventories by short term financing.

$$\text{Inventory to short term financing} = \frac{\text{Inventories}}{\text{short term financing}}$$

iii) Cash conversion cycle: cash conversion cycle is one of the major financial tools. This cycle shows how much of fine does the cash generally collected by the firm cash conversion cycle is calculated by the following formula
= inventory conversion period + receivable conversion period – payable conversion period.

a) Inventory conversion period: this period indicates the efficiently of the firm is selling its product inventory turnover is calculated by dividing. The cost of goods sold by average inventory and inventory conversion period is calculated by dividing the number of days in a year by inventory turnover.

$$\text{Inventory turnover} = \frac{\text{Cost of goods sold}}{\text{average inventory}} \quad \text{Or} \quad \frac{360}{\text{inventory turnover}}$$

$$\text{Inventory conversion period} = \frac{\text{Average inventory}}{\text{cost of goods sold}} * 360$$

iv) Receivable conversion period: it indicates the number of day's debtor turnover cash yearly. It is calculated by dividing total sales the year-ended balance of debtor. Receivable conversion period is calculated by dividing the number of days in a year by receivable.

$$\text{Receivable turnover} = \frac{\text{Sales}}{\text{debtors}}$$

$$\text{Receivable conversion period} = \frac{360}{\text{receivable turnover}} \quad \text{Or} \quad \frac{\text{debtor/ receivable}}{\text{sales}} * 360$$

v) Payable conversion period: payable conversion period is calculated by dividing the sum of account payable and outstanding expenses by the sum of cost of goods sold and general expenses and multiply by the number of days in a year.

$$\text{Payable conversion period} = \frac{\text{Average payable + outstanding expenses}}{\text{cost of goods + general expenses}} * 360$$

$$\text{Or } \frac{\text{360 expenses sold}}{\text{Cost of goods sold of general average period + outstanding expenses}}$$

2) Statistical tools

The relationship between different variables related to study on the measuring the effectiveness of short term financing in Nepalese manufacturing companies will be drawn out listing statistical tools.

a) Listed square method: Data are taken for 2004 to 2009 but whenever aren't available is determined or forecasted by the help of least square method.

b) Cross section analysis: This method is used to determine the position of the company among the selected companies. Each annual figure will be compared with yearly average carried out summing up figure of earn company and dividing by number of year.

i) Correlation and regression analysis: Correlation analysis is the statistical tool that we can use to describe the degree to which are one variable is linearly related to other variables. Two are more variables are said to be correlated if change in the value of one variable appears to be related or linked with the change in the other variables. Correlation is an analysis of the covariance between two or more variables and correlation analysis deals to determine the degree of relationship between two or more variables.

Correlation says just degree of relationship between two or more variables. It doesn't tell us anything about cause and effect relationship i.e. there is a high degree of correlation between two variables we can't say which the cause is and which the effect is. Correlation doesn't necessarily imply causation while causation always implies correlation. In correlation analysis, only one variable is treated as dependent and one or more variables are treated as independent.

ii) Hypothesis: A quantitative statement about the population parameter is called hypothesis. It is an assumption that is made about the population parameter and then its validity is tested. It may or may not be found valid on verification. The act of verification involves testing the validity of such assumption which, when undertaken on the basis of sample validity of such assumption which, when undertaken on the basis of sample evidence, is called statistical hypothesis or testing of hypothesis or test of significance. A procedure to assess the significance of a statistic or difference between two independent statistics is known as test of significance.

The main goal of testing of hypothesis is to test the characteristic of hypothesized population parameter based on sample information whether the difference between the population parameter and sample statistic is significant or not. Two complementary hypotheses are set up at one time. If one of the hypotheses is accepted, then the other hypothesis is rejected and vice versa. The two complementary hypotheses that are set up in the testing if hypothesis are the null hypothesis and the alternative hypothesis.

iii) Standard deviation and variance: Financial analysis and statisticians prefer to use a quantitative risk measure called the variance of return [var (r)] and standard deviation (σ) pronounced "sigma square" standard and deviation is variance i.e. standard deviation σ^2= variance [var (r)]. It is a statistical measure of the variability of a set of observations. It is the measure of total risk. The smaller the variance, the lower the riskiness and vice versa. So, the standard deviation and the variance are equally acceptable and conceptually equivalent quantitative measure of an as set's total risk.

Standard deviation is an absolute measure of variability; it is generally not suitable for comparing investment with different expected returns. In general, when comparing two equal sized investments, the standard deviation is an appropriate measure of total risk.

Several financial as well as statistical tools have been used to provide details about the results, recommendations and conclusion of our research. Similarly, graphical and figurative presentations were also used in order to clarify and analyze our findings.

3.8 Limitation of methodology

Every method or statistical tools has its own rules, regulation for the analysis of data so there is certain limitations. Most of available data's variable doesn't match with particular tools due to difference between technical word, business word and theoretical word. In other words, merge of financial statement and statically are very vast for analysis. So, the conclusion based on the available financial statements statically relations might not be correct in reality.

3.9 Level of confidence

All data were based on its yearly reports and some data obtained from its related person so the data's level is 95% of confidence either the data will be 5% higher and 5% lower confidence. The confidence of analysis will have some decisions which could not meet the objective due to communication gaps, misunderstanding of technical words or difference between theoretical words and practical words and its duration of provision period.

CHAPTER FOUR

Presentation and analysis of data

4.1 Introduction

This chapter deals with analysis and interprets a relation between relevant data of collection from Janak Education Material Center ltd for the data back of five years since fiscal year 2059/60 to F.Y.2063/64. This chapter is divided into different sections. First section deals with relation between JEMC and its client, company, banks and financial intuitions, section deals with presentation of collective data. Shows analytical finding of all result.

JEMC has a good relation with client company and banks. When JEMC operates business, JEMC keeps in touch with many other client companies. In this period the company has many relations as suppliers, customers and other. For the JEMC purchases many raw materials with client company. Some times JEMC purchases on cash and some times purchases on credit. And JEMC produces many products and sales them. JEMC may sale on cash or on credit and other remaining products are kept on the store as inventory. Therefore JEMC has different relationship between creditors and debtors. When company purchases goods from suppliers or creditors on credit, trade credit is to be made and when the company sale on credit, debtors or receivable is to be made. To solve the problems of short term funds JEMC can use these resources. JEMC can utilize three types of resources for solving the problems of needed funds. They are trade credit, receivable financing and inventory financing.

JEMC is a manufacture different branded product and sale them nationally. In this case, they need more manufacturing materials, so they purchases raw material, packing materials, stores and spares, stock in process, finished goods and other required materials either cash or credit. When the JEMC purchases on credit, then trade credit is to be made. They have to keep relationship of account payable and past record of payment with respect to client company when the JEMC open L/C and purchases on credit, as a source of short term financing. Client company provides certain period without discount but some time JEMC arrange the trade credit and releases the cash by bank and financial institutions.

JEMC dose not only sale on cash, but also on credit. When JEMC sales on credit, the funds are stop for certain period, but the company want to be in liquid foams. So JEMC arrange the loan from banks against the receivable security and bill discount from the banks. Receivable as a source of working capital financing is that a bill arises out from trade sales purchases transaction on credit.

The major problems of the manufacturing enterprises are their controversial objectives in preparing all implementing of short term financing. Short term financing have various problem to prepare functional budget such as communication, co-ordination, lack of efficient management. Poorer policy, etc. in this research various sort of data are presented and analyzed.

4.2 SWOT Analysis

SWOT is a good management a tool for a manager, like a thermometer and a stethoscope is for a doctor. Needs an objective mind and good genuine friend who can help do organization's SWOT analysis quarterly. And the key to success knows by management.

Strength:- Strength is an inherent capacity which marketing can use to gain strategic advantage over its competitors. So concentrate on the strength.

Weakness:- Weakness is an inherent limitation which creates a strategic disadvantage for marketing in relation to competitors. So recognize the weaknesses.

These are located within the organization. It is controllable by the organization. Micro environment consists of conditions and forces within the organization that affect the performance and out comes.

Opportunity:- Opportunity is a favorable condition in the environment. It enables an organization to consolidate and strength then its position so, evaluate the opportunity.

Threat:- Threat is an unfavorable condition in the environment. It creates risk or causes damage to marketing. So, research the threats.

These are located beyond the organization. It cannot be controlled by marketing. Macro environment consists of external conditions and forces that influence the performance and out comes of marketing. It greatly influences the marketing and is also influenced by marketing.

Strengths enable organizations to put organization’s best foot forward. Weakness? Who does not have them? Only when organization recognizes them managers can do something to correct them. Opportunities are aplenty even in adversely. Only, one has to evaluate them for what they are. And threats are like ticking time bombs: defuse them by anticipating and taking preventive actions.

4.3 Analysis of working capital

Net working capital is excess of current assets, over current liabilities, the increase or decrease in the net working capital can be found out by comparing the current assets and current liabilities contained in the balance sheet of different following dates. For this purpose, a statement is prepared which is called statement or schedule of change in net working capital. This statement helps to indentify the change (increase/decrease) in position of the working capital. As increase in net working capital is a use of funds and decrease in net working capital is s source. Increase in current assets, increase in net working capital (⇑NWC= ⇑CA-CL). Decrease in current assets, decrease in net working capital (⇓NWC= ⇓CA-CL) and vise versa.

Schedule change in working capital

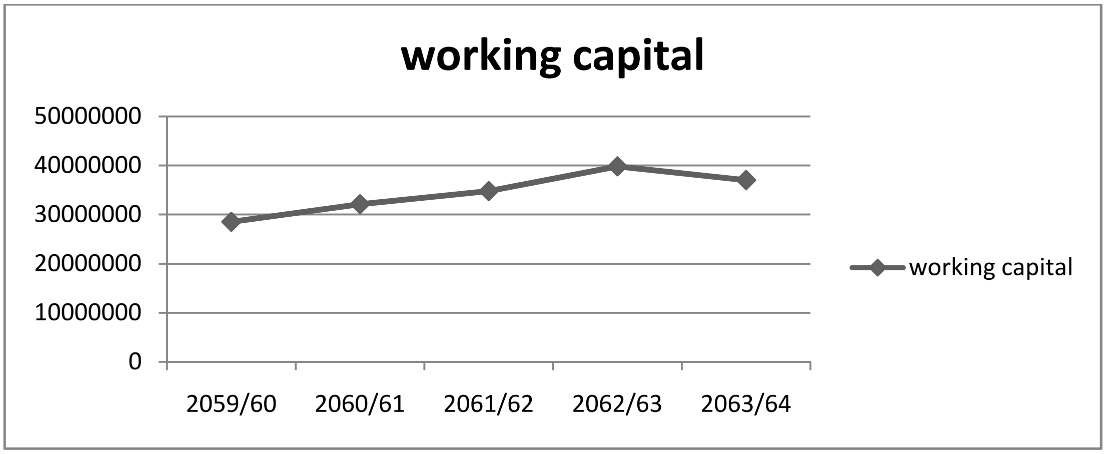
Sources: Annual report of Janak Education Material Center ltd. for the five year fiscal year.

Particular	2059/60	2060/61	2061/62	2062/63	2063/64
Current Assets					
Closing stock	270672787.91	177201638.08	212015546.14	226219462.81	230039557.2
Debtors	137282017.35	187190000.88	53410569.92	36295518.33	39572373.76
Investment	100000.00	100000.00	100000.00	100000.00	100000.00
Cash & bank	7588863.07	4918306.67	10696727.45	117893701.27	772343377.01
Production funds	2500000.00			57200000.00	63035725.17
Bills receivable	5464418.03	3535618.40	236593648.71	25590776.21	3218205.20
Advance/ prepaid	22855498.67	27199331.33	24007517.48	37833284.77	53127951.00
Total CA	446463585.03	419644895.36	569024009.70	501132834.39	466328189.34
Total CL	161511179.33	98899062.98	221293692.54	403134629.66	96171064.65
Working capital	284952405.7	320745832.38	347730317.16	397998204.73	370157124.69

All the fiscal year there is increase in net working capital.

The financial transactions which increase current assets or decrease current liabilities with corresponding decrease in fixed assets or increase in long-term liabilities and capital create inflow or increase in funds or networking capital. The transactions which decrease current assets or increase current liabilities with corresponding increase in fixed assets or decrease in long-term liabilities and capital cause outflow or decrease in funds or net working capital. So, the all the fiscal year according to data there is increase in working capital. Increase in working capital means generally reduce profitability as well as reduce the risk of financial difficulties.

This is shown on line chart



From the above diagram Y-axis denotes working capital and X-axis denotes the fiscal year. First four fiscal years there is less increased and last year decreased.

According to the given data 1^{st} three year working capital is increase and last year working capital is decreased that if working capital increase then increase in current assets and decrease in current liabilities.

4.4 Liquidity ratio

Liquidity represents one ability to pay its current obligations or short term debts within a period less than a year liquidity ratio, therefore a company's liquidity position. The ratios are important from the view point of its creditors as well as management. The liquidity can be measured from stock turnover and debtors' turnover ratio too. The liquidity position of the company can be measured mainly by using two liquidity ratios such as follows:

a) Current ratio

b) Quick ratio

a) Current ratio:- Current ratio is also know as short term solvency ratio or working capital ratio. This ratio is used to assess the short term financing position of the business. In other words it is an indicator of the firm's ability to meet its short term obligations. This ratio is computed by dividing the current assets by the current liabilities. It is usually expressed as a pure ratio.

Higher current ratio means the better liquidity position. For many types of as an adequate ratio i.e. 2:1 is assumed as an adequate ratio. If the current ratio of the firm is less than standard ratio it refers the firm has difficulty in meeting its current obligation if the current ratio is more than standard ratio the company may have an excessive investment in current assets that do not produce satisfied return. This ratio may be expressed by using following formula.

$$\text{Current ratio} = \frac{\text{Current assets (CA)}}{\text{Current liabilities (CL)}} \text{ times}$$

For 2059/60 $= \frac{446463585.03}{161511179.33} = 2.76$ times

For 2060/61 $= \frac{419644895.36}{98899062.98} = 4.24$ times

For 2061/62 $= \frac{569024009.7}{221293692.54} = 2.57$ times

For 2062/63 $= \frac{501132834.39}{103134629.66} = 4.85$ times

For 2063/64 $= \frac{466328189.34}{96171064.65} = 4.85$ times

This ratio indicates that the firm meets the short term obligation. Here the entire ratios are greater than 2 times. So it meets the short term obligation i.e. current assets is more than double of current liabilities. According to these results JEMC Pvt. Ltd. doesn't an excessive investment in current assets. So who wants to give short term loan they easily provide. But the last two year there isn't adequate utilize of current assets. It may hamper for the JEMC Pvt. Ltd. because funds are not properly (fully) used. To make the standard ratio for the coming fiscal year the center should be utilize the more current assets or to bring the more current liabilities. Which should be better for the future that policy should be adobe.

b) Quick (acid test) ratio:- This ratio establishes a relationship between quick assets and current liabilities. The main objectives of this ratio is measure the ability of the firm to meet its short-term obligation as and when due without relaying upon the realization of stock. It is a more stringent measure of liquidity than the current ratio.

This ratio is computed by dividing the quick assets by current liabilities. It is usually expressed as pure ratio. The margin of safety for short-term creditor is greater when the standard ratio (1:1) is higher. But if there is low quick ratio it indicates that the firm's liquidity position is regarded as unfavorable. This ratio may be expressed by using following formula

$$(QR) = \frac{\text{Quick Assets (QA)}}{\text{Current Liabilities (CL)}} \text{ times}$$

$$\text{For 2059/60} = \frac{152935298.4}{161511179.33} = 0.95 \text{ times}$$

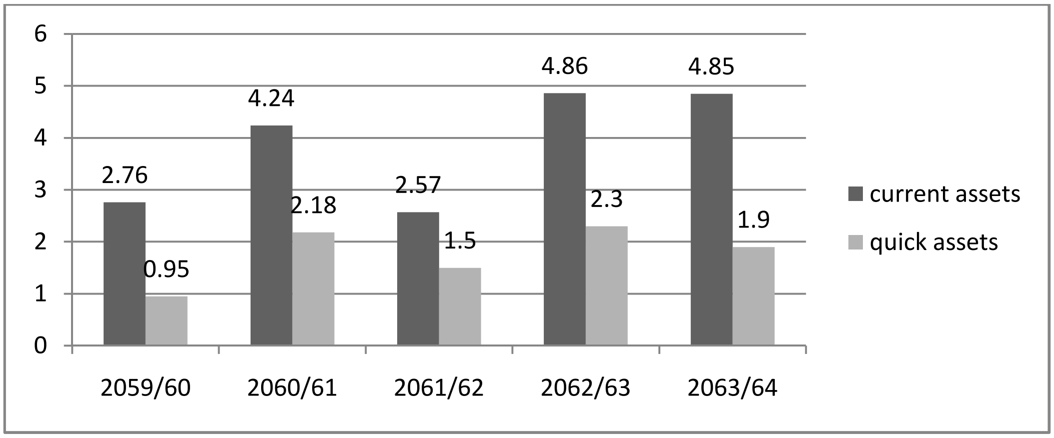
$$\text{For 2060/61} = \frac{215243925.9}{98899062.98} = 2.18 \text{ times}$$

$$\text{For 2061/62} = \frac{333000946.1}{221293692.54} = 1.5 \text{ times}$$

$$\text{For 2062/63} = \frac{23708085.7}{103134629.66} = 2.3 \text{ times}$$

$$\text{For 2063/64} = \frac{183160681.1}{96171064.65} = 1.9 \text{ times}$$

This ratio is measure the ability of the firm to meet its short-term obligation as and when due without relaying upon the realization of stock and prepaid. Here also four year results are greater than the standard ratio and the 2059/60 was near to the standard. These entire ratios indicate JEMC Pvt. Ltd. liquidity position is regarded as favorable. The liquidity position of JEMC is stringent.



From the above clustered column diagram shows that JEC is able to pay its short-term obligations with in the short period of time. Both ratios are meeting their standard. From this result shows that safely margin available for short term creditors. JEMC isn't well used of short term funds. All 5 fiscal years ratio are more than standard. The JEMC may have an excessive investment in current assets that do not produce satisfied return.

Mean, standard deviation and coefficient of variance (current assets and current liabilities):- Mean is the average of data. Here the current assets and current liabilities mean the average of C.A. and C.L. We calculate the five years fiscal data. So, the calculated mean of C.A. and C.L. is also five years. Average is calculated by adding all the data and divided by number of period.

The standard deviation is a statistical measure of the dispersion or deviation of possible outcomes around an expected or mean value. The standard deviation acceptable and conceptually equivalent quantitative measure of an assets total risk. Standard deviation is an absolute measure of variability; it is generally not suitable for comparing investments with different expected returns. It is defined as the standard deviation divided by the mean of expected return.

	Total current assets	Total current liabilities
2059/60	446463585.03	161511179.33
2060/61	419644895.36	98899062.98
2061/62	569024009.7	221293692.54
2062/63	501132834.39	103134629.66
2063/64	466328189.34	96171064.65
Total	2402593514	681009629
Mean	480518702.8	136201925.8
Std. dev.(σ)	51623393.78	48925630.44
C.V.	10.74%	35.92%

From the above calculation mean of current assets is 480518702.8 and current liabilities is 136201925.8. This means the average current assets of five years of JEMC is 480518702.8 it is 57.91% of total assets of 2063/64. Similarly five years of JEMC's mean of current liabilities is 136201925 it is 16.41% of total liabilities of 2063/64. The standard deviation of current assets is 51623393.78 and a current liability is 48925630.49 coefficient of variance is 10.74% of current assets and 35.92% of current liabilities. Here standard deviation and C.V. dose not measure the total risk of then doesn't denotes for the total risk, JEMC's other factor should be consider.

4.5 Cash conversion cycle (CCC)

This cycle helps to know the cash collection period of cash. If the collection period is long, decrease in profit therefore the short period is best. This cycle is calculated by

CCC= Inventory conversion period+ Receivable conversion period- Payable conversion period.

According to the fiscal report of JEMC ltd account payable and general expenses are not occurring. Only there is inventory conversion period and receivable conversion period. So, there is high cash conversion cycle, more than 360 days. From this result we can not give any opinion to the cash conversion cycle.

4.6 Inventory turnover ratio

This ratio is called stock turnover ratio. This ratio shows the relationship between the cost of goods sold and the average inventory. This ratio measures how frequently the company's inventory turned into sales. It, there fore, shows the efficiency with which the company's inventory has been converted into sales. This ratio calculated by

$$\frac{\text{Sales}}{\text{Average Inventory}}$$

A high inventory turnover ratio is favorable for effective inventory management which indicates that larger sales are being produced by a unit of investment in stock where as a low inventory turnover implies excessive inventory levels than authorized by productions sales activities.

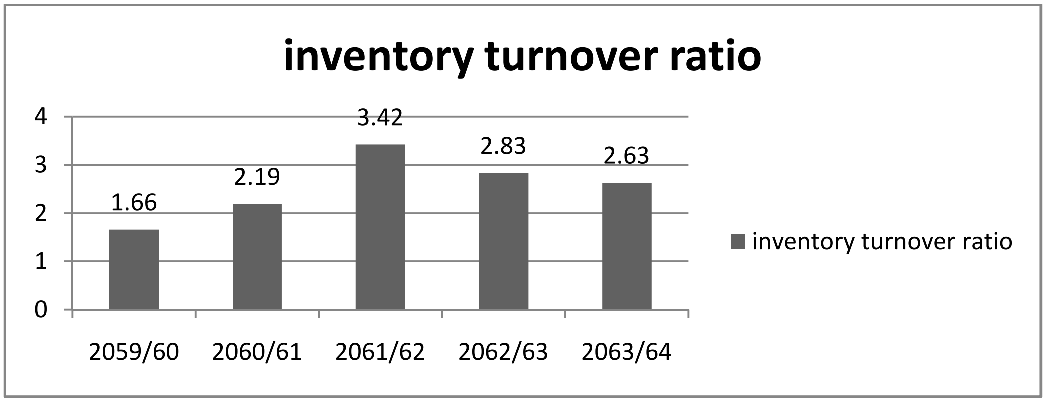
For 2059/60= $\frac{412049346.6}{248436893}$ = 1.66 times

For 2060/61= $\frac{490614804.86}{223937212.99}$ = 2.19 times

For 2061/62= $\frac{665318118.71}{194608592.11}$ = 3.42 times

For 2062/63= $\frac{621196869.49}{219117504.98}$ = 2.83 times

For 2063/64= $\frac{599072450.05}{228129510.5}$ = 2.63 times



According to the fiscal report of JEMC inventory turnover ratio is increasing 3 years. After that ratios are like as constant. So, 1st 3 years the manage the inventory properly. Decrease means JEMC invest for more on stock, less sales, produces non- quality goods, stock those goods which aren't on regular use. Fiscal year 2061/62 there was more than 3.42 times now it is decrease on2063/64 is 2.63 times.

4.7 Average collection period

Average collection period is also called debt collection period or average age of debtors and receivables. This ratio establishes a relationship between bills receivable and average daily or monthly credit sales. It represents the average number of days or week or month in a year for collecting cash from debtors including bills receivable. The main objective of this ratio is to determine the rapidity or slowness with which the money is collected fro debtors. Here, calculation is on days, assuming that 360 days in a year.
The ratio is computed by

$$\frac{\text{Bills receivable}}{\text{Sales}} * 360$$

Short period n average collection period is preferable for collecting cash from debtors for a company. But long period of this ratio represents excessive blockage of funds with debtors which increases the chances of bad debts.

For 2059/60 = $\frac{5464418.03}{412049346.6} * 360$ =4.77 days

For 2060/61 = $\frac{3535618.40}{490614804.86} * 360$ =2.59 days

For 2061/62 = $\frac{236593648.71}{665318118.71} * 360$ =128.02 days

For 2062/63 = $\frac{25590776.21}{219117504.98} * 360$ =42 days

For 2063/64 = $\frac{3218205.20}{599072450.05} * 360$ =1.93 days

According to the fiscal report of JEMC this ratio is up and down. Fiscal year 2061/62 the ratio is very much high and it is now on decreasing. From our results JEMC has fast collection period. When it collects fast then it is able to repay debt fast. As well as chances of bad debts are also less.

4.8 Net profit margin

Net profit margin ratios measure the success of the firm in earning, net return on sales or on investment. Since the profit is the ultimate objective of the firm, poor performance here indicates a basis failure that, if not corrected, would probably result in the firm's going out of business. Profitability ratios show the combined effects of liquidity, assets management on operating results. It measures the earning of the company for a certain period. It is the ratio of net income available to common stockholders to sales. It is calculated by dividing net income by sales.

This ratio is computed by = $\frac{\text{Net Income}}{\text{Sales}}$

For 2059/60 = $\frac{250821.27}{412049346.6}$ * 100% = 0.06%

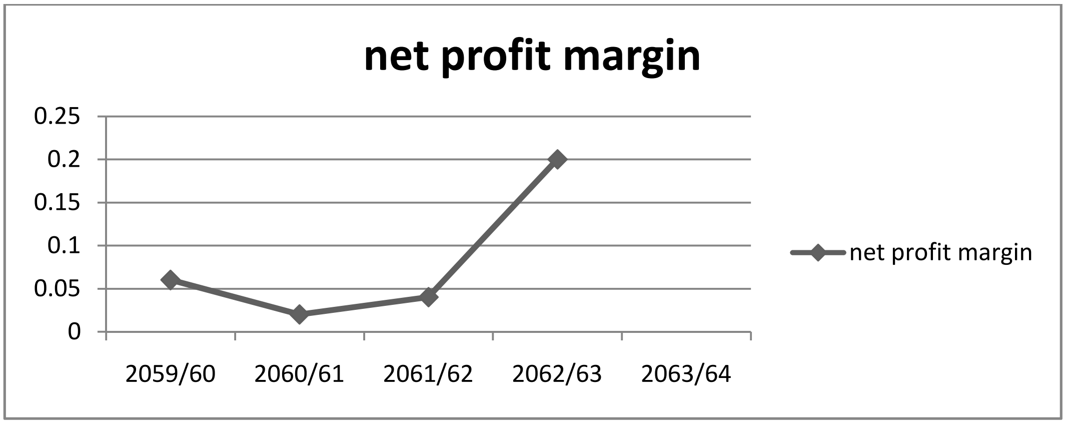
For 2060/61 = $\frac{90591.63}{490614804.86}$ * 100% = 0.02%

For 2061/62 = $\frac{242345.68}{665318118.71}$ * 100% = 0.04%

For 2062/63 = $\frac{1216724.82}{621196869.49}$ * 100% =0.2%

For 2063/64 = $\frac{(30179772.73)}{599072450.05}$ *100% =-5.04%

If net profit margin is high then the firm is on good financial condition. According to the 5years fiscal report of JEMC all the net profit margin is low. So, the financial position is bad of JEMC. Here JEMC's financial management as well as income is weak or non relative expenditure is increasing. Long term debts are also not here all long term liabilities are using donation. If there isn't donation then firm should pay interest of long term loan. When there is interest there is decrease in profit too. Then the net profit margin will be below this percent.



From the above diagram 1st three year the ratio is near and 4th year the ratio is too high and last year the ratio is negative. Sales are increasing 1st three year and last two year decreasing. A year 2062/63 sale is less than 2061/62 but the net profit is highest profit among the 5 year's data so, the net profit margin is high. Last year 2063/64 the net profit is negative and sales also decreasing from 2061/62, 2062/63 fiscal year.

Mean standard deviation and coefficient of variance (net profit and sales):- calculation of mean, standard deviation and coefficient of variance of net profit and sales mean calculation of JEMC's return and risk. Mean is the return and standard deviation, coefficient of variance are the risk.

	Total net profit	Total sales
2059/60	250821.27	412049346.6
2060/61	90591.63	490614804.86
2061/62	242345.68	665318118.71
2062/63	1216724.82	621196869.49
2063/64	(30179772.73)	599072450.05
Total	(28379289.33)	2788252190
Mean		551750437.9
Standard deviation		92966400.75
C.V.		16.85%

According to the fiscal report of JEMC's last year occur hues loss which is not cover by the all past 4^{th} year net profit. This means 5 years (2059/60 to 2063/64) total net profit of JEMC's being negative. So, we could not calculate of mean, standard deviation and coefficient of variance. This means not that net profit return is negative of JEMC. Here calculate only 5 year's data and other factors are not considered. Mean of sales is 551750437.9 standard deviation is 92966400.75 and coefficient of variance is 16.85%. From the above data 2061/62 has high sales and now decreasing trend. This means return is decreasing and risk increasing.

4.9 Current assets to sales ratio

It is non other than sale of goods and services that keep any organization alive. The company's sales policy depends upon the available resources, market demand and production policy of the firm. In order to support the given level of sales, a company has to invest same amount in current asset which depends upon the current assets investment policy and attitude of the management when a firm holds relatively large amount of current assets to support a given level of sales, it is called fat and cat policy. Similarly when a firm holds relatively small amount of current assets to support the given level of sales it is called lean and thin policy and between these the policy is the moderate policy.

This ratio computed by = $\frac{\text{Total Current Asset}}{\text{Sales}}$

For the purpose of analyzing the current assets investment policy of JEMC current assets to sales ratio

For 2059/60 = $\frac{446463585.03}{412049346.68}$ * 100% = 108.35%

For 2060/61 = $\frac{419644895.36}{490614804.86}$ * 100% = 85.53%

For 2061/62 = $\frac{569024003.7}{665318118.71}$ * 100% = 85.53%

For 2062/63 = $\frac{501132834.39}{621196869.49}$ * 100% = 80.67%

For 2063/64 = $\frac{466328189.34}{599072450.05}$ * 100% = 77.84%

According to the annual fiscal report of JEMC fiscal year 2059/60 had portion of current assets to support the sales so, this is the fat and cat (conservative) policy. After that three years had moderate level of current assets to support the sales. Last fiscal year 2063/64 the lower level of current assets to support the sales so, this is lean and thin (aggressive) policy. Under this policy higher expected profitability and higher risk, that's why JEMC's profit is negative at this period which occurs by higher risk.

No, single current assets to sales ratio and financial policy is necessarily optimal for all firms. To select the current assets to sales ratio a financial manager should consider additional factors, including the inherent variability in sales and cash flow and the degree of operating and financial leverage employed.

4.10 Current liabilities and short term debt

Current liabilities are those obligations of a firm, which are to be paid within a short period of time not exceeding a year. Short term debt is short period loan to the firm. This short period debt means to repay within a year. Current liabilities and short term debt represented by the entire right hand side (in USA) and left hand side (in Nepal) below the capital of the balance sheet. These loans are only used for the current assets not for the fixed assets as well as not for capital. Higher proportion of short term debt increase profitability because of generally lower interest cost and increase the risk of financial difficulties and vice versa.

The composition of JEMC's current liabilities and short term debt. Current liabilities are outstanding, expenditure management, gratuity fund, dividend management, income tax management, employee bonus management, employee development fund, doubtful debt management, UNICEF donation, tax fee outstanding and short term debt is bank loan. Current liabilities and short term debt figure of JEMC's according to the annual fiscal report.

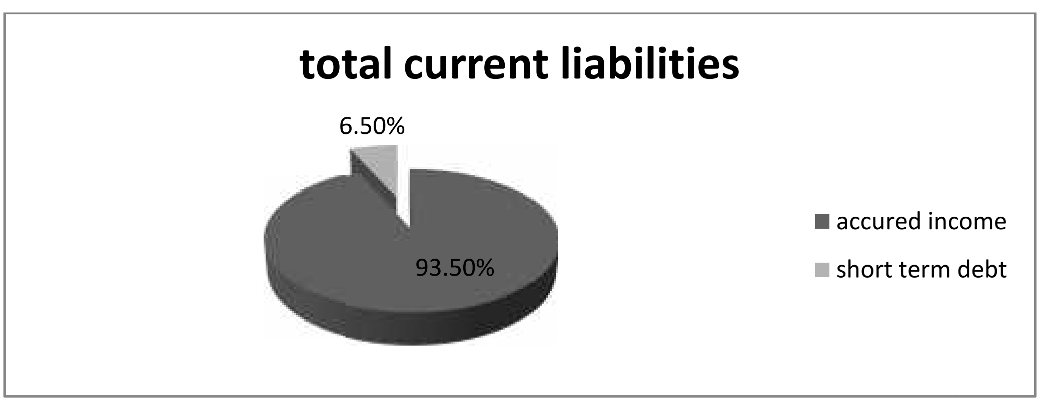
For 2059/60	current liabilities	66063872.61
	Short term debt	95447297.96
	Total current liabilities	161511179.3
For 2060/61	current liabilities	72967384.93
	Short term debt	25931678.05
	Total current liabilities	98899062.98
For 2061/62	current liabilities	179572642.54
	Short term debt	41721050.00
	Total current liabilities	221293692.5
For 2062/63	current liabilities	102939518.6
	Short term debt	195111.00

	Total current liabilities	103134629.66
For 2063/64	current liabilities	89974093.25
	Short term debt	6196971.4
	Total current liabilities	96171064.65

From the annual fiscal report of the JEMC short term financing is for the year 2059/60 is 95447297.69, for the year 2060/61 is 25931678.05 for the year 2061/62 is 41721050.00, for the year 2062/63 is 195111 and for the year 2063/64 is 6196971.4. Other current liabilities are all positive so, they are accrued income for JEMC. The accrued income of JEMC for the year 2059/60 is 66063872.61, for the year 2060/61is 72967348.93, for the year 2061/62 is 179572642.54, for the year 2062/63 is 102939518.6 and for the year 2063/64 is 89974093.25.

This can be represented by pie diagram. For fiscal year 2063/64 only

Accrued income	89974093.85	93.5%
STF	6196971.40	6.5%
Total CL	96171064.65	

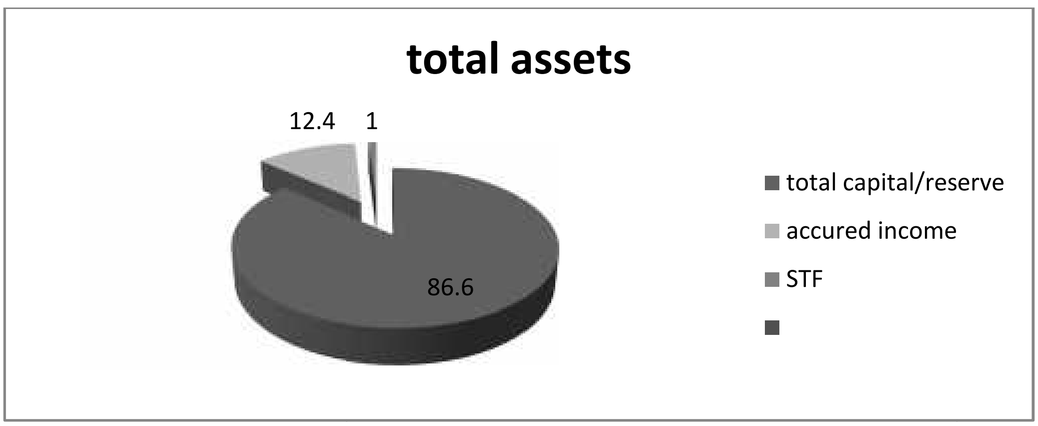


From the above pie diagram total current liabilities are 96171064.65. Accrued income is 89974093.25 which is 93.5% cover the total current liabilities. Short term debt is 6196971.40 which 6.5% cover the total current liabilities.

Total current liabilities comparing with total capital + total liabilities/ total assets: - For the fiscal year 2063/64

Total capital + reserve	624144652.88
Total current liabilities	96171064.65
Total capital+ total liabilities (Total assets)	720315717.5

Pie diagram of comparing of total capital+ reserve, short term debt and accrued income with total assets for the fiscal year 2063/64 only



Total capital + reserve cover the 86.6% of the total capital + total liabilities and current liabilities 13.4% of the total assets. If the current liabilities divided into two parts accrued income and short term debt. Accrued income cover 12.4% and short cover 1% of total assets.

JEMC's current liabilities are mainly divided into two parts, accrued income and short term debt. Both of them increase the short term cash flow, so these affect the current assets. These current liabilities are only used for the short period not for the fixed assets and capital. For the fiscal year 2061/62current liabilities was highest so, that year the current assets also high. Fiscal year 2062/63 the current liabilities was higher than the 2063/64 so the current liabilities also high.

4.11 An analysis of option survey on short term financing

Introduction:- this analysis deals with the study of the opinions of respondents with respect to the major aspects of short term financing. The aspects include assessing the capital structure decision of and enterprise, use of short term funds, process of obtaining, selecting the bank of taking the loan and identification of significance of short term financing.

Capital structure decision:- With respect to the capital structure decision, the majority of the respondents(65%) feels that the decisions on short term debts versus long term debt on total capital structure is more important in capital structure decision making.

Use of short term funds:- Regarding the use of short term funds, the majority of the respondents are of the view that only current assets be financed from short term funds.

Term of purchase:- Issue relating to the term of purchase includes

- Term of purchase of raw materials by enterprise.
- Receiving days of trade credit by supplier
- Discount provided by supplier.

Short term financing:- In their over all ranks for banking the various sources of unsecured short term financing in manufacturing sector in Nepal, the majority of the second priority to short term bank loan: the third priority to accruals and the fourth priority to commercial paper. The fourth priority is less known in Nepal for obtaining the funds.

CHAPTER FIVE

Summery recommendation and conclusion

This chapter is very significant for the study. This concluding giver a more pertinent view and proposed recommendation to help the manufacturing companies and policy makers to device and manage short term financing effectively, efficiently and its combinations to policy makers or management.

5.1 Summery

Nepal is mostly dependent up on the agriculture sector. It is industrially backward. Nepal has mixed economy where private sector and public sector have been working side by side. Public sector can play active and important role in augmenting internal resources for socio- economic development of the country. Nepal is still poor because not clear-cut specific goals and objectives due to unclear policies and producers. Public sectors have not any idea and concept of effective and suffering from serious problem of under utilization of their capacity. Financial performance of most of the manufacturing companies of Nepal isn't improved because performance of industries depends upon the availability of funds on one hand a proper utilization and management of funds on the other hand but these enterprises have poor financing policy. The relationship between growth of manufacturing industries and management of short term financial requires strong ties up to achieve the goal of economy development, short term resources availability is an urgent new for the uplift of the finance performance of manufacturing firm.

Short term finance the orgies that just as human blood circulation in life from in fancy to death, like wise, in manufacturing firm also short term financing. A short term financing influences a kind of funds used. Short term typically refer to the entire planned message that organizations use to support their financing with respect to financing objective and strategies.

After stabilizing the organization, management wants the short term funds to enjoy a long and happy life and earn and decent profit to cover all the effort and risk that went into firm. Nevertheless, management has to be alert that each fund is important for organization. The public sector and manufacturing companies in developing countries have for the lack of capital and they have requested the capital in seasonally of cylices. In this regard short term financing is appropriate for them. Their aggressive financing policy called for the greatest used of short term debt.

Short term resources availability is an urgent new for the uplift of the finance performance of company as well as the national economy. In the conduct of manufacturing industry has to different types of fund and short term funds. Short term financing is common and easy borrowing sources of financing. It is cost effective financing to operation business as well as spontaneous financing although it has more advantage. It provide, minimum cost of financing although it has various advantage but many manufacturing company doesn't integrated in it due to higher the short term debt lower the working capital. Lower the liquidity and higher the risk. The short term financing decision is a relatively common problem in practice.

5.2 Conclusion

After analyzing in detail, the conclusion of the research at present practice of short term financing in JEMC is given bellows:

- Authority, duty, responsibility and accountability are not identified between various levels of management.

- Top level management does not involve lower level management in short term financial planning and decision making.

- There is lack of co-ordination and communication among different level of management.

- There is not fair system of reward and punishment to employees on the basis of their work and employees of JEMC are not careful of their duties and responsibilities.

- JEMC has not major programmers to accomplish the formulated objectives and to continuously increases the expertise of management at all levels.

- All raw materials are not available in Nepal so, few raw materials are imported from aboard.

- There is not any restriction to classify the nature of cost as fixed and variable, fixed cost includes depreciation and administration expenses.

- The capacity utilization of JEMC is always lower than its capacity. It has been suffering from very low utilization of its own capacity.

- The company is failure to analyze its strengths and weakness in depth.

- The short term financing decision is relatively common problems in practice, officers are faced on legal problems on operating and lacks of proper trend on operating on trade credit and documentations problem on operating account receivable financing and inventory financing which makes highest cost.

- To produce many books, JEMC give to private press. When books are published by private press then work load and responsibility is divided so, ministry of education cuts the responsibility of JEMC. It makes the possible of privatization. Some private press doesn't have new technology so, quality is poor.

5.3 Recommendation

Manufacturing industries financial officers are faced with choosing source of short funds from a set of financing alternative. If one of the alternatives more frequent however is the situation where either one alternative isn't superior in every respect or where various constraints are placed on the alternatives. In instance the financial decision maker must choose from among the alternative and select a financing package as a solution. In practice approaches to the factors as explicate cost restrictions, expediency, and reliability or fore cost, cash "buffers" industry practices etc.

This study focus on the major sources of short term financing of manufacturing the success/failure manufacturing companies based on the main finding of the study recommendation are provided to best utilization.

- Should be ruled their duties, responsibilities, authorities and accountabilities in clearly way among various level of management.

- The company analyzes in depth strengths and weakness parts.

- Should be conducted fair reward and punishment system and also conducted motivational programmed.

- Must try to achieve their goals and objectives.

- Increase their production and sales volume to utilize of available capacity. The necessary arrangement should be over viewed to increase the production capacity.

- Should be utilized its current assets from the commercial point of view. Management should be minimized in expenses.

- Every employee should be trained if necessary.

- Private press is increasing yearly to published books this should be minimized. Choose those private press if necessary which have new technology and published on low rate.

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