CHAPTER – ONE
INTRODUCTION

1.1 Background of Study

Nepal is one of the under develop countries in the world. It covers 0.03 percent area of the world. Nepal is a Sovereign independent kingdom between 8000 and 88012 east longitudes and 2602 and 3027 North latitude is bounded on the north by Tibet Autonomous region of people's Republic of China, the east south and west by India. The length of kingdom is 885 kilometer east west and its breath varies from 145 – 241 kilometer north – south. The country can be divided into three main geographical regions Himal, Pahad and Terai.

Nepal has per capita income of only $400 per annum. It has predominantly agrarian economy. Where more than eighty percent people are estimated to be involved in agriculture. This sector contributes about forty to forty – four percent of GDP. It is the main source of employment and national income too. About thirty – eight percent of the population lives below absolute poverty line. Since per capita income, saving, capital formation is very low the living standard of people is in decreasing trend. The economic growth rate is only 3.9 percent per annum.

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

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

Industrialization creates vast employment opportunities and maximum utilization of human, capital and other natural resources of the country. It not increase the income of the people by providing job opportunities and making use of the natural resources but also facilities the agricultural development by reducing pressure on land, creating demand for agricultural raw material and supply necessary inputs to agriculture. Therefore, and important pre – requisite for economic development and transition from traditionalism and agrarian economy is to foster the industrialization. The reason for emphasis on industrialization is that the industrial development would absorb the rural unemployed manpower to those fields of production where higher productivity is possible without reducing total agricultural inputs. (United Nations, 1961:1)

In the context, many manufacturing, trading and commercial enterprises have been established both in public and private sector for the development of the national economy. The private sector and government owned enterprises together help in excluding development efforts simultaneously. However, the role of private sector is more important in the process of national development. Private sector process the characteristics such as entrepreneurship, professional skill, quick decision – making process and freedom of management of the private sector enable them to influence the economy constructively and according to the changing situation.

Financial performance analysis can be considered as a heart of the financial decision. The growth and development of any enterprises is directly influenced by the financial policies. Rational evaluation of the financial performance of the enterprises is essential to prepare sound financial policies. The financial performance prefers to treatment of the information confined in the financial statement to afford a full diagnosis of profitability and financial position of the concerned company. Financial performance is concerned with analysis of financial statement of and enterprise by using different tools and techniques. The real picture of financial performance mainly depends upon the past, present and anticipated future profit of an enterprise.

1.2 Profile of MM Plastic Pvt. Ltd.

MM Plastic Pvt. Ltd. is a manufacturing company. It has established in Falgun of 2042 B.S. It is situated in Morang industrial state and established by a team of Nepalese stakeholders as the legal status is concerted it is registered as a private limited. It is a large scale company having authorized capital of Rs.20, 000,000. The main produced of this industry is Polyvinyl Chloride pipe (PVC pipe) and Polyvinyl Chloride screen (PVC screen). Raw materials of these products are PVC granule and PVC resin which are brought from South Korea

At present this industry runs two shifts in a day and each shift includes 12 hours. This industry runs in a full capacity. It produces 1400 tons of materials yearly processed by the manual, automated and semi automated machines. These products of MM Plastic Pvt. Ltd. are supplied especially in the area of Itahari, Duhabi, Biratnagar, Birtamode of Nepal and west Bengal and Bihar state of India etc. Now a day this industry has occupied an important place in the modern business of Nepal.

About hundred employees are engaged in this industry. Almost all technical as well as non technical man power involved is Nepalese. About 50% of the products of the industry are consumed by government agencies and export to India and remaining 50% of the products consumed by local parties and private users.

The objective of MM Plastic Pvt. Ltd. is to earn maximum profit with customer’s satisfaction because without profit business cannot run. But it is not easy to get profit because profit earning capacity of the organization depends on various factors.

1.3 Objectives of the Study

The basic objective of the study is to identify and analyze the financial condition which is determined according to the nature of study. It helps to examine the financial strength and weakness of the MM Plastic Pvt. Ltd. The main objective is specified as below:

- To identify financial condition of the company.
- To analyze how efficiently the resources are utilized by the company.

- To know the liquidity position of the company.
- To find out the sources and uses of cash.
- To analyze the profitability of the company.
- To provide suggestion and recommendation for improvement and better management of available resources.

1.4 Significance of the Study

For the smooth operation of the firm in the short-run as well as long-run sound financial performance analysis is a prerequisite factor. Financial performance analysis is a circulating analysis, which is compared as lifeblood of the human being. It is very essential for any manufacturing organization because without analysis of financial performance production cycle is not possible. In the absence of production there is no question of distribution, marketing and profit.

Financial management is universally involved in the management of the private firm as well as public enterprises as does the oxygen in the atmosphere. Therefore, for achieving success in private firm proper financial management is of great importance. Financial management comprises of various aspects study if financial management remains incomplete without study of financial performance analysis great importance. Financial performance states its profitability, financial position, efficiency, capital structure, liquidity fund progression's trend etc. These are helpful for the government, other enterprise and the management by providing the supportive decision to mobilize the fund effectively.

1.5 Statement of the Problem

Nepal is a landlocked country in which majority people are unemployed. Nepal depends on other countries for the manufacturing things. Population of the kingdom is steeply increasing day by day. The kingdom has not technically developed enough to manufacturing commodities. So, large amount of foreign currency is spending to import, those commodities Economic prosperity depends upon a sustainable economic development. For the attainment of accelerated economic development in the country industrialization is equally more important than that of agricultural and other primary sector. The industrialization in the process of value added contributes to the creation of new employment opportunities and economic integration. As long as this sector can not be expanded on a promotional basis proper development of the economy is also not possible. However, owing to constrains in the supply of raw material, basic infrastructure, low purchasing power of people, under develop capital market, lack of technological advancement and so on.

The objective of MM Plastic Pvt. Ltd. is to earn maximum profit with customer's satisfaction because without profit business cannot run. But it is not easy to get profit because profit earning capacity of the organization depends on various factors. One of the factors affecting profit can be pointed on the financial performance analysis itself.

1.6 Limitation of the Study

Each and every study has its own limitation, no study can be free from constraints such as economic resources, times etc. All the necessary data may not be available due to business secrecy. This study is confined only to financial performance analysis. This study has the following assumption and limitation.

- The data available in published accounts and other references have been assumed current and true.
- Since the analysis of data has been taken from the company's account, the research is based mainly on the secondary data and this study is not free from the limitations.
- Information regarding material and verbal answer given by the manager of MMP Pvt. Ltd. is not sufficient from the study.
- Since the data available in annual reports are not organized form, they have been organized according to the need of the analysis.
- The study is based on only five years published accounting statements from the F/Y 2063/64 to 2067/68.
- It's financial performance is based only on the funds flow statement analysis, ratio analysis, trend analysis, correlation analysis and common size statement analysis.

- Rounding figures in zero is used mathematically to make easy in calculation in the study.
- Working days of the industry is assumed 360 days per year.

1.7 Organization of the Study

This research of financial performance analysis of MM Plastic Pvt. Ltd. has been divided into five chapters, which is introduction, review of literature, research methodology, presentation and analysis of data and summary, conclusion, recommendations.

Chapter-I : Introduction

The first chapter deals with the background of the study, objective of the study, significance of the study, statement of problem, Limitation of the study and organization of the study.

Chapter-II : Review of the Literature

The second chapter deals the review of relevant literature and studies. This chapter is the backbone of study and conceptual framework where relevant studies have been reviewed. This chapter introduces the conceptual thoughts and terms of the financial performance analysis.

Chapter-II : Research Methodology

The third chapter research methodology present the methodology used this study. It deals with Research design, Nature and sources of data, Population and sample, survey methodology and methods of data analysis.

Chapter-IV : Presentation and Data Analysis

The fourth chapter fulfills the objective of the study by presenting the data and analyzing them with the help of various financial and statistical tools followed by methodology.

Chapter-V : Summary, Conclusion and Recommendation

The fifth chapter summarizes the whole study. Moreover, it draws the conclusion and forwards the recommendation for the improvement of financial performance analysis of MMP Pvt. Ltd.

CHAPTER – TWO
REVIEW OF LITERATURE

2.1 Introduction

Review of literature covers the review of analysis of the financial performance. The objective of the review of literature is to review the literature are to develop the research effectively.

The purpose of reviewing the literature is to develop some expertise is one's area to see what new contribution can be made and to receive some ideas for developing research design. (Wolf & Pant, 1999:30).

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

2.2 Concept of Financial Performance

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

The profit earned by the company is the main financial performance indicator of the business enterprise. Profit result mainly from successful management, cost control, risk management, credit extension and general efficiency of the operation. It also affected by the tax, labor law and inflation etc.

Financial performance is that managerial activity, which has concerned with the planning, raising, controlling, administrating of financial resource of an enterprise. The main activities essential to successful administration are the financial performance in any organization. Therefore financial resources are not only the evaluation of financial condition. But also the evaluation of planning and it helps to improve the planning the future.

Management should be particularly interested in knowing the financial strengths of the firm to make their best use and to be spot out the financial weakness of the firm to take suitable corrective actions. The future plans of the firm should be laid down in view of the firm's financial strengths and weakness. (Panday, 1983:89)

If management of enterprise fail to manage adequate capital than to takes the more risky. Inadequate equity capital structure or composition in the capital structure makes use of more debt of fixed cost. If a firm fails to earn profit sufficiently, it will be unable to meets its obligation. Consequently the firm may fail on insolvency position. In other words, lower position of the cost in capital structure also reduce the shareholders profit because the cost of debt always less than the cost of capital as well as of equity. Therefore, we conclude that neither the lower equity capital structure not the higher equity capital structure is effective for business organization. In short, adequate capital structure is necessary to smoothly operation of running business for every enterprise. An effective financial performance is that performance, which has management effectiveness by the returns, generated investment, and the firm ability to maintain its economic position in a competitive market and the growth of the economy to use proper advantage and to take the corrective action of financial strengths and weakness

2.3 Concept of Financial Management

Financial management can be defend as the management of the flow of money and any credit instrument in an organization weather it is corporation, school, enterprise and bank or government agency. The successful financial management of an organization is beneficial to customers, employees, investors and also to the general people.

Financial management is a business activity which is concerned with the acquisition and utilization of capital funds in meeting the financial needs and overall objectives of the business organization. (Adhikari, 2057:1)

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

Financial management is concerned with the acquisition, financing and management of assets with some overall good in mind. (Van Horne, et. al. 1997:3)

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

2.4 Concept of Financial Statement

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

The financial statements provide a summary of the accounts of a business enterprise, the balance sheet reflecting the assets, liabilities and capital as of a certain date and income statement showing the results of operations during a certain period. (Myer, 1974:95)

Financial statement reports what has actually happened to earnings and dividends over the past few years, It may show a position at a movement in time as in the case of activities over a given period of time in case of an income statement. (Hampton, 1981:63)

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

Balance sheet

Income statement

Director's reports

Copy of the chairman's speech

Financial statement involved at least two statements which are prepared by a business concern at the end of the year. These are (I) Income statement or Trading, profit and loss account, which is prepared by a business concern in order to know the profit earned and loss sustained during specified period. (II) Position statement or balance sheet, which is prepared by a business concern on a particular date in order to know its financial position. (Jain & Narayan, 1993:15)

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

2.4.1 Balance Sheet

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

Balance sheet presents the position of company's assets, liabilities and stock holder's equity and a particular data, the liabilities indicate the amounts owned by the firm to its creditors. (Lawrance & Haley, 1994:381)

The comparison of the balance sheet prepared at the beginning and closing date of an accounting period shows the changes in the structure of assets and liabilities between two points of time. This change is the results of business activities carried out in between two accounting periods. This change also gives simple ides about the financial performance of the business organization.

Balance sheet may be defined as a statement, prepares with a view to measure the exact financial position of a business on a certain fixed date. (Batliboi, 1992:68)

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

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

2.4.2 Income Statement

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

The income statement of the profit and loss account presents the summary of revenues, expenses, and net income (or net loss) of a firm for a period of time. Thus, it serves as a measure of the firm's profitability. (Pandey, 1983:26)

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

2.5 Uses of Financial Statements

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

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

2.6 Limitations of Financial Statements

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

The important facts with respect to the different to the limitations of the statements are as follows:-

1. Financial statements are essentially interim reports and therefore cannot be final because true profit cannot be computed unless the business or sold or liquidated. So the net income shown in the income statement is not absolute but relative depending open the particular conventional procedure used by the enterprise, for which the statement is compiled, this procedure having been selected from various alternatives.
2. Precision of the financial statement data is impossible because the statement deal with matters that can't be stated precisely. The data are produced by the professional accountant through many years of experience implemented by various postulated or assumptions and applied by judgment.
3. The assets shown in the balance sheet are largely unexpired and un-amortized costs. Which doesn't usually show the market value of assets? From above view, it follows that the balance sheet doesn't show what a business is worth and that is what might be obtained for it if it were sold.
4. The statement does not show the financial condition of business enterprise because these are many factors which are not parts of the financial statement data that have an important bearing on financial condition of enterprise rather the financial statement show the position of the financial accounting for the business enterprise.

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

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

2.7 Financial Statement Analysis

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

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account. (Pandey, 1983:89)

Management, creditors, investors and others use the information contained in these statements to firm's judgment about operating performance and financial position. From the analysis of financial strength and weakness or favorable and unfavorable of the firm when they analysis properly information reported in these statement. In conclusion, financial statements analysis is the starting point for making plans before using any sophisticated forecasting and planning procedures.

The focus of financial analysis is key figures contained in the financial statement and the significant relationships and exists between them. (Khan & Jain, 1989:29)

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

2.8 Need of Financial Statement

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

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

2.9 Tools and Techniques of Financial Statement Analysis

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

In this study, the following tools and techniques are applied to analyses and interpret the financial statement to find out of financial performance of MM Plastic.

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

2.9.1 Funds Flow Statement Analysis

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

The funds flow statement is a statement which shows the movement of funds and is a report of the financial operation of the business undertaking. It indicates various means by which funds were obtained during a particular period of time and the way to which these funds were employed. (Munankarmi, 1999:258)

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

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

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

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

- It is not original in nature; it is only a systematic rearrangement of accounting data given in financial statement.
- It does not provide information about change in cash, which are more important and relevant, that working capital.
- It indicates the funds flow in summary form and it does not show various changes which takes place continuously.
- When the both aspects of transaction are current they are not considered and when the both aspects of transaction are non-current even then they are also not include in this statement.
- Of course, it is related to past analysis, due to historical nature. So projected funds flow statement give only an idea about the future.
- It is not an ideal tool for financial performance.

2.9.2 Financial Ratio Analysis

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

Ratio analysis is a technique of analysis and interpretation of financial statement to evaluate the performance of an organization by creating the ratio from the figures of different accounts consisting in balance sheet and income statement is known as ratio analysis. (Dangol, 2056:369)

Ratio is defined as the systematic use of ratio to interpret the financial statements so that the strengths and weakness of a firm as well as historical performance and current financial condition can be determined. (Khan & Jain, 1994:60)

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

A. Liquidity ratio

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

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

1. Current Ratio

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

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

Where,

Total current Assets = Cash and Bank Balance+ sundry Debtors+ Inventory + Misc. Current Assets.

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

2. Quick Ratio:

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

Notational,

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

Where,

Quick assets = Total current assets – inventory.

B. Leverage Ratio

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

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

1. Total Debt Ratio/ Debt to Total Assets Ratio

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

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

2. Long term debt to net worth ratio

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

This ratio is very important for the creditors, owners and the business itself. It provides a margin of safety to creditors to measure the extent to which they can gain the benefits by maintaining control over the company with a limited investment to owners and what is the long-term solvency position to the business itself. A high debt to net worth ratio shows that the claims of long-term creditors are greater than these of owners. A low long-term debt to net worth ratio implies a greater claim of owners than creditors. In other words, the high ratio is unfavorable from the business point view. This ratio is calculated in this way.

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

3. Total Debt of Net worth Ratio

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

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

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

Where,

Net worth = share capital + reserve and dividend

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

4. Interest Coverage Ratio

Interest coverage ratio is useful for the company's debt servicing capacity. Something, it is also called "time interest earned ratio". It measures how many times interest charges are covered by funds that are available to pay the charges. This ratio indicates the extant to which the earning may fall with out causing any, embarrassment of the company regarding the payments of the interest charges. The formula of this ratio is:

$$\textit{Interest}\ \text{Coverage Ratio} = \frac{\text{Earning Before Interest \& Tax}}{\text{Interest Charges}}$$

5. Net Fixed Assets to Long-term Debt Ratio

This ratio is also useful to measure the long-term position of a company. This ratio is helpful to creditors, owners and business itself. It measures the condition of fixed assets to cover the long-term debt. Higher the ratio is an indication of higher overall efficiency of the business. Following formula is used to calculate the net fixed assets to long-term debt ratio:

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

C. Activity Ratio

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

1. Inventory Turnover Ratio

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

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

2. Debtors Turnover Ratio

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

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

3. Average Collection Period

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

$$\text{Average Collection Period} = \frac{\text{Days In Year (360 days)}}{\text{Debtors Turnover Ratio}}$$

4. Total Assets Turnover Ratio

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

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

D. Profitability Ratio

Profit is necessary to survive in any business field for its successful operation and further expansion. It measures management's overall effectiveness as shown by the returns generated on sales and investment. These ratios give final answer about how effectively the company is being managed. It is a central measure of the earning power and operating efficiency of a company. Not only any business concern has to earn profit but also it has to remember social responsibility. Her two contrast things has been arisen a good entrepreneur most make proper balance between them.

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

Profitability ratio essentially relates to the profit earned by an enterprise during a particular period to various parameters like sale, owner's equity (i.e. net worth), and capital employed and total sales. (Bhattacharya & Derdon, 1980:283)

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

1. Gross Profit Margin / Ratio

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

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

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

Where,

Gross profit = sales – costs of goods sold

2. Net Profit Margin / Ratio

Net profit margin ratio is the overall measure of the company's ability to turn each rupee sales into net profit. It is very useful to the proprietors and prospective investors because it reveals the overall profitability of the company. This is the ratio of net profit after tax to net sales. It would really be difficult for a low net margins company to with stand these adversities. Similarly a company with high net margin can be better use of favorable condition by raising sales prices or reducing cost of production or increasing demand for the product. Such a company will be able to accelerate its profits at a faster rate than a company with a low net profit margin. We can use the following formula to calculating net profit margin.

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

Where,

Net profit = gross profit – all indirect expenses - interest charge - income tax.

3. Return on Total Assets

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

$$\text{Return on Total Assets} = \frac{\text{Net Income}}{\text{Total Assets}} \times 100$$

Where,

Net income = Net profit after interest and tax.

4. Return on Capital Employed

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

$$\text{Return on capital employed} = \frac{\text{Net Profit}}{\text{Capital Employed}}$$

Where,

Capital employed = Net worth + Total liabilities

5. Expenses Ratio:

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

2.9.3 Trend Percentage Analysis

In financial analysis the direction of change over a period of year is of crucial importance. Trend analysis is a tool for analysis financial performance, which indicates the direction of change. The change and deviation on item of financial statement of a number of years can be analyzed by determining and studying the data shown on the statement. Trend analysis refers to the position of favorable or unfavorable (upward or downward) of variable in the given period of time with the base years and its helpful to identify the controllable items of financial and operation data contains in the balance sheet and income statement.

In order to express the figure in items of percentage, the comparative figures of the financial statement are analyzed by calculating percentages, furthermore, the percentage of one period is compared with the base year's percentage usually a particular past year is chosen as a base year and all items of the financial statements for that year are reckoned as 100. There is no doubt that expressing the figure in terms of percentage is a more practical approach for the analysis, interpretation and study of the facts and figure. Thus the change in figures expressed in terms of percentage over a period of years, will disclose the trends or change that are occurring in financial and operational data to judge whether the trends are favorable or otherwise. (Chaudhary & Roy, 1985:34)

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

An analysis of the trend of certain business facts is extremely helpful in budgeting and forecasting with comparative study of the financial statement of several years. Trend analysis involves the calculation of percentage. Relationship that each item of financial statement bears to the some item in the base year of for trend analysis the use of index number is generally advocated. The procedure followed is to assign the number 100 to items of the base year and to calculate percentage changes in each item of other years in relation to the base year. This procedure may be called as trend percentage method.

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

2.9.4 Correlation Analysis

The correlation is a statistical tool which studies the relationship between two variables and correlation analysis involves various methods and techniques used for studying and measuring the extent of the relationship between the two variables. (Bajracharya, 2057:302)

Correlation is defined as the relationship (or association) between (among) the dependent variable (or factor) and one or more than one independent variable or factors. In other words correlation is the relationship between (or among) two or more variable(s) (i.e. only one variable dependent and or more variable(s) independent. (Gupta, 1996:510)

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

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

Also $$r= \frac{\sum xy}{\text{¢}x \times \text{¢}y}$$

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

$y = y - \bar{y}$

$\text{¢}x$ and $\text{¢}y$ are standard deviation of x and y series respectively.

1. Interpretation of Correlation Coefficient (r)

i) The coefficient of correlation as obtained by the above formula always lies between +1 and -1.

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

iii) When r is -1, there is negative perfect correlation between the two variables.

iv) When r is between 0.70 to 0.999, there is a high degree of correlation between the two variables.

v) When r is between 0.50 and 0.699, there is moderate degree of correlation between the two variables.

vi) When r is less than 0.50, there is low degree of correlation between the two variables.

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

2.9.5 Common Size Comparative statement Analysis

One of the useful tools (way) of analysis financial statements to convert them by expressing absolute rupee amount into percentage is common size statement. When this method is pursued, the income statement exhibits each expense item or group of expenses items as a percentage of net sales and net sales are taken at 100 percent. Similarly, each individual assets and liabilities classification is shown as a percentage of total assets and liabilities respectively. Statement ore pared in this way are referred to as common size statement. Common size comparative statements prepared for one company over the years would highlight the relative change in each group of expenses, assets and liabilities.

The financial statements prepared in terms of common base percentage are called common size statements. This kind of analysis and indicates static relationship since relative change are studied at a specific date. (Pandey, 1983:116)

Comparative financial statements are prepared in a way so as to provide time perspective to the consideration of various elements of financial position embodies in such statements. This is prepared to make the financial data more meaningful in comparative way of two or more years date and to show absolute data's in value and in terms of percentage. This helps to point out increase or decrease in assets, liabilities, income and expenditure. A simple method of tracing the periods change in the financial performance of a company is to prepare comparative statements. Comparative financial statements will contain items of two periods. Changes increases and decreases in terms of income statement and balance sheet can be shown in two ways:

a. Aggregate changes

b. Relative or proportional changes

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

1. Comparative Income Statement

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

2. Comparative Balance Sheet

This statement states the changes of assets and liabilities, which compared on two or more different dates. This statement is prepared by comparing assets and liabilities of two or more dates to find out any increases or decreases in these items. This facilities the comparison of figures of two or more period and provides necessary information which may be useful in forming an opinion regarding the financial condition as well as the progress in outlook of the business enterprise.

2.10 Review of Related Studies

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

(A) A study carried out by Bhesraj Bhurtel on "Financial Analysis of manufacturing company on Udayapur cement industry." The study based on secondary sources of data and converted period of six years i.e. from F/Y 2050/51 to 2055/56. As per the objectives to reveal the financial performance of UCIL to evaluate the financial strength and give the basic guide lines, he concluded his finding as under:

- The liquidity position of the company was unsatisfactory up to the F/Y 2054/55.
- The company had higher level of costs than the volume of its sales by the cause of which profitability position of the company was poor.
- The solvency position of the company treated by the trend analysis is very poor and unfavorable.
- Changes in working capital of company is unsatisfactory that is indicates the short-term solvency position of the company become worse and worse day by day.
- All the positions are fluctuating and below the satisfactory level because of resulting the returns are placed in the negative region by using the tools of financial performance.

(B) Likewise, Laxman Shrestha carried out a study on "Financial performance of Popular Plastic Pvt. Ltd. Dharan." The objectives of this study were to identify the existing financial position of the company. The study based on secondary data of five years period. The major findings of the study period i.e. 2050/51 to 2055/56 was summarized as:

- The liquidity position of the Popular Plastic Pvt. Ltd. was not sound.
- The nature of the net profit was in fluctuating trend thought it was not so bad.
- High cost of goods sold, heavy operating expenses, low owners capital, traditional concept of financial management, traditional pricing policy etc.

are the main variable which reflected the poor financial performance of Popular Plastic Private Limited.

- The whole financial performance of the company was not good and bad but normal.

(C) Similarly, Ranjit Lama carried out a study on "An Evaluation of Financial Operation of NIDC in 1986." In this study the sources of data were used secondary. The major findings in the study period of five years i.e. from F/Y 1980/81 to 1985/85 were concluded as:

- The liquidity position of the corporation was satisfactory up to the year 1983/84.
- The current ratio, debt equity ratio, debt to total assets ratio of the corporation was observed poor performance thought out the study period.
- The whole financial performance of the corporation in term of the operation seems dissatisfactory.
- It was found that the corporation possessed enough resources taking loans and the amount of those outstanding loans was unfavorably increased.

(D) Another researcher Khagendra pokharel study on "An Analysis of Financial Position of DK Textile Pvt. Ltd." The objectives of the study was not examine an evaluate financial performance using funds flow analysis, ratio analysis and trend analysis on the basis of secondary data of five years i.e. from 2046/47 to 2050/51. The major findings were:

- The capital structure of DK Textile was not proportionate. There was heavy debt rather than ownership capital.
- The company was suffered losses during the study period due to inefficient management administration and selling expenses.
- The solvency position of the company was not satisfactory during the study period.
- The study indicated that the management had not exercised any control over the expenses of the company.

CHAPTER – THREE
RESEARCH METHODOLOGY

Introduction

It is well known that every study needs a good methodology to show better performance and true result. So, the main objectives or aim of this study is to explain the financial performance of MM Plastic Pvt. Ltd. during the period (from 2063/64 to 2067/68) for five fiscal years to judge the its financial performance. To achieve this objective, certain methodology has to be followed. In order to find out the result, a good research methodology is necessary for on investigation. Research methodology refers to the various sequential steps to be adopted by a researcher with certain objectives in view.

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

1. Research design
2. Sources of data
3. Population and sample of the study
4. Data collection technique
5. Data processing procurers
6. Data analysis tools
7. Research question

3.1 Research Design

The frame of the study is given in research design. A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure in the basic aim of this study. Therefore, is to examine and accesses the financial performance of MM Plastic and attempts in collection, evaluation, verification and analysis systematically for the improvement and exploration of certain facts. Evaluation has been done in the basic of five years income statement and balance sheet using ratio analysis, funds flow analysis, trend analysis, common-size statement analysis and correlation analysis to analyze the financial performance and the study represent historical and exploratory as well as descriptive type.

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

3.2 Sources of Data

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

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

3.3 Population and Sample of the Study

MM Plastic Pvt. Ltd. is a unit at the study. Financial performance of the company has been assessed mainly thought its published financial statement from the data of its (company's) establishments to till now are treated as population of he study. But it is very different to analyze all the published financial data and reports. Therefore a sample should be drawn for the study for five fiscal years only in this study, five years financial statements from 2063/64 to 2067/68 have been taken as sample for the study. The company has been taken as universe, which is selected for the purpose of investigation.

3.4 Data Collection Techniques

Secondary data is more important than the primary data for the research study. The basic secondary data related to financial performance such as income statement and balance sheet of MM Plastic of different years are collected from various places such as the floor of the stock exchange of Nepal. MM Plastic, past data from various trading report published, etc. Using web site of the Nepal stock exchange and company and other various information's which is very important for this study, have been collected from the published annual financial reports of company. A theoretical study of modern techniques of financial analysis was made from the Literature's available in various books are collected from library of university and others company.

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

3.5 Data Processing Procedures

The data collected as stated above have been calculated and analyzed. In this study the data extracted from the annual financial reports of MM Plastic Pvt. Ltd. have been processed and interpreted considering the requirement of the study. The secondary data are presented in the tabulated forms with the changes in ratio analysis and common size statement analysis for evaluation financial performance clearly. The help of common arithmetical rules are taken in processing to adjust, select and analyze the data presented over the five fiscal years periods from 2063/64 – 2067/68 published by MM Plastic Pvt. Ltd..

3.6 Data Analysis Tools

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

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

3.7 Research Questions

It is most difficult and complex to measure the financial performance of MM Plastic with a view to measure the financial situation of MM Plastic. Some questions are as given below:-

i. How are the funds collected and applied by the MM Plastic?

ii. How is the financial position of MM Plastic shown by ratio?

iii. What is the trend of financial performance of MM Plastic?

iv. What is the relationship between the variables?

CHAPTER - FOUR

DATA PRESENTATION AND ANALYSIS

Introduction

The main objective of this study is to highlight the financial performance of MM Plastic. To achieve this objectives, it is essential to present, interpret and analyze have been made for the purpose of finding out financial position of MM Plastic with the help of 5 years financial statements from 2063/64 to 2067/68. The presentation and analysis of data that will help to know financial position of the company to make their best use and to be able to spot out the financial weakness. This also helpful to take corrective action in future for management, investors and creditors as well as others group who are interested in financial status and operating result of MM Plastic.

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

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

4.1 Funds Flow Statement Analysis

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

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

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

4.1.1. Schedule of Changes in Working Capital

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

Working capital would be proper balanced in the any business concern because the less working capital is to loose the opportunity. Profit and excess working capital is black of capital and it is also burden of cost of capital. In the present section, the researcher is going to analyze how changes in working capital of MM Plastic year by year. In the analysis only four-year date are analyzed because financial statement of F/Y 2063/64 is not available. So the researcher cannot analyze the changes in working capitals of first fiscal year (i.e. 2064/65) during the study period.

Table No. 1

Schedule of changes in Working Capital for the F/Y 2064/65

(Amount in million)

Particular	2063/64	2064/65	Changes in working capital	
			Increase	Decrease
1. <u>Current assets:</u>				
Cash and bank balance	33.97	39.69	5.72	-
Sundry debtors	0.43	1.26	0.83	-
Inventory	78.14	86.35	8.21	-
Misc. current assets	127.65	161.30	33.65	-
2. <u>Current Liabilities:</u>				
Loans and advances	0.00	1.29	-	1.2
Sundry creditors	18.13	38.05	-	19.92
Pro. For taxation	62.39	76.71	-	14.32
Misc. current liabilities & provision	51.93	68.00	-	16.04
3. Increase in working capital	-	-	-	-
4. Decrease in working capital	-	-	3.16	-
Total	-	-	51.57	51.57

Source: Based on appendix – 1

The Schedule of change in working capital shows that Rs. 3.16 millions is decreased in working capital for F/Y 2064/65. Current assets like cash and bank balance, sundry debtors, inventory and misc. current assets are increased. Similarly current liabilities like loans and advanced, sundry creditors, provision for taxation and misc. current liabilities are also increased. The main cause of decreased in working capital is increased in loans and advanced altogether other current liabilities. But the decreased in working capital is not higher. So it said to be favorable and satisfactory for the company.

Table No. 2

Schedule of changes in working capital for the F/Y 2065/66

(Amount in million)

Particular	2064/65	2065/66	Changes in working capital	
			Increase	Decrease
1. <u>Current assets:</u>				
Cash and bank balance	39.69	3.03	-	36.66
Sundry debtors	1.26	0.91	-	0.35
Inventory	86.35	136.77	50.42	-
Misc. current assets	161.30	212.94	51.94	-
2. <u>Current Liabilities:</u>				
Loans and advances	1.29	0.26	1.03	-
Sundry creditors	38.05	37.99	0.06	-
Prov. for taxation	76.71	85.83	-	9.12
Misc. current liabilities & provision	68.00	74.38	-	6.38
3. Increase in working capital	-	-	-	50.64
4. Decrease in working capital	-	-	-	-
Total	-	-	103.15	103.15

Source: Based on appendix – 1

The above table of changes in working capital shows that Rs. 50.64 millions increased in working capital. Increased in working capital is higher. It indicates there is not proper balance between current assets and current liabilities. It is unfavorable to the company.

Table No. 3

Schedule of changes in working capital for the F/Y 2066/67

(Amount in million)

Particular	2065/66	2066/67	Changes in working capital	
			Increase	Decrease
1. <u>Current assets:</u>				
Cash and bank balance	3.03	47.83	44.8	-
Sundry debtors	0.91	0.07	-	0.84
Inventory	136.77	121.11	-	15.66
Misc. current assets	212.94	200.4	-	12.54

2. Current Liabilities: Loans and advances Sundry creditors Prov. For taxation Misc. current liabilities & provision	 0.26 37.99 85.83 74.38	 1.70 19.11 84.04 72.68	 - 18.88 1.79 1.70	 1.44 - - -
3. Increase in working capital	-	-	-	36.69
4. Decrease in working capital	-	-	-	-
Total	-	-	67.17	67.17

Source: Based on appendix – 1

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

Table No. 4

Schedule of changes in working capital for the F/Y 2067/68

(Amount in million)

Particular	2066/67	2067/68	Changes in working capital	
			Increase	Decrease
1. Current assets: Cash and bank balance Sundry Inventory Misc. current assets	 47.83 0.07 121.11 200.40	 3.94 80.48 142.73 166.69	 - 80.41 21.62 -	 43.89 - - 33.71
2. Current Liabilities: Loans and advances Sundry creditors Prov. For taxation Misc. current liabilities & Provision	 1.70 19.11 84.04 72.68	 1.35 41.37 93.67 131.69	 0.35 - - -	 - 22.26 9.63 59.01
3. Increase in working capital	-	-	-	-
4. Decrease in working capital	-	-	66.12	-
Total	-	-	168.5	168.5

Source: Based on appendix – 1

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

4.1.2 Statement of Sources and Application

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

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

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

(1) Sources of Fund

According to the nature of the operation MM Plastic has different sources of funds during the study period of 5 years. The sources of funds can described with the help of following calculation i.e. comparative statement of sources and applications of funds. During the study period five different sources of fund have been available for MM Plastic. They are:

i. Operating profit.

ii. Decrease in working capital

iii. Sales of Misc. assets.

iv. Issues of share.

v. Increase in deferred liabilities.

Table No. – 5

Comparative Statement of Sources and Application of Funds

Particular	Fiscal Year							
	2064/65		2065/66		2066/67		2067/68	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%
1. Sources								
Operating profit	74.43	25.29	96.37	94.12	92.87	97.67	78.53	33.96
Decrease in W.C.	3.16	1.07	-	-	-	-	66.12	28.59
Sales of misc. assets	215.58	73.24	3.43	3.46	0.08	0.08	-	-
Issue of share	-	-	-	-	-	-	86.63	37.45
Increase in D.L.	1.17	0.04	2.40	2.42	2.13	3.25	-	-
Total Sources	294.34	100	99.17	100	95.08	100	231.28	100
2. Applications								
Increase in W.C.	-	-	50.64	51.06	36.69	38.59	-	-
Purchase of F.A.	283.81	96.43	47.91	48.31	51.18	51.82	31.10	13.44
Purchase of misc. assets	-	-	-	-	-	-	96.26	41.62
Decrease in D.L.	-	-	-	-	-	-	83.41	36.07
Payment of dividend	4.04	1.37	0.01	-	7.03	7.39	20.51	8.87
Purchase of investment	6.49	2.20	0.61	0.63	-	-	-	-
Total applications	294.34	100	99.17	100	95.08	100	231.28	100

Sources: Annual record of MM Plastic Pvt. Ltd.

i) Operating Profit

The major sources of find of each company are the net profit from operation. The success and failure of every company depends on its profit from operation. To drive (funds) operating profit, non operating expenses name depreciation should be added with the net profit in present study of the MM Plastic Pvt. Ltd.

Operating profit as main sources of fund in the amount is 74.73, 93.37, 92.87 and 78.53 millions from F/Y 2064/65 to 2067/68 respectively. In the F/Y 2065/66 operating profit increase by nearly 20 millions and after that it has deceased by 1.5 and 14.34 million respectively. Operating profit had covered the percentages of total sources 25.29%, 94.12%, 97.67% and 33.96% from F/Y 2064/65 to 2067/68 respectively. The average percentage of operating profit is 62.67% during the study period. The percentage of operating profit on total sources is lower than the average percentage of operating profit in F/Y 2064/65 and 2067/68. The fluctuating percentage of operating profit due to net profit and other application for purchase of new machine, whose depreciation charge etc. hence, operating profit percentage has fluctuated while the average percentage of operating profit of total sources is more than 60% during the study period. The company seemed to be doing well till this time.

ii) Decrease in Working Capital

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

The amount of decrease in working capital are 3.16 and 62.12 millions in the F/Y 2064/65 and 2067/68 its represent the 1.07% and 28.57% of total source respectively during the study period. The result of such, decrease in working capital as a small source of funds with represent the percentage out of total funds during the study period. It shows the normal solvency position during the study period; such situation is satisfactory for the MM Plastic, but not better.

iii) Sales of Misc. Assets

Sales of Misc. assets and fixed assets are also a main source of funds to meet its applications for the period of time. The MM Plastic derived the source of funds through sales of misc. assets is 215.58, 3.43 and 0.08 millions for F/Y 2064/65, 2065/66 and 2066/67 respectively.

During the F/Y 2064/65 statement of sources and application of funds shows that the primary sources of funds is from sales of misc. assets which represents the 73.24% out of total funds and in the F/Y 2065/66 its represents the only 3.46% out of total funds and than nominal. As the result, the sales of misc. assets are to purchase of fixed assets for F/Y 2066/67. Such internal mobilization of funds is a good and quite satisfactory.

iv) Issue of Share

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

The company has not issued new share until 2066/67 during the study period. But in F/Y 2067/68 the company issued new share of 86.63 millions which represents37.45% out of total source of funds. It is used to pay deferred liabilities of 83.41 millions and company able to save large amount of payable interest comparatively.

V) Increase in Deferred Liabilities

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

Increase in deferred liabilities has been continues source of fund for the company since 2064/65 to 2066/67. Increase in differed liabilities is 1.17, 2.40 and 3.25 millions, which cover the 0.40%, 2.40% and 3.25% out of total source for the year 2065/66, 2066/67 and2067/68 respectively. The percentage of increase in deferred liabilities out of total source is in slightly increases trend up to F/Y 2067/68.

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

2. Application of Funds

This company for different uses may apply the funds, which are acquired from different sources analyzed above. During the fiscal year 2063/64 to 2067/68 total sources of funds of MM Plastic have been applied in six different uses. They are:

i) Increase in working capital
ii) Purchase of fixed assets
iii) Purchase of misc. assets
iv) Decrease of deferred liabilities
v) Payment of dividend
vi) Purchase of investment

i) Increase in working capital

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

In this study period, the company has utilizes in sources of increase in working capita for F/Y 2066/67 and 2067/68 by 50.64 and 36.69 millions that contribute to fund utilize by 51.06% and 38.69% respectively out of the total application during the study period. In F/Y 2066/67 and 2067/68, primary application of fund is increase in working capital, which represent 51.06% and 38.69% respectively. This percentage shows that the increase in working capital is a major part of funds application for F/Y 2066/67 and 2067/68.

ii) Purchase of Fixed Assets

Purchase of fixed assets is also a main of funds which called increase in fixed assets. Fixed assets consist of land, house, furniture, office goods, machinery, transport equipment, books and misc. expenses. MM Plastic had utilized its funds for purchase of fixed assets by Rs.283.81, Rs.47.91, Rs.51.16 and Rs.31.10 millions from F/Y 2064/65 to 2067/68 respectively. Total utilization of funds on this study period has been 96.43%, 48.31%, 53.82% and 13.44% respectively. Average percent of purchase of fixed assets out of total application is more than 50% during the study period. Which is not made by borrowing for the company? So from the study period, a purchase of fixed assets has been decreasing slowly in amount. Its amounts should increase as constant regularly to improve existing position.

iii) Purchase of misc. Assets

Increase of misc. assets is a primary application of funds for MM Plastic in F/Y 2067/68. The company has utilized 96.26 millions which represent 41.62% of total application only for F/Y 2067/68 to increase production capacity and for the betterment of the quality in production. It is a good sign of utilization of fund for the F/Y 2067/68 rather than other year in the view of funds utilization.

iv) Decrease in Deferred Liabilities

Decrease in deferred liabilities is a use of MM Plastic only for 2067/68 during the study period. Decrease in deferred liabilities is Rs.83.41 million which represent 36.07% out of total application. Decrease in deferred liabilities is not sound situation for the company, which indicates the decline in its profitability performance. As a result, MM Plastic bears decrease in deferred liabilities with decrease in net profit for 2067/68.

v) Payment of dividend

MM Plastic utilize the funds by made the payment of dividend is an application of funds. Payments of dividend are in small amount such as 4.04, 0.01, 7.03 and 20.51 millions for 2064/65, 2065/66, 2066/67 and 2067/68 respectively during the study period. Payment of dividend on total funds from 2064/65 to 2067/68 is 1.37%, 0.001%, 7.39% and 8.87% respectively. Thus MM Plastic seems the good in utilization of funds because payment of dividend represents 8.87% of total application in the last years of study period. When company has distributed profit then made the payment of dividend.

Vi) Purchase of Investment

Statement of sources and application of MM Plastic shows that application of funds is also purchase of investment. Purchase of investment is Rs.6.49 and 0.61 millions only in F/Y 2065/66 and 2066/67 respectively and then there are no any applications on investment during the study period. From this study period its utilization on total fund is less than 1% which shows the unsatisfactory result for the company on investment decision.

4.2 RATIO ANALYSIS

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

Financial condition and performance of MM Plastic Pvt. Ltd. may be compared with average ratio of the company having similar operation, but it is not possible in our country. Here is analyzed and interpreted the financial ratio over a period of five fiscal year from 2063/64 to 2067/68to know the direction of change and reflection, whether the company's financial position and performance have improved or deteriorated and remain constant over this period.

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

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

4.2.1 Liquidity Ratio

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

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

4.2.1.1 Current ratio

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

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

The current ratios of MM Plastic are calculated following table:

Table no. – 6

Current Ratio of MM Plastic

(Amount in million)

Year	Current Assets	Current Liabilities	Current Ratio
2063/64	240.19	132.48	1.81
2064/65	288.60	184.05	1.57
2065/66	353.65	198.46	1.78
2066/67	369.41	177.53	2.08
2067/68	393.86	268.08	1.47

Source: Based on appendix-1

The table presents the current ratios of five fiscal years of MM Plastic Pvt. Ltd. The usual standard of current ratios is 2:1, which is more satisfactory. The current ratios of the company for the year 2063/64, 2064/65, 2065/66, 2066/67 and 2067/68 are 1.81, 1.57, 1.78, 2.08 and 1.47 respectively, which shows the liquidity position of the company only in F/Y 2066/67 is better because the current ratio of the company is higher than standard and current ratios for the year 2063/64, 2064/65, 2065/66 and 2067/68 are less than the standard. It means the company has been facing difficulty in the payment of current liabilities and day-to-day operations. So it may be interpreted to be insufficiently liquid except the year 2066/67 during the study period, the current ratio of this company is good only in 2066/67 and in the other years the current ratio are not favorable in paying its debit.

4.2.1.2 Quick Ratio

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

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

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

Table No. - 7

Quick Ratio of MM Plastic

(Amount in million)

Year	Quick Assets	Current Liabilities	Quick Ratio
2063/64	162.08	132.48	1.22
2064/65	202.25	184.05	1.10
2065/66	216.88	198.461	1.09
2066/67	248.30	177.53	1.40
2067/68	251.11	268.08	0.94

Source: Based on appendix – 1

Quick ratios of the company represented in table no. 7 covers a period from 2063/64 to 2067/68. A usual standard of quick ratio is 1:1, which indicates the ability of the company to covers it current claims by quick assets. In short, quick ratio is 1 of 1 represents sound liquidity position of the company for obligation. The quick ratios of the company for F/Y 2063/64, 2064/65, 2065/66, 2066/67 and 2067/68 are 1.22, 1.10, 1.09, 1.40 and 0.94 respectively. This shows that the quick ratios of this company are satisfactory for first four years and able to repay the current liabilities from its own liquid assets. But in the year 2067/68 the quick ratio is 0.99 less than standard, which shows that the company is not able to repay the current liabilities, form its own quick assets when demanded by its creditors.

4.2.2 Leverage Ratios

Leverage ratios are used to measure the contribution of financing by owners compared with financing provided by creditors. These ratios are also called solvency ratios or capital structure ratios. To judge the long-term financial position if the company the leverage ratios are calculated. This ratio indicates funds provided by owner and lenders. As the general rule there should be an appropriate mix of debt and owner's equity in financing the company's assets.

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

4.2.2.1 Long-term Debt to Net worth Ratio

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

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

The long-term debt to net worth ratio of MM Plastic for five fiscal years are is presented bellow:

Table No. – 8

Long-term debt to net worth ratios of MM Plastic

(Amount in million)

Year	Long-term debt	net worth	long-term debt to net worth ratio
2063/64	00	401.39	00
2064/65	00	456.32	00
2065/66	00	518.51	00
2066/67	00	567.39	00
2067/68	00	669.47	00

Source: Based on appendix-1

In this ratio the high ratio shows the large share of financing by the creditors or long-term debt as compare to that of net worth. This means creditors would suffer more in time of distress than the owner. This is only creditors prefer low long-term debt to net worth ratio. The long-term debt to net worth ratio represented in table – 8 which is shows the zero during the study period. In year 2063/64 to 2067/68 long-term debt is not required or no need of long-term debt. So the long-term debt to net worth ratio is zero for five years. This condition of MM Plastic is seemed favorable for the study period, which is satisfactory.

4.2.2.2 Total Debt to Net worth Ratio

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

$$\text{Debt to Net worth or Debt equity Ratio} = \frac{\text{Total Debt}}{\text{Net worth}}$$

Table No. – 9

Total debts to net worth ratios of MM Plastic

(Amount ion million)

Year	Total Debts	Net worth	Equity Ratio
2063/64	224.71	401.39	0.5598 or 55.98%
2064/65	277.45	456.32	0.6080 or 60.80%
2065/66	294.26	518.51	0.5675 or 56.75%
2066/67	275.26	567.39	0.4851 or 48.51%
2067/68	282.40	669.47	0.4218 or 42.18%

Source: based on appendix-1

Total debt to net worth ratio of MM Plastic from 2063/64 to 2067/68 are calculated and presented in above table, which shows the debt equity ratio for five fiscal year of company. There is no rigid rule regarding total debt to net worth ratio and it will depend upon the circumstance, prevailing practices and so on. The total debt to net worth ratio of the company from F/Y 2063/64 to 2067/68 is 0.5598, 0.6080, 0.5675, 0.4851 and 0.4218 respectively. The given figures of total debt to net worth ratio of the company shows the good condition because total debt is less than net worth which indicate the higher amount of net worth or share equity than total debt. Every creditor wants to finance in this company. The lower debt to net worth ratio is better in the soundness of company, which implies smaller claims of creditors. Here the total debt to net worth ratio is lower and lower after year by year. So the financial soundness is favorable of MM Plastic during the study period.

4.2.2.3 Total Liabilities to Total Assets Ratio

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

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

The total liabilities to total assets ratios of MM Plastic from 2063/64 to 2067/68 are calculated in the following table.

Table No. – 10

Total liabilities to total assets ratios of MM Plastic

(Amount in million)

Year	Total Liabilities	Total Assets	Total liabilities to total assets ratio
2063/64	224.71	636.10	0.35
2064/65	277.45	733.76	0.37
2065/66	294.26	812.75	0.36
2066/67	275.26	842.65	0.32
2067/68	282.40	951.86	0.29

Source: Based on appendix-1

The table no. 10 shows the total liabilities to total assets ratios of MM Plastic for five fiscal years. The ratios in year 2063/64 to 2067/68 are 0.35, 0.37, 0.36, 0.32 and 0.29 respectively. The usual standard of this ratio is 0.50. So that the total liabilities to total assets ratios of MM Plastic during the study period of five year are good because the ratios are less than standard and in decreasing way. It indicates that these are low amount of depts. and other liabilities and the company should not pay the more interest at that time. So that the company shows the strong financial position to generate profit for the internal investors or owners.

4.2.2.4 Interest coverage Ratio

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

$$\text{Interest Coverage Ratio} = \frac{\text{Net profit before interest \& tax}}{\text{Interest}}$$

This ratio is also known as time interest earn ratio. A high ratio is a sign of low burden of borrowing of the business and lower utilization of borrowing capacity. From the point of view of creditors, the large the coverage, is the greater the ability of the company to make the payment of interest to creditors. A lower ratio indicates excessive use of debt. In the study of MM Plastic, the net profit before interest and tax is known as operating profit plus interest. The comparative picture of MM Plastic for interest coverage ratios has been shows in following table.

Table No. – 11

Interest coverage ratios of MM Plastic

(Amount in million)

Year	Interest	Net profit before interest & tax	Interest coverage ratio
2063/64	1.30	56.83	43.72 times
2064/65	0.07	68.28	975.43 times
2065/66	0.72	68.47	95.1 times
2066/67	0.92	62.13	67.53 times
2067/68	0.08	43.14	539.25 times

Source: Based on appendix - 2

The above table shows the interest coverage ratios of MM Plastic from 2063/64 to 2067/68, which indicates the very good condition in the view point of interest coverage. The company uses the lower borrowing capacity. In the year 2064/65 the highest interest coverage ratio is 975.43 times and lowest 43.72 times in year 2063/64 during the study period. The company is able to pay interest at list 43.72 times from its income. Therefore, the interest coverage ratios of the company during the study period are favorable because the interest has been cover easily at least 43 times by EBIT.

4.2.2.5 Net fixed assets to long – term debt

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

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

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

Table No. – 12

Net fixed assets to long – term debt ratio

(Amount in million)

Year	Net fixed assets	Long-term debt	Net fixed assets to long-term debt ratio
2063/64	61.29	00	00
2064/65	329.63	00	00
2065/66	345.39	00	00
2066/67	360.61	00	00
2067/68	349.11	00	00

Source: Based on appendix - 1

The above table shows the Net fixed assets to long – term debt ratio of MM Plastic from 2063/64 to 2067/68. These ratios are infinitive (00) because these are no any utilization of long term debts during the study period. Therefore, the long term financial position of the company is favorable in relation on net fixed assets to long term debt during the study period.

4.2.3 Activity Ratios

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

4.2.3.1 Total Assets Turnover Ratio

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

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

The following table presents the total assets turnover ratio of MM Plastic from F/Y 2063/64 to 2067/68. Where in total assets include current assets and fixed assets with investment in share and misc. assets.

Table No. – 13

Total Assets Turnover Ratio of MM Plastic

(Amount in million)

Year	Net sales	Total assets	Total assets turnover ratio
2063/64	231.75	626.10	0.37
2064/65	293.42	733.76	0.40
2065/66	368.62	812.75	0.45
2066/67	372.78	842.65	0.44
2067/68	414.58	951.86	0.44

Source: Based on appendix - 1& 2

During the whole study period total assets turnover ratio of MM Plastic was lower than standard (2:1). The total assets turnover ratios are 0.37, 0.40, 0.45, 0.44 and 0.44 in F/Y 2063/64 to 2067/68 respectively. The total assets turnover ratios are very unsatisfactory during the study period. There was been high amount of total assets than sales for each and every year, which is not good for manufacturing company like MM Plastic. There ratios indicate no efficiency of management in utilization of assets. In conclusion, the assets management of the company is not good during the study period. The low turnover ratio of this company may be due to the poor selling capacity, lower labor capacity or under utilization of available resources (plant) capacity etc. in the company.

4.2.3.2 Debtors Turnover Ratio and Average Collection Period

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

The liquidity of a company's debtors can be examined in two ways:-

(1) Debtors turnover ratio

(2) Average collection period.

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

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

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

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

$$\text{Average Collection Period} = \frac{\text{Days in a Year (360)}}{\text{Debtors Ternover Ratio}}$$

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

Table No. – 14

Debtor's turnover ratio and average collection period

(Amount in million)

Year	Net Sales	Debtors	Debtors turn over ratio	Average collection period
2063/64	231.75	0.43	538.95 times	0.667 days
2064/65	293.82	1.26	233.19 times	1.54 days
2065/66	368.62	0.91	405.07 times	0.889 days
2066/67	372.78	0.07	5325.4 times	0.067 days
2067/68	414.58	80.48	5.15 times	69.88 days

Source: Based on appendix 1& 2

The above table shows the debtors turnover ratios and average collection period of MM Plastic for 5 years period from 2063/64 to 2067/68 the debtors turnover ratios are 538.95, 233.19, 405.07, 3525.4 and 5.15 respectively.

The higher collection period than the standard i.e. 15 days and also lower debtor's turnover ratio than the standard i.e. 20 times could not be found up to 2066/67. But in the year 2067/68 unfortunately the debtor turnover ratio is decrease and average collection period is increased, which can't meet its standard. It indicates that there is favorable condition in the collection performance up to 2066/67, which is taken as satisfactory. But in last year of the study, there is a large amount of debtors, which makes the company unsatisfactory and takes long time to convert the debtors into cash.

4.2.3.3. Inventory Turnover Ratio

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

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

Where,

$$\text{Average Inventory} = \frac{\text{Opening Stock + Closing Stock}}{2}$$

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

Table No. – 15

Inventory turnover ratio of MM Plastic

(Amount in million)

Year	Cost of goods sold	Average inventory	Inventory turnover ratio
2063/64	119.78	35.375	3.386 times
2064/65	147.32	37.3	3.949 times
2065/66	206.49	45.175	4.57 times
2066/67	206.80	55.825	3.70 times
2067/68	227.01	52.275	4.34 times

Source: Based on appendix - 1&2

The above table represents the inventory turnover ratio of MM Plastic from 2063/64 to 2067/68 in the period of five years; about the standard of the inventory turnover ratio could be found. The usual standard of inventory turnover ratio for manufacturing company is 4 times. The inventory turnover ratios are 3.38, 3.95, 4.57, 3.70 and 4.34 times in the years 2063/64 to 2067/68 respectively, which are nearer the standard. So this position of the company is satisfactory in the view point of inventory turnover, which indicates that the company sells goods very fast to earn more profit for future period.

4.2.3.4 Net Sales to Net worth Ratio

Net worth turnover ratio is the adequacy of sales in relation to net worth. It also measures the efficiency of the company and tries to seek answer how efficiently the company is managing its net worth and vice-versa.Net worth turnover ratio is calculated by dividing net sales by net worth.

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

The following table shows the relationship between net sales and net worth of MM Plastic from 2063/64 to 2067/68.

Table No. – 16

Net Sales to Net worth Ratio

(Amount in million)

Year	Net sales	Net worth	Net sales to net worth ratio
2063/64	231.75	401.39	0.58
2064/65	293.82	456.32	0.64
2065/66	368.62	518.51	0.71
2066/67	372.78	567.39	0.66
2067/68	414.58	669.47	0.62

Source: Based on appendix – 1&2

The above table shows the net worth ratios of MM Plastic for five fiscal years. The ratios are 0.58, 0.64, 0.71, 0.66 and 0.62 for F/Y 2063/64 to 2067/68 respectively. The higher ratio is the preferable, so that the ratio for 2065/66 is higher than other years (i.e. 0.71) and other are also meet the standard (i.e.0.50). Therefore, the company is satisfactory in the viewpoint of net sales to net worth ratio.

4.2.3.5 Fixed Assets Turnover Ratio

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

Table No. – 17

Fixed assets turnover ratio of MM Plastic

(Amount in million)

Year	Net sales	Net fixed assets	Fixed assets turnover ratio
2063/64	231.75	61.29	3.78 times
2064/65	293.82	329.63	0.89 times
2065/66	368.62	346.39	1.06 times
2066/67	372.78	360.61	1.03 times
2067/68	414.58	349.11	1.18 times

Source: Based on appendix – 1&2

It is observed from the above table that highest ratio is 3.78 times in F/Y 2063/64 five years period and the lowest ratio is 0.89 times in 2064/65. Fixed assets turnover ratio of MM Plastic 3.38, 1.06, 103 and 1.18 times for the year 2063/64, 2065/66, 2066/67 and 2067/68 respectively are not satisfactory as thumb standard and seems unfavorable, computing the above calculation. It means that utilization of fixed assets in generating sales is not efficient for the whole study period. So company should take attention to effective and efficiency utilization of fixed assets.

4.2.4. Profitability Ratio

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

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

4.2.4.1 Gross Profit Margin / Ratio

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

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

A higher ratio is a sign of good management. A low gross profit may reflect higher cost goods sold due to the company's inability to purchase at favorable terms. The gross profit margin of the company during five fiscal years in the study period shows following table.

Table no. – 18

Gross Profit Margin of MM Plastic

(Amount in million)

Year	Gross profit	Sales	Gross profit margin
2063/64	64.71	231.75	27.92%
2064/65	84.78	293.82	28.85%
2065/66	100.81	368.62	27.35%
2066/67	99.58	372.78	26.71%
2067/68	87.24	414.58	21.04%

Source: Based on appendix - 2

The gross profit margin ratios of MM Plastic are 27.92%, 28.85%, 27.35%, 26.71% and 21.04% for the F/Y 2063/2064 to 2067/2068 respectively. In the initial two years, the ratios has been increasing trend and then decreasing trend. Although decreasing, gross profit margin ratios are taken as satisfactory during the study period.

4.2.4.2 Net Profit Margin / Ratio

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

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

The higher the ratio is an indication of the higher overall efficiency of the business and better utilization of total resources and vice-versa. The following table no.19 shows the net profit margin ratio of MM Plastic from 2063/64 to

2067/68. The net profit margin ratios of MM Plastic are 16.25%, 20.07%, 16.86%, 14.99% and 8.66% for the F/Y 2063/64 to 2067/68 respectively.

Table No. – 19

Net Profit Margin of MM Plastic

(Amount in million)

Year	Net profit after tax	Net sales	Net profit margin
2063/64	37.68	231.75	0.1625 or 16.25%
2064/65	58.97	293.82	0.2007 or 20.07%
2065/66	62.18	368.62	0.1686 or 16.86%
2066/67	55.91	372.78	0.1499 or 14.99%
2067/68	35.89	414.58	0.0866 or 8.66%

Source: Based on appendix – 2

Table no.19 indicates that the net profit margin ratios of the MM Plastic are decreasing trend from second year during the study period. Net profit margin of MM Plastic are decreasing trend due to lack of efficiency in manufacturing, incompetent administration and unable to generate large volume of sales. The net profit ratio is about standard i.e. 15% up to 2066/67 and lowers for the year 2067/68. The company should analysis strength, weakness, opportunity and threat for the success of the company in future with generating the large volume of sales and profit.

4.2.4.3 Return on Total Assets

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

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

The company said to misuse its assets if it is not able to earn a reasonable return on its assets. High ratio is favorable and vice-versa. The return on total assets ratios of MM Plastic for 2063/64 to 2067/68 are given in the table no. 20

Table No. – 20

Return on total assets of MM Plastic

(Amount in million)

Year	Net profit	Total sales	Return on total assets
2063/64	37.68	626.10	0.06 or 6%
2064/65	58.97	733.76	0.08 or 8%
2065/66	62.18	812.75	0.076 or 7%
2066/67	55.91	842.65	0.06 or 6%
2067/68	35.89	951.86	0.037 or 4%

Source: Based on appendix – 1&2

The above table recorded the higher and lowest return on total assets ratio 8% and 4% for 2064/65 and 2067/68 respectively. These ratios MM Plastic are not better during the study period because the trend of ratios is in decreasing way. The table indicates that the management is going to misuse or failed its assets in its full capacity day by day. The financial condition of MM Plastic is seems too normal during the study period but not good in the viewpoint of return on total assets as compared to the standard.

4.2.4.4. Net Profit to Net worth Ratio

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

$$\text{Return on Net Worth} = \frac{\text{Net Profit}}{\text{Net worth}}$$

The higher the ratio is preferable which shows that the company is very efficient on profit earning and vice-versa. In the table no.21 return on net worth of MM Plastic from 2063/64 to 2067/68 has been presented.

Table No. – 21

Return on net worth of MM Plastic

(Amount in million)

Year	Net profit	Net worth	Return on net worth
2063/64	37.68	401.39	0.0939 or 9.39%
2064/65	58.97	456.32	0.1292 or 12.92%
2065/66	62.18	518.51	0.1199 or 11.99%
2066/67	55.91	567.39	0.0985 or 9.85%
2067/68	35.89	669.47	0.0536 or 5.36%

Source: Based on appendix – 1&2

The above-mentioned table represents the percentage of return on the net worth of MM Plastic for five years period. The return on net worth ratios of MM Plastic are 9.39%, 12.92%, 11.99%, 9.85%, 5.36%for the years 2063/64 to 2067/68. By seeing this ratio of this company during the study period for 5 years, trend of ratio is in decreasing nature but not negative. Return on net worth ratio said that financial management of this company is ineffective day by day.

4.2.4.5. Return on Capital Employed Ratio

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

$$\text{Return on Capital Employed Ratio} = \frac{\text{Net Profit}}{\text{Total Capital Employed}}$$

The comparative picture of return on capital employed of MM Plastic from 2063/64 to 2067/68 has been expressed in the table no. 22

Table No. – 22

Return on capital employed of MM Plastic

(Amount in million)

Year	net profit	Capital employed	Return on capital employed
2063/64	37.68	626.10	0.0602 or 6.02%
2064/65	58.97	733.77	0.0804 or 8.04%
2065/66	62.18	812.77	0.0765 or 7.65%
2066/67	55.91	842.65	0.0664 or 6.64%
2067/68	35.89	951.87	0.0377 or 3.77%

Source: Based on appendix – 1&2

The above calculation of return on capital employed ratio of MM Plastic are 6.02%, 8.04%, 7.65%, 6.64% and 3.77% for the F/Y 2063/64 to 2067/68 respectively. The highest return on capital employed is 8.04% in F/Y 2064/65 lowest return on capital employed is 3.77% in F/Y 2067/68 during the study period. This ratio is not satisfactory as a standard. Management should give the attention for the better mobilization of internal as well as external funds properly for the purpose of good return.

4.2.4.6 Cost of Goods Sold Ratio

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

$$\text{Cost of Goods Sold Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Net worth}}$$

Cost of goods sold ratio of MM Plastic from 2063/64 to 2067/68 are presented in the following table no. 23.

Table No. – 23

Cost of goods sold ratio of MM Plastic

(Amount in million)

Year	Cost of goods sold	Net sales	cost of goods sold ratio
2063/64	119.78	231.75	0.52 or 52%
2064/65	147.32	293.82	0.50 or 50%
2065/66	206.49	368.621	0.56 or 56%

2066/67	206.80	372.78	0.55 or 55%
2067/68	227.01	414.58	0.55 or 55%

Source: Based on appendix – 2

The cost of goods sold ratios is 52%, 50%, 56%, 55% and 55% in the F/Y from 2063/64 to 2067/68. The ratio of 2064/65 was lowest for the company during the study period. The ratios are in slightly constant trend during the study period and all ratios are higher. High cost of production and high direct expenses, under utilization of resources, over staffing, lock of consideration among different activities of MM Plastic are the main reason to become high cost of goods sold ratios. In the viewpoint of cost of goods sold ratios, the condition of company is not satisfactory.

4.3 Trend Analysis

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

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

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

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

For the purpose of the trend analysis, the first year of the study period (F/Y 2063/64) is selected as the base year or 100%. The amount of the subsequent years change in relative percentage to the first fiscal year (2063/64) base. A statement of trend percent of some relevant financial item of MM Plastic for the study period is presented in the following table.

Table No. – 24

Statement of trend percent of items of MM Plastic

(In percentage)

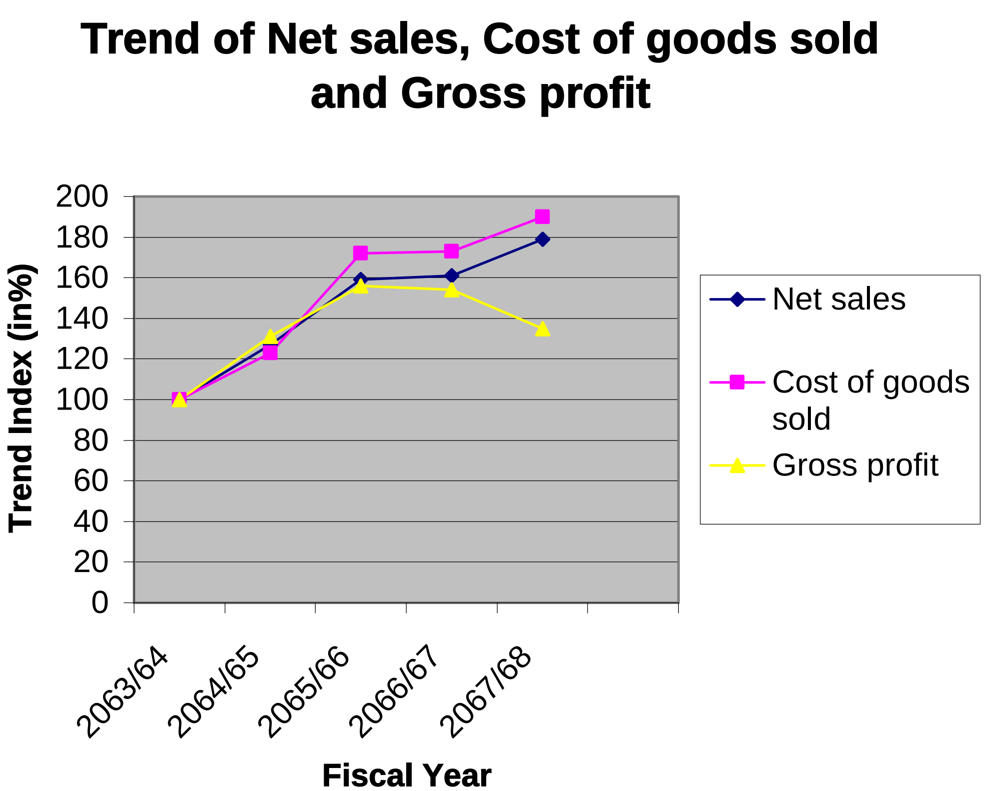
S.N.	Items	2063/64	2064/65	2065/66	2066/67	2067/68
1.	Net Sales	100	127	159	161	179
2.	Cost of Goods Sold	100	123	172	173	190

3.	Gross Profit	100	131	156	154	135
4.	Net Profit	100	157	165	148	95
5.	Mfg. Expenses	100	128	160	197	226
6.	Current Assets	100	120	147	154	164
7.	Current Liabilities	100	139	150	133	202
8.	Total Assets	100	117	130	135	152
9.	Total Liabilities	100	124	131	122	126
10.	Inventory	100	111	175	155	183
11.	Interest	100	5	55	71	6
12.	Share Capital	100	100	100	100	180
13.	Operating Profit	100	123	122	110	78
14.	Deferred Liabilities	100	101	104	106	16
15.	Net worth	100	114	129	141	167
16.	Sundry Debtors	100	293	211	16	187

Source: Based on appendix – 1&2

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

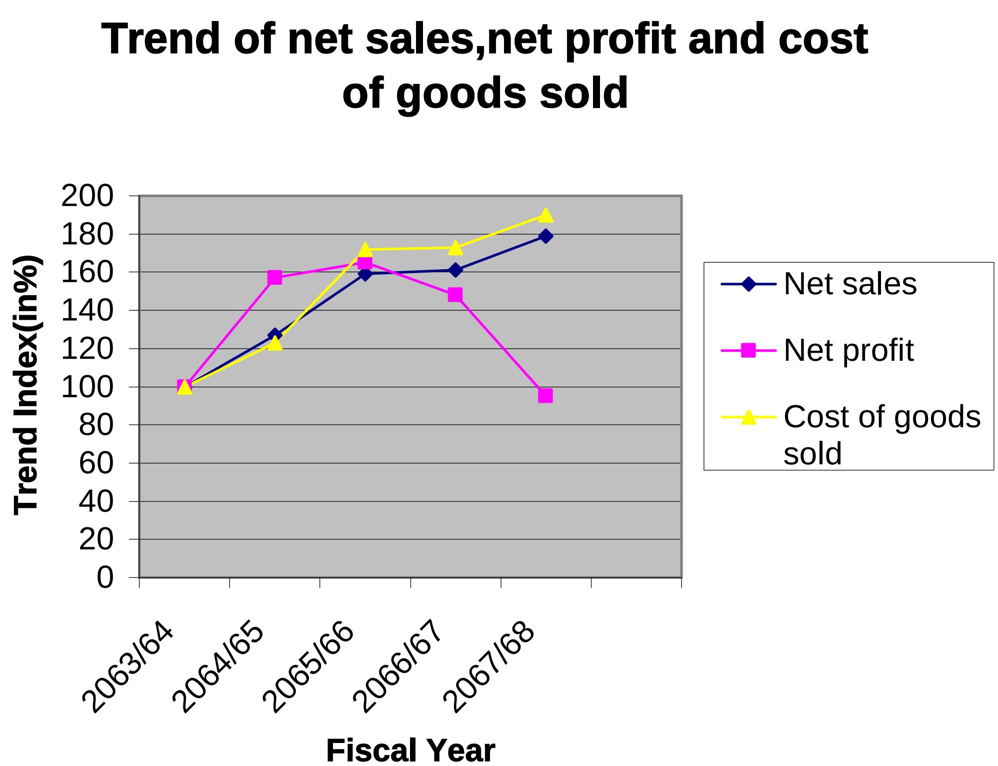
Graph No. – 1



The graph no.–1 shows the trend of gross profit, net sales and cost of goods sold. The trend of net sales and cost of goods sold are all exactly alike up to study period. But gross profit line is down sloping form the year 2065/66. The trends of these items of MM Plastic are normal as compare to the base year. The trend of cost of goods sold is increasing trend with the increasing trend of net sales. So it is favorable for the company. But the trend of gross profit of the company during the study period is up ward and down ward sloping. The trend of gross profit up to year 2065/66 is favorable than it is in decreasing slop, which is not better for the company. The company faces the down ward sloping of gross profit because of small volume of net sales.

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

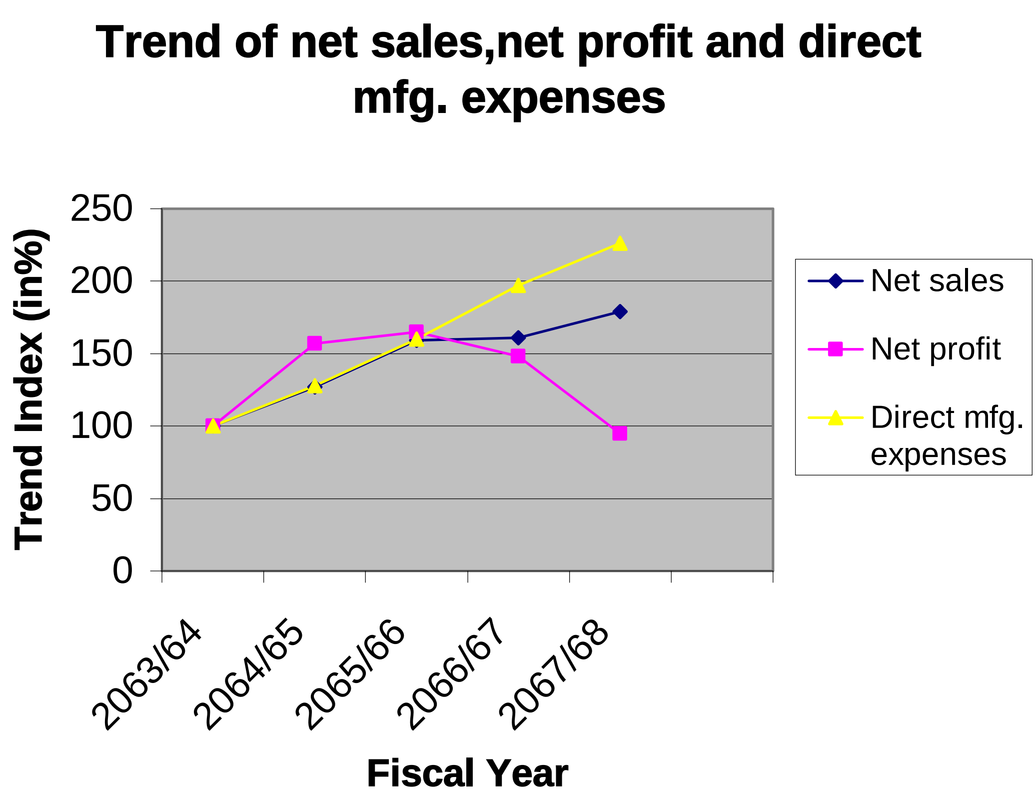
Graph No. – 2



The above graph no.-2 presents the trend of net sales, net profit and cost of goods sold of MM Plastic. The trend of net sales and cost of goods sold are increasing trend, which is better up to study period. But net profit line hardly makes up ward slop up to the third year (F/Y 2065/66) than it begins to slop down ward to the last year (2067/68). The trend line of net profit is going to place in down ward sloping as compared to base year. The trend of net profit is 95% in the year 2067/68, which is the last year of the study period, so that is shows that the trend line net profit on the future time also take downward place. The trend of net profit is not favorable for the company, for the last three years during the study period.

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

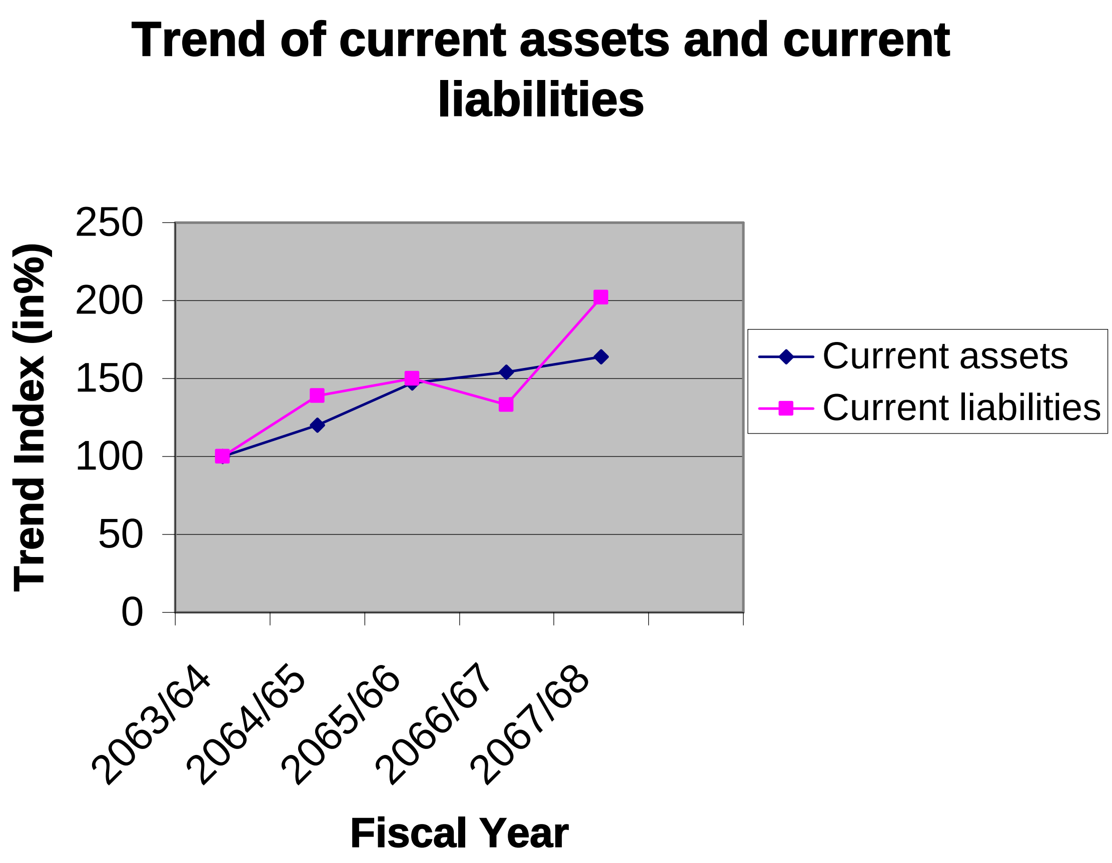
Graph no. – 3



Graph no. 3 is a trend of net sales, net profit and direct manufacturing expenses of MM Plastic. The trend of net sales and direct manufacturing expenses is increasing way during the study period. But the trend line of net profit from third years is in down ward sloping. The trend line of direct manufacturing expenses is increasing trend as compared to base year with the increasing trend of net sales, but increasing rate of trend line of direct manufacturing expenses is not favorable for the MM Plastic. The trend line of net profit is favorable up to F/Y 2065/66 and the unfavorable during the study period. The trend present of net profit is lower than base year in the last year of the study period (i.e. 95%<100%). The main causes of decreasing trend of net profit are absence of modern technology and large volume of direct mfg. expenses.

4.3.4 Trend of current assets and current liabilities

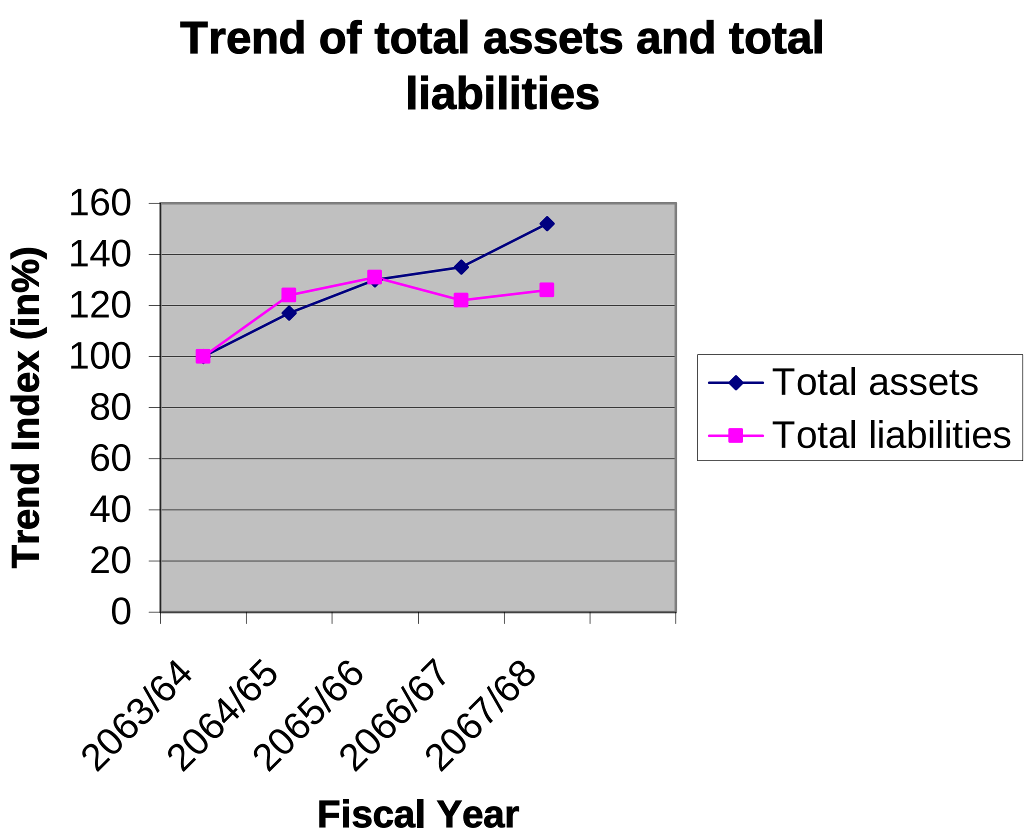
Graph No. – 4



The relationship between current assets and current liabilities of MM Plastic is shown in graph no. 4. Both the trend lines are increasing all the years except trend lines of current liabilities in the F/Y 2066/67. Increasing rate of trend line of current assets is greater than the trend line of current liabilities, but the trend line of the current assets is not sufficient for the year, except F/Y 2066/67. Thus the trend of the graph shows the poor solvency position of the company during the study period except 2066/67, which is unfavorable to the company. As a result, MM Plastic is running with poor solvency position during the study period.

4.3.5 Trend of Total Assets and Total Liabilities

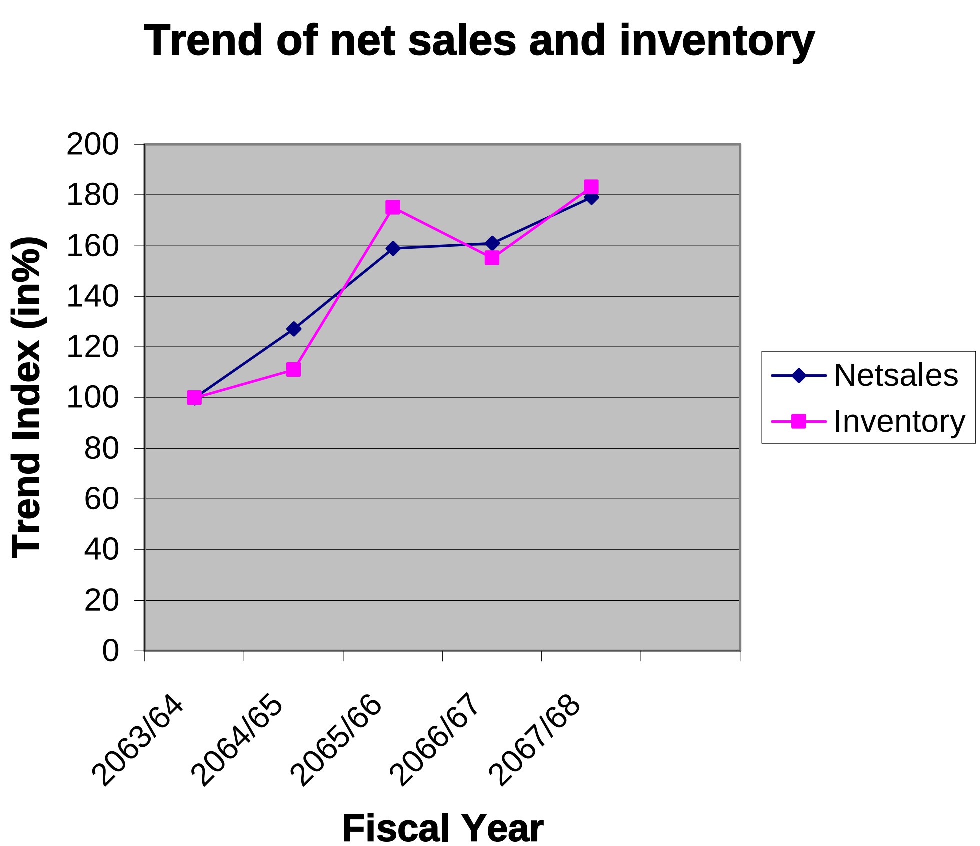
Graph No. – 5



The trend of total assets and total liabilities of MM Plastic are not adopting particular direction. The trend of total assets is increasing trend during the study period. But the trend line of total liabilities is in fluctuating way. The trend line of the total assets is lower than the trend line of total liabilities up to F/Y 206/66 and the trend line of total assets is greater than the trend line of the total liabilities during the study period. The trend line of the total assets and the total liabilities of the company shows the unfavorable condition for the year 2063/64, 2064/65 and 2065/66 and favorable for the year 2066/67 and 2067/68 during the study period. As the result, the trend line of total assets and total liabilities is going to take the favorable direction (place) on the last two years during the study period.

4.3.6 Trend of Net Sales and Inventory

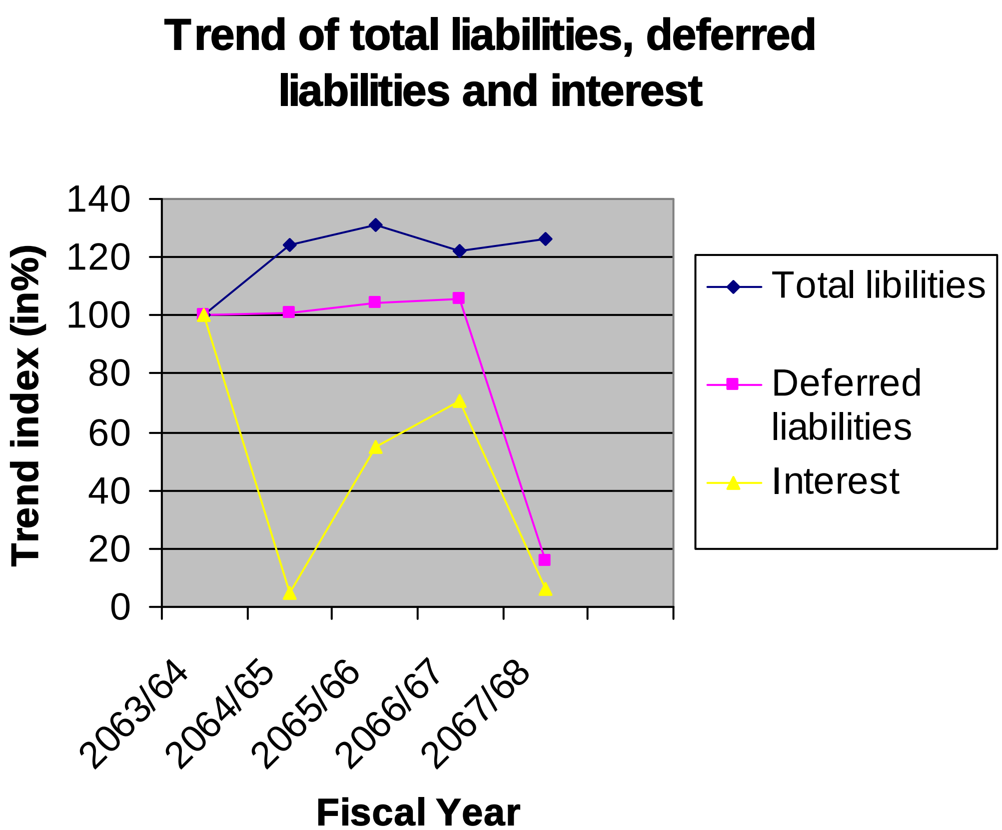
Graph No. – 6



The trend of net sales and inventory of MM Plastic from 2063/64 to 2067/68 is shows in graph no. 6. The trend line of inventory and net sales are widely fluctuating up and downs without adopting a particular direction. The rate of fluctuation of inventory is higher than the net sales. The trend of net sales goes slightly up ward, which is sign of improving or favorable but the slightly up ward trend line of net sales is not better position. The trend line of inventory is fluctuating during the study period. The slightly up ward trend of net sales and fluctuate trend of inventory of the company indicate the poor performance of production and inventory management in terms of cost control.

4.3.7 Trend of Total Liabilities, Deferred Liabilities and Interest

Graph No. – 7

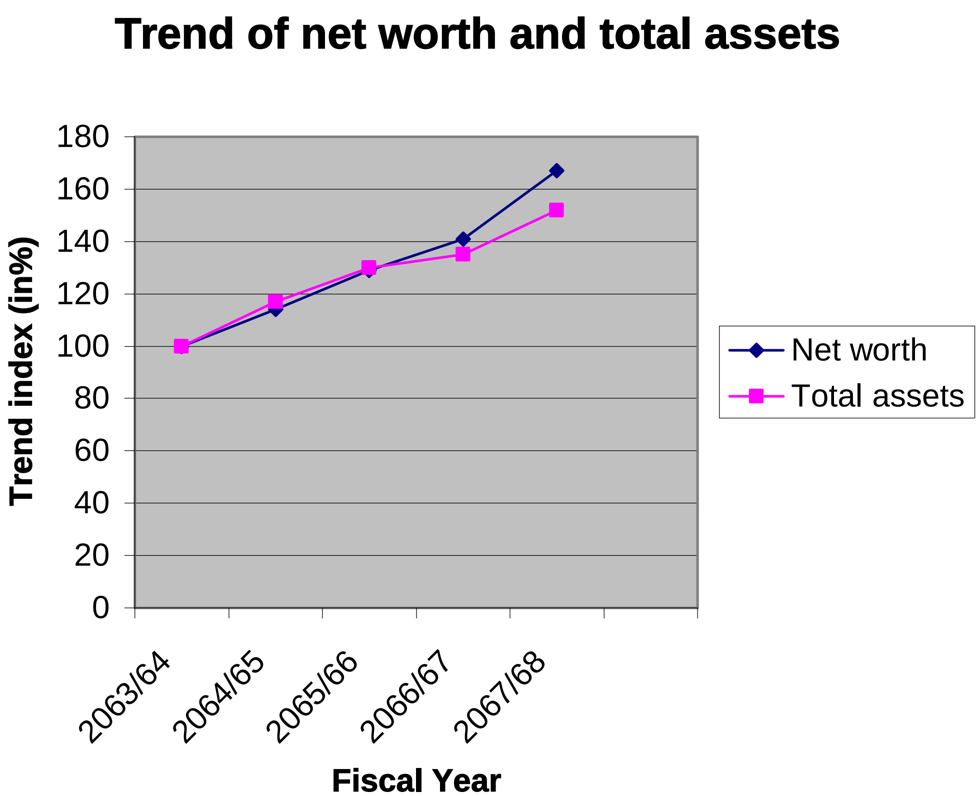


The trend line of interest, deferred liabilities total liabilities are widely fluctuating. Trend line of total liabilities slightly increases to F/Y 2065/66 and decreases for the year 2066/67 and again increases for the last year. The trend line of deferred liabilities points the slowly up ward to 20666/67 and deeply down ward to F/Y 2067/68 as compared to base year. Trend line of interest is also fluctuating way.

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

4.3.8 Trend of Net worth and Total Assets

Graph no. – 8

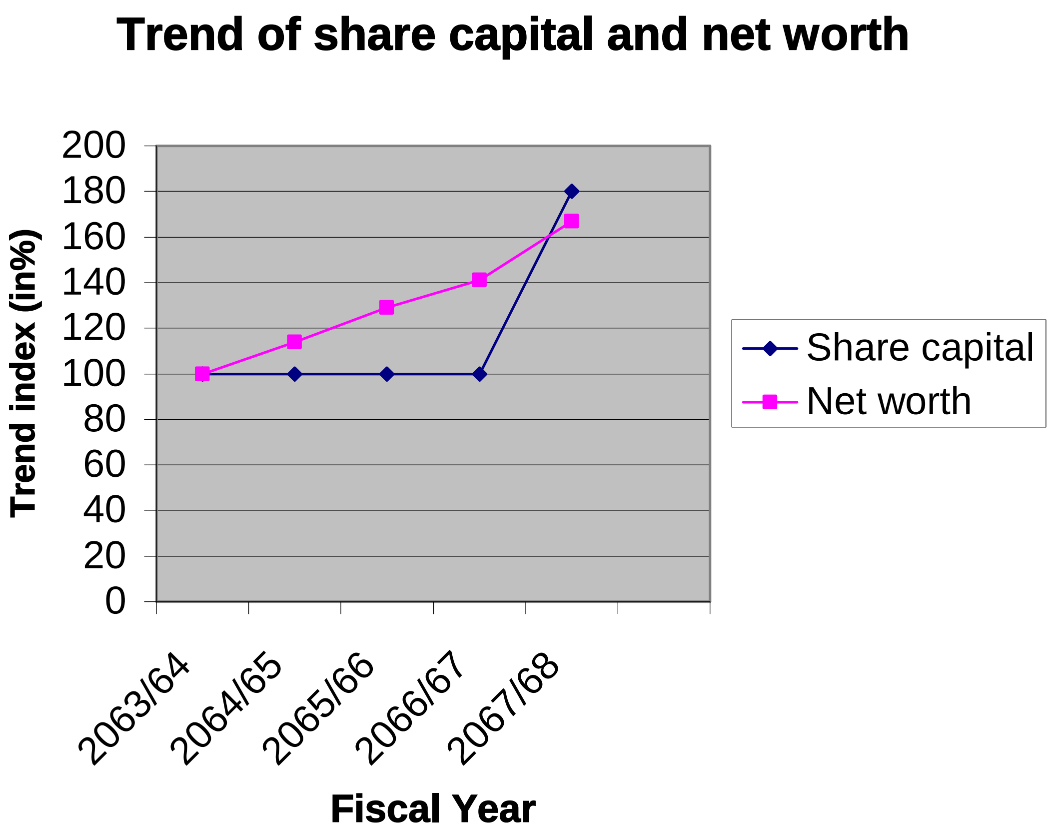


It is reveals that the trend line of net worth and total assets of MM Plastic from 2063/64 to 2067/68 are all exactly up ward during the study period. The trend line of net worth and total assets indicate the worth of company. Therefore, from the above trend line of graph no. 8 is concluded that the company is worthiness. Both the net worth and total assets trend line are increasing trend of the company and the company is favorable in the view point of net worth and total assets trend line.

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

4.3.9 Trend of share capital and net worth

Graph No. - 9

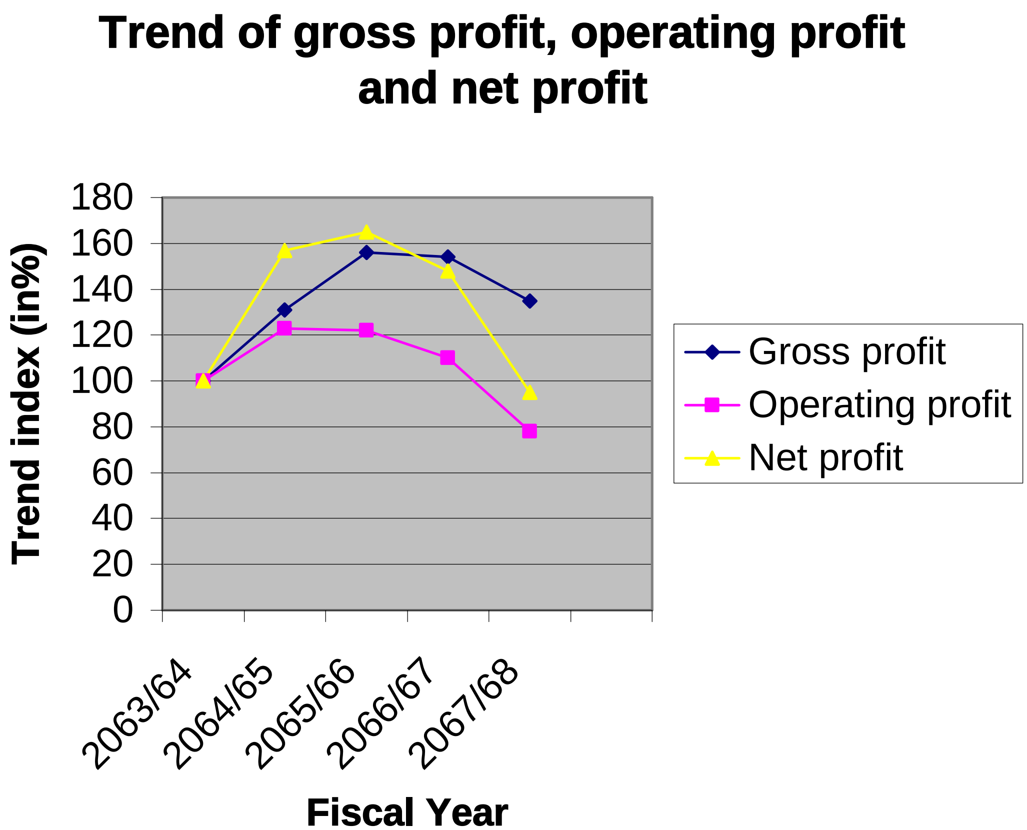


Trend line of share capital and net worth of MM Plastic for five years study period is presented in graph no. 9. The trend line of net worth is in up ward sloping during the study period but the trend line of share capital is constant up to F/Y 2067/68 and rapidly up ward for the last year during the study period.

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

4.3.10 Trend of Gross Profit, Operating Profit and Net Profit

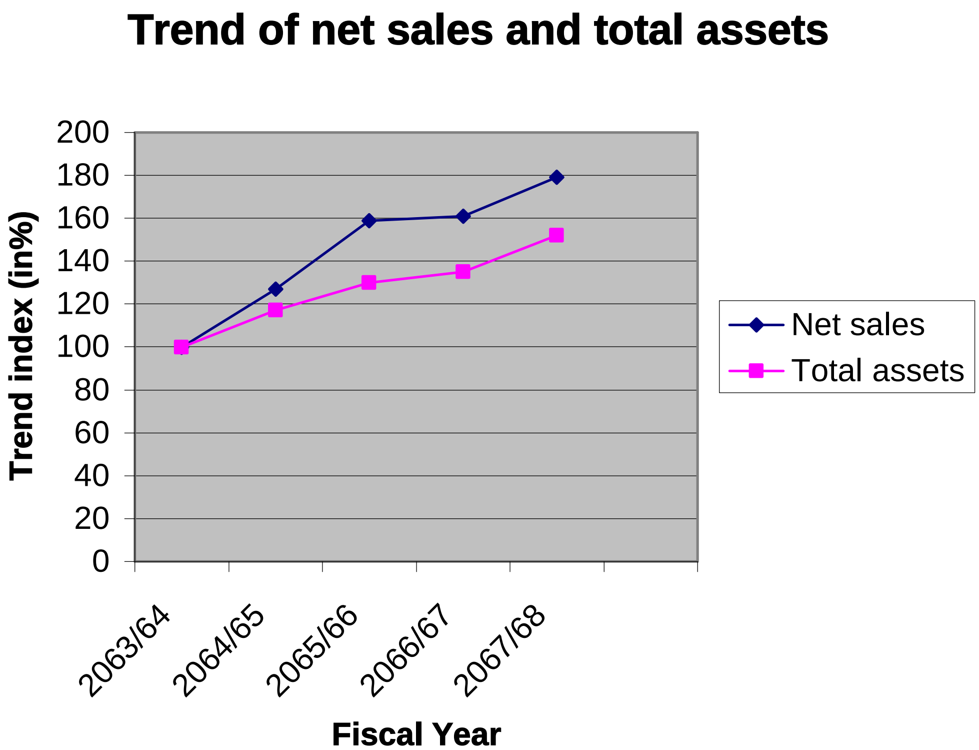
Graph No. – 10



Graph no. 10 shows the trend line of gross profit, operating profit and net profit of MM Plastic from 2063/64 to 2067/68. the trend line of gross profit, operating profit and net profit are slightly up ward from the starting year to F/Y 2065/66 than the trend line of all items (gross profit, operating profit and net profit) are in down ward sloping. Trend line of operating profit and net profit are lower than the base year in the last year which is decreasing trend. It indicates that the MM Plastic is unable to earn sufficient net profit and operating profit because of heavy cost, absence of modern technology, labor trouble, heavy direct manufacturing and operating expenses etc.

4.3.11 Trend of Net Sales and Total Assets

Graph No. – 11



The trend line of net sales and total assets of MM Plastic during the study period from 2063/64 to 2067/68 are upward sloping. The increasing trend of net sales is greater than the increasing trend of total assets are compared to base year. This trend of net sales and total assets of the company is helpful for promoting better participation of all the parties, who are related to the MM Plastic. In other words, in the view point of the trend line of net sales and total assets of the company it is fruitful to all the parties relating to the company.

4.4 Correlation Analysis

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

1. Karl Person's Correlation Coefficient

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

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

2. Probable Error

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

When the value of 'r' is less than probable error of MM Plastic of gross profit and net sales for study period shows in the following calculation.

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

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

Calculation of correlation coefficient and probable error of MM Plastic of gross profit and net sales for the study period shown in the following calculation.

Here,

Let, Gross Profit = X, Net Sales = Y

Table No. – 25

Correlation Coefficient and Probable Error of Gross Profit and Net Sales

Year	X	Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2063/64	64.71	231.75	-22.7	-104.6	515	10933	2374
2064/65	84.78	293.82	-2.6	-42.5	6.9	1805	111
2065/66	100.81	368.62	13.4	32.31	179.6	1044	433
2066/67	99.58	372.78	12.2	36.5	148.2	1330	445
2067/68	87.16	414	-0.3	78.3	0.06	6126	-24
Total	$\sum X =$ 437.04	$\sum Y =$ 168.6			$\sum x^2 =$ 849.8	$\sum y^2 =$ 21238	$\sum xy =$ 3339

Source: Based on application – 2

We know,

$$\overline{X} = \frac{\sum X}{N} = \frac{437.04}{5} = 87.41$$

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

Where, N = 5

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{3339}{\sqrt{849.8X21238}} = \frac{3339}{4248} = 0.785$$

Again,

Calculation of Probable Error between gross profit and net sales.

Where, r = 0.785

N = 5

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

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

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

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

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

Here, Let,

Net profit = X, Net Sales = Y

Table No. – 26

Correlation Coefficient and Probable Error of Net Profit and Net Sales

Year	X	Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	x^2	y^2	xy
2063/64	37.68	231.75	-12.44	-104.56	157	10932	1716324
2064/65	58.97	293.82	8.8	-42.5	78	1805	-374
2065/66	62.18	368.62	12.06	32.31	145	1044	390
2066/67	55.91	372.78	5.79	36.5	34	1330	211
2067/68	35.89	414.58	-14.23	78.3	203	6126	-1114
Total	$\sum X =$ 250.6	$\sum Y =$ 1681.6			$\sum x^2 =$ 615	$\sum y^2 =$ 21238	$\sum xy =$ 410

Source: Based on appendix – 2

We know,

$$\bar{X} = \frac{\sum X}{N} = \frac{250.6}{5} = 50.12$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{1681.6}{5} = 336.31$$

We know,

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{410}{\sqrt{615 \text{ x } 21238}} = 0.113$$

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

Where, n = 5

r = 0.113

P.E.r = $0.6745x\frac{1\text{-}r^2}{\sqrt{n}} = 0.6745x\frac{1\text{-}\left(0.113\right)^2}{\sqrt{5}} = 0.6745x0.442{=}0.298$

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

The value of 'r' is less than the value of P.E.r (0.113<0.298). So that there is no evidence of correlation. In other words, the correlation between net profit and net sales is not significant, which revels that the large volume of cost in capital structure of the company. It seems to be disadvantage in terms of profitability for the company.

The Karl Person's correlation coefficient between net profit and net sales of MM Plastic has registered a positive correlation 'r' of 0.11.

4.4.3 Karl Person's Correlation Coefficient and Probable Error of Net worth and Total Liabilities

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

Correlation coefficient and probable error of net worth and total liabilities of MM Plastic has been shown in the following calculation.

Here, Let,

Net worth = X, Total Liabilities = Y

Table No. – 27

Correlation Coefficient and Probable Error of Net worth and Total Liabilities

Year	X	Y	$x = X\text{-}\overline{X}$	$y = Y\text{-}\overline{Y}$	x^2	y^2	xy
2063/64	401.39	224.71	-121.2	-46.09	14692	2124	5586

2064/65	456.32	277.45	-66.28	6.65	4393	44	-441
2065/66	518.51	294.26	-4.09	23.46	17	550	-96
2066/67	567.39	275.26	44.79	4.46	2006	20	200
2067/68	669.47	282.40	146.87	11.6	21571	135	1704
Total	$\sum X=$ 2613	$\sum Y=$ 1354			$\sum x^2 =$ 42679	$\sum y^2 =$ 2873	$\sum xy =$ 6953

Source: Based on appendix – 1

We know,

$$\overline{X} = \frac{\sum X}{N} = \frac{2613}{5} = 522.6 \quad , \qquad \overline{Y} = \frac{\sum Y}{N} = \frac{1354}{5} = 270.8$$

We know,

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{6953}{\sqrt{42679 \text{ x } 2873}} = \frac{6953}{11072.72} = 0.6279$$

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

Where, r = 0.6279, n = 5

We know,

$$\text{P.E.r} = 0.6745 \text{ x } \frac{1-r^2}{\sqrt{n}} = 0.6745 \text{ x } \frac{1-(0.6279)^2}{\sqrt{5}} = 0.6745 \text{ x } 0.2709 = 0.18$$

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

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

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

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

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

Here, Let,

Net worth = X,   Net Sales = Y

Table No. – 28

Correlation Coefficient and Probable Error of Net Sales and Net worth

Year	X	Y	$x = X-\overline{X}$	$y = Y-\overline{Y}$	x^2	y^2	xy
2063/64	401.39	231.75	-121.2	-104.6	14692	10933	12678
2064/65	456.32	293.82	-66.28	-42.5	4393	1805	2817
2065/66	518.51	368.62	-4.09	32.31	17	1044	-132
2066/67	567.39	372.78	44.79	36.5	2067/68	1330	1635
2067/68	669.47	414.58	146.87	78.3	21571	6126	11500
Total	$\sum X=$ 2613	$\sum Y=$ 1618.5			$\sum x^2 =$ 42679	$\sum y^2 =$ 21238	$\sum xy =$ 28498

Source: Based on appendix - 1&2

We know,

$$\overline{X} = \frac{\sum X}{N} = \frac{1681.6}{5} = 336.31$$

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

We have,

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{34865}{\sqrt{21238 \text{ x } 243.83}} = \frac{34865}{35535} = 0.98$$

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

Where, r = 0.98,   n = 5

We know,

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

From the above calculation between net sales and total assets of MM Plastic comes out to be r_{xy} = 0.98. Thus, it indicates that there is positively perfect correlation between the two variables (i.e. net sales and total assets). It means, there is favorable condition of company in the view point of relation between net sales and total assets.

The value of r is greater than the value of P.E. r (i.e. 0.98>0.011). So it is no evidence of relation. In other words, the correlation between net sales and total assets is significant.

4.4.5 Karl Person's Correlation Coefficient and Probable Error of Net Sales and Total Assets

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

Here,

Let,   Net Sales = X,   Total Assets = Y

Table No. – 29

Correlation Coefficient and Probable Error of Net Sales and Total Assets

Year	X	Y	$x = X-\bar{X}$	$y = Y-\bar{Y}$	x^2	y^2	xy
2063/64	231.75	626.10	-104.60	-167.30	10933	27989	17500
2064/65	293.83	733.76	-42.5	-59.64	1805	3557	2535
2065/66	368.62	812.75	32.31	19.35	1044	375	625
2066/67	372.78	842.65	36.5	49.25	1330	2426	1798
2067/68	414.58	951.86	78.3	158.46	6126	25110	12407

Total	$\sum X =$ 1681.5	$\sum Y =$ 3967			$\sum x^2 =$ 21238	$\sum y^2 =$ 59457	$\sum xy =$ 34865

Source: Based on appendix – 1&2

We know,

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

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

We have,

$$r_{xy} = \frac{\sum xy \sum}{\sqrt{\sum x^2}\sqrt{\sum y^2}} = \frac{34865}{\sqrt{21238}\sqrt{59457}} = \frac{34865}{35535} = 0.98$$

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

P.E.r $= 0.6745 \text{ x} \frac{1\text{-r}^2}{\sqrt{\text{n}}} = 0.6745 \text{ x} \frac{1\text{-}0.98^2}{\sqrt{5}} = 0.6745 \text{ x } 0.01 = 0.0119$

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

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

4.4.6 Karl Person's Correlation Coefficient and Probable Error of Net worth and Total Assets

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

Here, Let,

Net worth = X, Total Assets = Y

Table No. – 30

Correlation Coefficient and Probable Error of Net worth and Total Assets

Year	X	Y	$x = X - \overline{X}$	$y = Y - \overline{Y}$	x^2	y^2	xy
2063/64	401.39	626.10	-121.2	-167.3	14692	27989	20277
2064/65	456.32	733.76	-66.28	-59.64	4393	3554	3953
2065/66	518.51	812.75	-4.09	19.35	17	375	-80
2066/67	567.39	842.65	44.79	49.25	2006	2426	2206
2067/68	669.47	951.86	146.87	158.46	21571	25110	23273
Total	$\sum X=$ 2613	$\sum Y=$ 3967			$\sum x^2 =$ 42679	$\sum y^2 =$ 59457	$\sum xy =$ 49629

Source: Based on appendix – 1

We know,

$$\overline{X} = \frac{\sum X}{N} = \frac{2163}{5} = 552.6$$

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

We have,

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{49629}{\sqrt{42679 \text{ x } 59457}} = \frac{49629}{50372} = 0.9852$$

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

Where, r = 0.985, n = 5

We know,

P.E. r= 0.6745 x $\frac{1-r^2}{\sqrt{n}} = 0.6745$ x $\frac{1\text{-}(0.985)^2}{\sqrt{5}} = 0.6745$ x $0.0133 = 0.008$

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

The value of ‘r’ is greeter than the probable error (i.e. 0.985>0.008) in the above calculation. So the correlation between net worth and total assets of MM Plastic is significant.

4.5 Common Size Statement Analysis

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

Analysis of common size balance sheet indicates the each individual assets and liability classification as a percentage of total assets and total liabilities. Total assets and total liabilities have been taken equal to 100 percent. In this study the comparative common size income statements of MM Plastic from 2063/64 to 2067/68 shows the position relating profitability as well as indicates items of cost responsible for increase or decrease in percentage of profit and common size balance sheet shows the increase or decrease of financial position during the study period.

5.5.1 Common Size Income Statement Analysis

The comparative common size income statement of MM Plastic from 2063/64 to 2067/68 is presented below:

Table No. – 31

Comparative Common Size Income Statement of MM Plastic

Particular	2063/64	2064/65	2065/66	2066/67	2067/68
	%	%	%	%	%
Sales	100	100	100	100	100
Less: Cost of goods sold	51.69	50.14	56.02	55.48	54.76
Less: General expenses	20.39	21.00	16.64	17.81	24.20
Gross Profit	27.92	28.85	27.35	26.71	21.04
Less: Interest	0.56	0.02	0.20	0.25	0.01
Less: Depreciation	3.40	5.62	8.77	10.05	10.71
Operating Profit	23.96	23.22	18.35	16.42	10.39
Add: Income from other sources	0.75	1.73	0.97	1.02	0.59
Pre-tax profit	24.71	24.94	19.35	17.44	10.98
Less: Tax	8.63	4.9	2.48	2.45	2.32
Net profit	16.08	20.07	16.87	14.99	8.66

Source: Based on appendix – 2

The common size income statement percentage reveals that cost of goods sold and all of the items have observed fluctuating percentages of sales. The percentage of cost of goods sold is increasing trend up to F/Y 2065/66 and in decreasing trend during the study period. The decreasing trend of cost of goods sold out of sales is favorable situation for the company. Because of percentage cost of goods sold of last year is higher (i.e. 54.71) than the percentage of cost of goods sold for base year (i.e. 51.59), which indicates the favorable situation as compared to base year for the company. The general expenses percentages of sales are 20.39, 21, 16.64, 17 and 24.20 for the F/Y 2063/64 to 2067/68 respectively. The lower limit of the general expenses is 16.64% of sales for the F/Y 2065/66 and the percentage of general expenses are in increasing way during the study period. Increasing percentage of expenses of sales helps to reduce the net profit percentage. So this increasing percentage of expenses out of sales does not show the good financial performance for the MM Plastic.

The percentages of gross profit on sales at the company are 27.92, 28.82, 27.35, 26.71 and 21.04 from the F/Y 2063/64 to 2067/68 respectively. Gross profit percentage of sales has in decreasing trend from the second year during the study period. It shows that the company bears the heavy cost of goods sold and large amount of general expenses (operating expenses). This decreasing percentage of cost of goods sold of sales does not indicate the favorable situation during the study period for MM Plastic.

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

The percentage of operating profit, pre-tax profit and net profit of sales are in decreasing trend for the whole study period. We can see that the profit of percentage of sales is lower and lower from F/Y 2063/64 to 2067/68 in comparison to previous year. The reason behind the loss is high cost of production, high quantity of closing stock, high manufacturing and general expenses etc. that means no serious consideration was given to control the cost by the company. Therefore, the decreasing percentage of profit out of sales concludes that the company does not give proper attention to profit plan. There should be taken serious steps to control the cost and prepare the plan and policy to evaluate the financial performance, in such a way the company can easily earn reasonable profit from its operation.

4.5.2 Common Size Balance Sheet Analysis

The common size balance sheet of MM Plastic from F/Y 2063/64 to 2067/68 and presented and analyzed to find out the financial position and changes of individual assets and liabilities as the percentage from total assets and total liabilities.

Table no. – 32

Common Size Balance Sheet of MM Plastic

Particular	2063/64	2064/65	2065/66	2066/67	2067/68
	%	%	%	%	%
Capital & Liabilities:					
Share capital	17.29	14.76	13.32	12.85	20.47
Shareholder's reserves	46.82	47.43	50.48	54.48	49.86
Loans & advances	0.00	0.18	0.03	0.20	0.14
Sundry creditors	2.90	5.19	4.67	2.27	4.35
Provision for taxation	9.96	10.45	10.56	9.97	9.84
Misc. current liabilities	8.30	9.27	9.15	6.63	13.84
Deferred liabilities	14.73	12.72	11.79	11.60	1.54
Total	100	100	100	100	100
Assets:					
Cash & Bank balance	5.43	5.41	0.37	5.68	0.41
Sundry debtors	0.07	0.17	0.11	0.01	8.86
Inventory	12.48	11.77	16.83	14.37	15.00
Misc. current assets	20.39	21.98	26.20	23.78	17.51
Fixed assets (net)	9.79	44.92	42.62	42.79	36.68
Investment in share	16.86	15.27	13.86	13.37	11.83
Misc. assets	34.98	0.48	0.01	0.00	10.11
Total	100	100	100	100	100

Source: Based on appendix – 1

The above table shows the common size balance sheet of MM Plastid for the five fiscal years period from 2063/64 to 2067/68. It helps to highlight the significant facts and point to those items individually with relative changes in each group of assets and liabilities. The common size balance sheet shows that assets items as a percentage of total assets. The percentage of cash & bank balance of total assets are seemed about equal in F/Y 2063/64 and 2064/65. The decrease by 5% and again increased by 5.5% and again for the last year decreased by 5%. It indicates that there no consideration on cash & bank balance of the company during the study period. Therefore, the fluctuating of increase and decrease in cash and bank balance are not reasonable satisfactory for the company. Thought, the percentage of sundry debtors out total assets are fluctuating during the study period, there is no large different between the percentage of sundry debtors out total assets till F/Y 2066/67. The small percentage of total assets carried out by sundry debtors for the F/Y 2063/64, 2064/65, 2065/66 and 2066/67 and 2067/68 increased by 8% for F/Y 2067/68. It states those debtors are not collected in time by the company. So the management should investigate the reasons for the difficulties in the collection of debtors with modern tools of cash management.

Inventory as the percentage of total assets are 12.48, 11.77, 16.83, 14.37 and 15 for the F/Y 2063/64 to 2067/68 respectively. Those percentages indicate that there is a large amount of inventory using the appropriate methods of inventory management for the mobilization of current assets.

The percentages of other current assets are different during five years period from 18% and 26%. That is no large different on the percentage of misc. current assets as the percentage of total assets is satisfactory. Net fixed assets increased percentage to F/Y 2064/65 from 2063/64 by 33% as the percentage of total assets, as the result the misc. assets decreased by the same amount. From the F/Y 2064/65 the percentage of net fixed assets are similar during the study period. The percentages of investment in share are also about equal during the study period. Thought there is fluctuating percentage in the individual terms of fixed assets; the percentages of total assets for the fixed assets are seemed similarly for the whole study period.

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

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

4.6 Major Findings of the Study

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

1) Specific goals and financial target are not defined clearly to achieve the basic objectives.
2) Overhead are not classified systematically so while analyzing expenses properly it has created problems that affect the financial performance.
3) Even if the company has nearly monopoly in the market sales in the first four years is in decreasing trend by percentage.

4) There is no proper co-ordination between the various responsible departments due to lack of defined authority and responsibility of the company.
5) Financial performance is not better because there is no effective cost control mechanism to reduce expenses.
6) Raw materials are purchased from international market so non-availability of sufficient raw material for full capacity utilization and continuous production.
7) The company fails to maintain its periodic performance and there is no proper reward and punishment system.
8) Low productivity of plant and manpower.
9) Working capital is higher in last 4 years; it states that there is not proper balance between current assets and current liabilities.
10) Operating profit is in fluctuating trend due to unnecessary, excessive and unproductive expenditure on finished products.
11) The liquidity position is not satisfactory as the thumb standard.
12) MM Plastic is failure in achieving due to wrong and inadequate evaluation of relevant variables. Different reasons are significant such as political intervention, absence of Proper pricing, under utilization of capacity, lack of proper budgetary control in sales and production achievement, during the study period.
13) Advertising activity is not sufficient to increase the sales volumes in MM Plastic.
14) Large volume of inventory.
15) Less return to capital employed.
16) Excessive fixed cost.
17) The future path of company has not been defined. Management has no enthusiasm to develop the successful strategies for future. The modern tools and techniques of financial performance have not developed.

CHAPTER – FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

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

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

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

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

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

This research paper has tried to examine the application to financial performance in MM Plastic. The practices and effectiveness of financial performance is reviewed in the estate with the help of funds flow analysis, financial ratio analysis, trend analysis, correlation analysis and common size statement analysis. Data and information collected from primary and secondary sources are analyzed with the help of statistical and financial tools. Analytical and descriptive research design is followed.

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

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

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

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

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

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

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

5.2 Conclusion

The main conclusions of the study in respect of financial performance in MM Plastic are as follows;

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

A. Strengths:

i) MM Plastic produces best qualities, which have covered 50% of Nepalese market.
ii) Availability of sufficient production capacity.
iii) Availability of cheap and local labors (for peak reasons)
iv) Easy to sale on less transportation expenses.

B. Weaknesses:

i) High production cost.
ii) Excess burden of fixed cost.

iii) Market competition from other brands of similar products.

iv) Non-availability of raw materials at5 time from international market.

v) Burden of large amount of tax.

vi) Non-interim performance measure system rather than annual.

vii) Non-identify of modern technology and expertise according to situation.

3) Cost of production of MM Plastic is very high. Lack of technological advancement, excessive burden of fixed cost, high operating cost is the major factors for high production cost.

4) There is no effective program to increase the productivity of manpower. Lack of employees, motivations and incentives are major causes for lower productivity. Efficient personals are discouraged, due to fixed payment basis.

5) Costs are not classified into fixed and variable. These costs are also not designed as controllable and uncontrollable costs. The company has not made any efforts to reduce controllable costs. So cost control programs are not effectively applied in MM Plastic.

6) The operating position is not so good, because of higher cost of goods sold, high fixed cost, high administration expenses and the company can not earn profit as its capacity.

7) The liquidity position of company is weak. There is no proper balance between current assets and current liabilities. So it has faced difficulties in meeting its obligations.

8) MM Plastic has not adopted any sales promotion tools and techniques for increasing sales it has used any effective advertisement activity to give the attention to consumers.

9) MM Plastic is intensive company (industry) but it has no detail plan of manpower and systematic approach of labor planning and co-coordinating. The company has not introduced for direct labor hour and direct labor cost needed to produce the qualities of goods. All permanent staffs are paid in administrative expenses. The company is not able to control the labor cost.

10) There is no any suitable system of reward and punishment on the basis of their job performance.

11) There is a large amount of inventory, which covers more than 15% out of total assets. The company has not introduced the modern inventory management's techniques for the internal mobilization of resources in MM Plastic.

12) Success of Business Company is the essence of effective and responsible management in the current days of global industrialization age. MM Plastic has not practiced the modern management to mobilize the resources efficiently and properly.

13) The main reason of low capacity utilization or lower level of production is lack of availability of sufficient raw materials at right quality, right time, at right place as the concept of physical distribution management in MM Plastic.

14) There is lack of proper documentation of reports. The records of previous year are not available at the time of requirement in MM Plastic.

15) Cost at different stages of production (manufacturing & processing) has not determined separately by MM Plastic. Hence, the company fails to distinguish production cost, administration cost, and selling and distribution cost. So cost control system has not practiced in different stage due to the lack of cost allocation in MM Plastic.

16) Although there is some weakness in the company, there is not any loss during the study period in MM Plastic.

5.3 Recommendations

After the detail study of financial performance of MM Plastic, some suggestions have been recommended on the basis of major finding to improve the performance of the MM Plastic. It should adopt the comprehensive financial evaluation from the very beginning to the end. The following actions should be implemented to improve the best financial performance in MM Plastic.

1) It should clearly define its objectives to achieve the basic objectives; annual goals and targets are to be fixed. It should follow the practices of setting financial specific goals for future activities and should develop major programmers to accomplish the formulated objectives and goals.
2) Company should fixed a target of sales revenue and make attempt to increase sales revenue adding of new product line or increasing the sales in terms of MM Plastic by increasing the customers.
3) It should analyze SWOT (strength, weaknesses, opportunity, and threats) analysis to improve the company's capability.
4) MM Plastic should adopt the effective advertising system for boosting the sales with the significance of products. Because the advertisement is eye of a company.
5) Particular management, Management by objectives (MBO) and effective financial performance education should be introduced (communicated) in the time of formulation of plan for improvement of the MM Plastic to lower level management.
6) MM Plastic should follow the depreciation policy as written down value method not the straight-line method, which has overstated the profit of company.
7) Punishment and reward system should be practiced to improve employee morale and productivity on the basic of work performance and trained and qualified manpower should be developed as well as appointed marketing specialist in MM Plastic.

8) MM Plastic should be developed alternative supply source of raw materials to control the excess expenses.

9) Company should improve and maintain the quality of product to win the competition as patent Company.

10) Company should utilize the various pricing policies such as, cost plus pricing policy, going rate pricing policy, break even pricing policy, discriminatory pricing policy, etc according to situation to earn maximum profit.

11) It should apply scientific tools and techniques of inventory management (such as, EOQ, ROI, ABC analysis etc, to remove the problem of under and over inventory.

12) The company should provide more incentives, commission and facilities to the employee to improve quality and productivity.

13) Plastic and paper pouches package should be introduced to convince of the consumers.

14) MM Plastic should follow periodic performance reporting system to take corrective action and to improve the performance.

15) All the departments should be delegated full authority and accountability by company to decide and create new ideas in current days of global competitive Industrialization age to formulate the various policies.

16) Cost should be separated into fixed and variable as well as controllable and uncontrollable effectively applied cost control programmed by MM Plastic as appointed expert accountant.

17) MM Plastic should appoint expert personnel with good knowledge of finance, who can analyze financial strengths and weakness and suggest remedial measures from time to how to improve financial performance.

18) Collection floats have to be speeded up by the company, using the tools and techniques of cash management.

19) Finally, the company should apply the comprehensive concept of financial performance considering the basic fundamentals of financial tools and techniques in MM Plastic.

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Appendix – 1

MM Plastic Private Limited, Biratnagar, Morang
Comparative Balance Sheet

(Amount in million)

Year	2063/64	2064/65	2065/66	2066/67	2067/68
ASSETS					
A. Current Assets	240.19	288.60	353.65	369.41	393.84
1. Cash & Bank Balance	33.79	39.69	3.03	47.83	3.94
2. Sundry Debtors	0.43	1.26	0.91	0.07	80.48
3. Inventory	78.14	86.35	136.77	121.11	142.73
4. Misc. Current Assets	127.65	161.30	212.94	200.40	166.69
B. Fixed Assets	61.29	329.63	346.39	360.61	349.11
5. Gross Block	100.96	384.76	432.67	483.85	514.99
I. Plant & Machinery	16.64	223.43	228.10	231.62	238.36
II. Others	84.32	161.33	204.57	252.23	276.63
Less: Depreciation	39.64	55.13	84.28	123.24	165.88
C. Investment in Shares	105.53	112.02	112.63	112.63	112.63
D. Misc. Assets	219.09	3.51	0.08	0.00	96.28
TOTAL ASSETS	626.10	733.76	812.75	842.65	951.86
LIABILITIES & CAPITAL					
E. Current Liabilities	132.48	184.05	198.46	177.53	268.08
6. Loans & Advances	0.00	1.29	0.26	1.70	1.35
7. Sundry Creditors	18.13	38.05	37.99	19.11	41.37
8. Provision for Taxation	62.39	76.71	85.83	84.04	93.67
9. Misc. Current Liabilities & Provision	51.96	68.00	74.38	72.68	131.69
F. Deferred Liabilities	92.23	93.40	95.80	97.73	14.32
10. Long- term Loans	0.00	0.00	0.00	0.00	0.00
11. Misc. Def. Liabilities	92.23	93.40	95.80	97.73	14.32
G. Share Capital	108.27	108.27	108.27	108.27	194.89
12. Ordinary Share	108.27	108.27	108.27	108.27	194.89
13. Bonus Share	0.00	0.00	0.00	0.00	0.00
14. Preference Share	0.00	0.00	0.00	0.00	0.00
H. Shareholders Reserve	293.12	348.05	410.24	459.12	474.58
15. General Reserve	0.00	0.00	0.00	0.00	0.00
16. Capital Reserve	167.09	167.09	167.09	167.09	167.09
17. Housing Reserve	0.00	0.00	3.94	3.59	2.66
18. Other Reserve	0.00	0.00	0.00	0.00	0.00
19. Inappropriate profit (loss)	126.03	180.96	239.21	288.44	304.83
TOTAL LIABILITIES & CAPITAL	626.10	733.76	812.75	842.65	951.86

Appendix – 2

MM Plastic Private Limited, Biratnagar, Morang
Comparative Profit and Loss Statement

(Amount in million)

Year	2063/64	2064/65	2065/66	2066/67	2067/68
1. Net Sales	231.70	293.82	368.62	372.78	414.58
2. Cost of Goods Sold	119.78	147.32	206.49	206.80	227.01
Stock Consumed	83.12	105.05	149.26	143.01	164.76
Opening Stock	28.54	21.95	27.42	61.70	46.82
Purchase	96.79	131.75	184.77	131.36	175.67
Less: Closing Stock	42.2	52.65	62.93	49.95	57.73
3. Wages & Salaries	17.32	21.45	30.99	38.12	43.77
4.Direct Mfg. Expenses	19.34	24.82	30.99	38.12	43.77
5. General Expenses	47.26	61.72	62.32	66.40	100.33
6. General Profit	64.71	84.78	100.81	99.58	87.24
7. Interest	1.30	0.07	0.72	0.92	0.08
8. Pre Depreciation Profit	63.41	84.71	100.09	98.66	87.16
9. Depreciation	7.88	16.50	32.34	37.45	44.10
10. Operating Profit	55.53	68.21	67.75	61.21	43.06
11. Income from Other Sources	1.74	5.08	3.56	3.82	2.47
12. Pre Tax profit	57.27	73.29	71.31	65.03	45.53
13. Provision for taxes	62.39	76.71	85.83	84.08	93.67
14. Net Profit	37.68	58.97	62.18	55.91	35.89