CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Finance is the backbone of all institutions. Financial soundness is essential to any institutions for long live. Financial statements are instruments to evaluate firm's position and performance, so without analysis of financial statement, no can obtain their insight of a firm's position.

Financial performance is that managerial activity which has concern with the planning, raising, controlling and administrating of financial resource of an enterprise. Again it is basically concern with analysis of financial statement of an enterprise by using different tools and techniques. Financial performance not only the evaluation of financial condition but also the evaluation of planning and it helps to improve the planning in future.

The real picture of financial performance mainly depends up on the past, present and anticipated profit and current financial position of an enterprise. Thus the financial performance refers to treatment of the information confide in the financial statement to afford a full diagnosis of profitability and financial position of the concern enterprise.

The profit earning capacity and the current financial position of an enterprise is the main financial performance indicator of the organization. Profit and strong financial position of an enterprise is the result of successful management.

1.2 Meaning and Definition of Public Enterprises

The term public enterprises can easily be understood by separating into 'public' and 'enterprise'. Where the term public is concerned with 'public ownership' which implies that major decision would rest on distinct social criteria by the exclusion of any personal interest. Similarly, the surplus would not accrue to private group or individuals and it involves social accountability. Likewise, the term 'Enterprise' as business enterprises implies that the government expects a return on the capital invested in public enterprises and goods and services are made available for a price, which may be adjusted from time to time cover the cost of inputs. The business character is more likely to be found in the area of economic activities such as industrial trading, services, social, utilities, financial areas etc.

Public enterprises have been considered as a key operational instrument to achieve the twin ideas of economic planning and development. Planned economy is the method evolved by the socialist for achieving rapid economic development. An important part of the socialist doctrine is the ownership of means of production and distribution by the state. Thus ownership of property has remained the main plan of socialist thought.

Public enterprise is an institution operating a service of an economic character on behalf of the government, but as an independent legal entity, largely autonomous in its management, though responsible to the public through government and parliament and subject to some direction by the government, public enterprise is equipped on the other hand with independent and separate funds of its own and the legal and commercial attributer of the commercial enterprise.

Incorporating few of the economist’s definition, meaning of Public Enterprises become more precise:

Public enterprises is a corporate body created by legislature with defined powers and functions and financially independent, having a clear-cut jurisdiction over a specified area of a particular type of commercial activities. [Bistha, 2004]

Public enterprises is an institution operating a service of an economic or social character on behalf of the government, but a independent legal entity, largely autonomous in its management, through responsible to the public, through government and parliament and subject to some direction by the government, equipped on the other hand with independent and separate funds of its own legal and commercial attributer of a commercial enterprise. [Joshi, 2007]

Finally, those enterprises, which are partially or wholly owned and controlled by government, are known as public enterprises. PEs is the back bone of economic and industrial development of developing countries. Public enterprise has been granted operating and financial autonomy so they are autonomous in their state of affairs and personal issues. On the other hand, they are funded by public fund and in capital investment decisions and the interest of public welfare and national policy issues. Government and parliament have controlled to keep accountable towards public through government and parliament. Moreover, public enterprises have an operating flexibility similar to private enterprise and social motives as government and accountability to the foundation of emerging public enterprise in the country.

1.2.1 Public Enterprises in Nepal

It is well known fact that public enterprises have been established for the purpose of socio-economic development of the country. So, public enterprises in Nepal constitute a instrument for the socio-economic development of the country. It enjoys a strategic and crucial position in our mixed economy. They have been established in many sectors for the overall development of the country with different goals and objectives. Since 1956, Nepal has witnessed growth and development of public enterprises. Nepal Government has to play a vital role in the development of the country for the purpose, makes massive investment to create necessary infrastructure and run some of the large manufacturing industries to the people. [Shrestha. 2004]

Moreover, public enterprises were established in public services, industry, trade, finance and other sectors to create the infrastructure for basic services and also because the private sector was seen as inefficient in important areas, the capital investment capability was low, and because technical know- how development was still in a very primary stage. After Nepal Bank limited was established in 1954 as a public enterprise, other such enterprises like Nepal Industrial Development Corporation and Royal Nepal Airlines Corporation also came into being. In the industrial sector also, industries like the Janakpur Cigarette factory, Birgunj Sugar Mill, and Bansbari Leather Shoe Factory were established in 1961. Subsequently, banks business sectors, cement, bricks, medicines and textiles in the industrial Sectors came into existence.

Nepal started its planned economic development in 1956 with launching of first five-year plan. Since then the number of public enterprises has been increased substantially in the various field of national economy. There are 64 public enterprises before privatization program of Nepal and now there 36 public enterprises.

Public enterprises can be classified as follows.

- Industrial sectors
- Trading sectors
- Services sectors
- Social service sectors
- Public utility sectors
- Financial sectors

1.2.2 Development of PEs in Nepal

Public enterprises were established in service, social service, industrial, trading, finance and other sectors for to develop infrastructure and provide basic services to the people. The evolution of PEs in the word has no longer history. During the 18th century, a concept was developed like problems of poverty and unemployment may be solved by the government intervention in the laissez fair policy in the economy. After intervention by the government, the economy was rapidly increased during the 20th century. The concept of the PEs has been developed from the "socialist thought" after the great depression of 1929. The main impact to the PEs was the 2nd world war which had played vital role to the increasing rate for the development of PEs. But in the context of Nepal, industrialization has started very late than the other developing countries.

In Nepal, after the establishment of “council of industry” in 1936, the first modern industry was Biratnagar Jute Mill which was established by JV with Indian entrepreneurs [Joshi, 2003]. Nepal Bank Limited was established as a first public enterprise in 1994 BS for the financial activities of government and nation.

1.3 Statement of the problem

Public enterprise is one of the most important innovations of 20th century. The main objective of creating public enterprise is to secure a combination of public ownership, public accountability and business management for the public benefits. The reasons behind the establishment of public enterprises are basically to accelerate the ratio of economic growth, to build development infrastructure, to make provision of public utility, to supply essential commodities, to generate employment opportunities, to maximize the foreign earnings, to rational utilization of natural resources and to contribute in the national funds.

The overall performance of the public enterprises is not satisfactory. One of the main reasons of poor performance is poor planning, controlling and process of decision making by the management. But whether or not Nepalese public enterprises are practicing Management Accounting tools and techniques to carry out planning, controlling and decision-making function, If not, what could be the reason and what are the difficulties? In the meantime, if yes, to what extent they are practicing management accounting tools? Which tools and techniques of management account are mostly practicing and which are not practicing till now? In which sector of public enterprises can be applied management accounting tools to improve the competitiveness and capacity of the Nepalese Public Enterprises.

1.4 Objectives of the Study

The main objective of this research work is to study and examine the present practices of management accounting and financial performance of public enterprise in Nepal. The specific objectives are as follows:

a) To study and examine the financial performance of public enterprises.
b) To identify the major difficulties for applying the financial tools in public enterprises of Nepal.
c) To identify the business sectors where financial accounting and statistical tools can be applied to strengthen the public enterprises.
d) To make recommendations to the enterprise.

1.5 Significance of the Study

The present research might be a new effort for the process of thesis preparation entitled financial performance of public enterprises in Nepal. The study is significant in the following ways:

a) It examines the financial performance of public enterprise in Nepal.
b) It analyzes the problems and difficulties for application of in Nepalese companies. Therefore, it is useful to the enterprises and to its respected interest groups such as Finance managers, Accountants as well as Policy Makers.
c) The research provides information on the financial performance of public enterprises.
d) It aids additional secondary data and information to the researcher who wants to carry out further study.

1.6 Limitations of the Study

The present research study has the following limitations:

a) Focuses on financial performance only.
b) This study is concerned only on the uses of financial and statistical tools.
c) This study has focused only on the public enterprises. Therefore, Findings may not feasible to the other non public companies or other than public enterprises operating in Nepal.
d) This study has been conducted and pays attention to the financial performance of public enterprises in the context of Nepal only. Therefore, it does not address to the Global context.
e) The study covers five years annual reports available from the enterprise.

1.7 Research methodology

To fulfill the objectives of the study, the following methodology will be adopted:

1. Source of data

The researcher will use only secondary sources of data for data collection. The secondary sources of data will be used to facilitate the research.

Secondary sources of data: the researcher will study the public enterprises, their publications, thesis, articles and journals related to present research.

2. Sampling procedure

There are 36 public enterprises in Nepal. These are the population of study. Out of those 36 public enterprises, 2 public enterprises will be selected as sample. Nonprobability sampling technique will be used as sampling procedure for selecting the sample.

1.8 Design of the study

The study has been organized altogether in five chapters. They are as follows:

Chapter 1: Introduction

This chapter will include background of the study, statement of the problem, objectives of the study, significance of the study and limitation of the study.

Chapter2: Review of Literature

This chapter will concern with review from the books, journals of finance, journal of management, old thesis and self studies.

Chapter 3: Research Methodology

This chapter will deal with research design, data collection procedure, tools and techniques for analyzing method of analysis and presentation.

Chapter 4: Presentation and Analysis of Data

This chapter will consist of presentation and analysis of data used in the study. This is the main body of the study. In this chapter the management accounting practice of each selected enterprise is analyzed. The result obtained is compared with each of them.

Chapter 5: Summary Conclusion and Recommendations

This chapter will include summary, conclusions and recommendations of the research. And finally suggestions are given. Bibliography, appendix and other supplementary documents will also be incorporated at the end of the study.

CHAPTER-II

LITERATURE REVIEW

2.1. Theoretical Review

Review of literature is the Process of learning and Understanding the concept of the related topic. After selecting the topic of research, Researchers should study different Materials (like Books, Journals, Magazines, Newspapers, Articles etc) to collect the information's about the subject Matter of the Study. This process of studying different education Materials which are related with the selected topic of the research is called "review of Literature". In other words Review of Literature means to collect the necessary information about the research topic through the different sources. After the deep study of conclusions, merits, demerits etc. May be known and further research can be conducted [Silwal, 2062B.S]

In this Chapter the Review of various books, research studies have been made to make clear about the concept of performance analysis as well as to recall the theories and previous studies made by various researchers. Nepal being one of the rich countries in hydropower Sector, Many important literatures are available in this field. This chapter Reviews the available literature relating to public sector and various expressed by researchers on the financial performance of public enterprises.

2.2 Concept of financial performance

Financial performance is that managerial activity which has concern with the planning, raising, controlling and administrating of financial resource of an enterprise. Again it is basically concern with analysis of financial statement of an enterprise by using different tools and techniques. Financial performance not only the evaluation of financial condition but also the evaluation of planning and it helps to improve the planning in future.

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2.3 Financial Analysis

Financial Analysis is designed to determine the relative strengths and weakness of a company, whether the company is financially sound and profitable relative to other companies in its industry and whether its position is improving or deteriorating over time. Investors need such information in order to estimate future cash flows from the company and to evaluate the riskiness of these flows. Managers need to be aware of their company's financial positions in order to detect potential problems and to strengthen weakness [Weston & Brigham, 1987]

Financial Analysis is the key tool for financial decision and starting point for making plan before using sophisticated forecasting and budgeting procedures. The value of this approach is the quantitative relation that can be used to diagnoses strengths and weakness in a company's performance. Financial Performance is the main indicator of the success or failure of a company. The focus of financial statements and significant relationship that exists between them [Khan & Jain, 1999]

Financial performance analysis involves the use of various financial statements. The financial statements contain summarized information of a company's financial affairs, organized systematically by the top management. These statements are used by investors and financial analysis is to examine the company's performance in order to make investment decision [Pandey, 1999].

Financial Statements are prepared from the accounting records maintained by the company. They disclose financial information of a company during a financial year and explain what has actually happened and divided over the past few years, in the form of income statement and balance sheet.

2.4 Financial Statement Analysis

Financial analysis is the process of identifying the financial strengths and weakness of a firm by establishing proper relationship between the items of balance sheet and profit and loss account. The analysis of financial statement is done to obtain better insight in to a firm's position and performance.

Financial statement refers to the two summarized financial reports, which the accountant prepares usually at the end of the fiscal year of enterprises; they are the balance sheet or statement of financial position and the income statements or profit and loss account. The term financial statement used by itself without qualification usually refuse three principle statement of balance sheet, income statement, statement of change in equity and analyzing the changes in ownership account.

The financial statement analysis reveals how far the dreams and ambitions of the top management have been converted into reality during each financial year. It involves a comparison of a firm's performance with that of other firms in the same line of business, which is often identified by the firm's industry classification. Generally speaking the analysis is used to determined the firms financial position in order to identify its current strengths and weakness and to suggestation that might enable the firm to take advantage of its strengths and correct weakness [Weston & Brigham, 1987].

The basis for financial analysis is the financial information obtained from profit and loss account and balance sheet. That's why, I. M. Pandey writes, "The financial information of an enterprises is contained in the financial statements or accounting reports." Financial information is needed to compare and evaluate the firm's earning ability. It is also required to aid in investment decision-making. Professor Radheshyam Pradhan describes the financial analysis is undertaken to assess the financial strength and weakness of the firm.

Similarly, I.M Pandey says, "Financial statement analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of balance sheet and profit & loss account".

2.5 Components of Financial Statement Analysis

2.5.1 Profit and Loss Account

The profit and loss account is a summary of revenue, expenses and net income/loss of an enterprise for a particular period of time. It is also provides a concise summary of revenues and expenses of the enterprise on the other hand measures profitability of the enterprise. Myer viewed, "the income statement summaries the operations of business during a specific period of time and result of such operations in the form of net income or net loss".

Thus the income statement is an important asset of the concern as it reflects the efficiency with which the concern is utilizing its resources to generate surplus. In this statement, revenue of a certain period is compared with the expenses, the difference being either net profit or net loss for the period. However the income statement may not be the true representative of the operational efficiency of the concern as at times it may consist of non-operational expenditures. Profit and loss statement occupies a significant place in portraying the result o business operation.

2.5.2 Balance Sheet

Balance sheet is one of the most significant financial statements. It presents the position of company's assets, liabilities and shareholders equity at a particular date. It is a mirror of the financial position of a firm at a particular date. In this connection, I.M panda says "The balance sheet contains information about the resources and obligation of a business at a particular point of time. In accounting language, the balance sheet communicates information about the assets, liabilities and owner's equity for a business firm as on a specific date.

It provides a snapshot of the financial position of the firm's accounting period. Balance sheet indicates the resultant outcome of the firm's investment, financing and dividend decisions, and so an important statement that keeps different interested parties well informed about the financial health of the concern.

2.6 Importance of Financial Statements Analysis

The fact that the importance of financial statements analysis is axiomatic and uncontroversial but it is important to note the extent and fields of its importance. In this regard, N.P. Agrawal states, "In the interest of good health, medical authorities advise every individual to have a periodic examination of this body and similarly, in the interest of sound financial policy every company should also analyze its accounts periodically."

In the early days of accounting only creditors and investment analysis were interested in financial statements analysis to ensure the financial soundness of their clients. But, now day different parties are interested in financial statements analysis for different purpose. Management of a concern is interested in the result of the financial statements analysis because the resultant outcome serves as the basic inputs for the present and future decision making purposes. Kennedy and Mc Mullen support this fact, "The financial statements analysis and interpretation results in the presentation of information that will aid in decision making by business managers as well as in other groups interested in the financial status and operating results of a business.

The financial statements are only static of information not the flow of information. Analysis of financial statement is required as it not only enlightens management with the consequences of its past investment and financing decision but also provides clue to judge the current financial condition of the enterprise and on the basis of the past and present condition assists management to envisage future plans also. In this regard N.P Agrawal has aptly said that mere financial statements being voluminous cumbersome and detailed to the point, are useless to the management.

Thus financial statement analysis assists the management to take benefit of the strategic management with the in formation regarding the strengths and weakness of the enterprise so as to exploit the opportunities lying in the environment and manages the threats posed by the environment. In this connection, Weston and Brigham mentioned, "Whatever may be the forms of financial plans but a good plan must be related to the firm's exiting strengths and weakness, the strengths must be understood before they are to be used to proper advantage and the weakness must be identified to take suitable corrective actions.

2.7 Limitations of Financial Statements

Although financial statements are much significant in providing required information of the operation and financial health of an enterprise they should not be considered the conclusive reports that provide ultimate picture of the status of the concern. These statements should further be processed and analyzed to draw, more lucid picture of the status of the concern which may be quite astoundingly different than conceived. These are the main limitations of the financial statements:

- Actually, the financial statements are mainly prepared to safeguard the interest of shareholders. So these statements fail to meet the requirement of different parties that are interested in the financial conditions of the enterprises.
- Financial statements disclose only a monetary fact that is those transactions are recorded in the books of accounts which can be measured in monetary terms such as conflict between production manager and marketing manager, may be very important for the firm but not recorded in the financial statement.
- Financial statements are interim and not final reports. M.M. and S.N. Goyal say, "Financial statements are essentially interim reports and therefore, cannot be final because the actual gain or loss of a business can be determined only after it has put down its shutters."
- Financial statements may not be realistic because these are prepared by following certain basic concepts and conventions. For example, going concern gives an idea that the business will continue and assets are to be recorded at cost but the book value which the assets is showing may not be actually realizable. Similarly, by the following that principle of conservation the financial statements will not reflect the true position of the business firm. So financial statement have lack of precision and definiteness.
- Financial statements are influenced by the personal judgment of the accountant. Accountant may select any method of depreciation, valuation of stock, amortization of fixed assets, and treatment of deferred revenue expenditure. Such judgment is based on integrity and competency of the accountant and will definitely affect the preparation of financial statements.

2.8 Financial Statements Analysis and Interpretation

Analysis and interpretation of financial statements is an attempt to determine the liquidity, solvency, efficiency and profitability position of an organization and also to highlight the sources and uses of fund, on the basis of the data supplied by financial statements. Analysis and interpretation of financial statements gratifies the different needs of the concerned parties like owners, lender and the management itself about their vested interests by providing them with adequate information to let them know whether their interests are at stake or not. A series of financial statements analysis and interpretation over different years help one to forecast the future trend regarding the firm's ability to meet the short term and long term liabilities, the profitability projection and so on.

The first task of financial analysis is o select the information relevant to the decision making under consideration from the total information contained in the financial statements. The second step involved in financial analysis is to highlight significant relationship. The final step is interpretation and drawing of inferences and conclusions. In brief, financial analysis is the process of selection, relation and evaluation.

Similarly, I.M Pandey says, "Financial statements analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of balance sheet and profit and loss account. Financial statement analysis is a process of evaluating the relationship between components parts of a financial statement to obtain a better under standing of a firm's position and performance.

Since the financial statements merely indicate the position of financial accounting in the realm of accounting conditions, by an inspection of them, an opinion regarding the financial condition of the enterprises usually cannot be obtained. That is why the analysis and interpretation of financial statements of an enterprise is made utilizing the accounting data as a starting point for the discovery of economic facts about the enterprise. Similarly, R.D Kennedy and S.Y Mc Mullan say "The analysis of financial statements consists of a study of relationship and trend to determine whether or not the financial position and results, operations and financial progress of the company are satisfactory or unsatisfactory." Accounting to Man Mohan and S.N Goyal, "Analysis and interpretation of financial statements are attempted to decide the significant meaning of financial data. So that a forecast may be made of the prospects for future earnings, ability to pay interest, debt maturities both, current as well as long term and profitability of a sound dividend policy.

2.9 Financial Statements Analysis as abridge between Accounting and Finance

Accounting and finance are two separate disciplines. In the early years, accounting was confined to the recording of business transaction under appropriate accounts. As such financial statements were considered as historical rather than prophetic. In other words, there seems to be a gap between accounting and finance for one is considered to be historical while another prophetic. This is clear from what Weston and Brigham say that accounting is a data collecting process dealing with accurate recording and reporting while finance is a managerial or decision-making process.

But the accounts of modern business are not entirely statements of facts; they are to a large extent expression of opinion based party on accounting conventions, party on assumptions and party on personal judgment. Alternatively accounting has extended its scope to forecasting to some extent by means of financial statements analysis. That' why James O.Horrigan has aptly said that financial statements analysis will eventually attempt to bride the gap between accounting and finance. In other words, the gap between traditional financial statements analysis which included ratio analysis alone and modern economic and finance theory is being bridged by the new approach to financial statement analysis which includes various tools in which financial statement analysis is viewed as an information processing system designed to provide firm related data for decision makers.

2.10 Tools of financial Statement Analysis

Analysis and interpretation of financial statement can be done through various techniques for analyzing comparative financial statement fund flow; ratio analysis and rest of hypothesis techniques are widely used.

2.10.1 Comparative Financial Statement

Comparative Financial statements are statements of the financial position of a business so designed as to provide time prospective to the consideration of various elements of financial positions of embodied in such statements. The focus of the financial analysis is on key figures contained in the financial statements and significant relationship that exists between them. [Khan & Jain, 1992]

Financial analysis may be of two Types viz. Vertical analysis and horizontal analysis. Financial statement like a balance sheet or a profit and loss account, of a certain period of the business at a point of time is known as vertical analysis.

It is also known as state analysis. In horizontal analysis a series of statement relating to number of years are reviewed and analyzed. It is also known as dynamic analysis because it measures the change of position or trend of the business over a number of years. This study is based on horizontal analysis. The balance sheets and income statement which is alone are prepared in a comparative form because they are must important statements of financial position.

2.10.2 Comparative Balance Sheet

Balance sheet is the statement prepared at the end of each financial year to reflect the position of assets, liabilities and capital. Increase and decrease in various assets and liabilities as well as proprieties equity or capital brought, about by the conduct of a business can be absorbed by a comparison of the balance sheet at the beginning and end of the period, such observation after yield considerable information which is valuable in forming an opinion regarding the progress of the enterprises and to facilitate comparison, a single device known as the comparative balance sheet may be used.

Comparative balance sheet is the tool of financial statement analysis. Balance sheets of at least two years are compared and the changes between data are indicated in absolute amount as well as in percentage increase or decreased. Thus it may be defined as the study of the same item, group of items and computed two or more balance sheet of the same business enterprises on different dates and the study of the defined of proportion computed from these figure on the different dates. Main advantage of this analysis is that it describes of particular nature of business enterprises and of the enterprises as a whole.

2.10.3 Comparative Income Statement

The income statement is the summary of revenue and expenses showing net income or loss of any firms. Profit and loss account or income statement shows the profitability of a firm. This statement helps in deriving meaningful conclusions as it is very easy to ascertain the change in sales volume, administrative expenses, selling and distribution expenses cost of sales etc [Jain & Narang, 1988]. It is the interrelated statement with balance sheet.

Comparative income statement shows the operating result for number of accounting periods so that changes in absolute data from one period to another period may be stated in terms of absolute change or in terms of percentage. It contains the same column as the comparative balance sheet and provides the same type of information the amount balance increase and decrease in money amounts and the percent of increase or decrease. It is the tool of financial statement analysis which compares at least two years figures in terms of rupees and percentage increase or decrease.

2.11 Ratio Analysis

2.11.1 Concept of Ratio Analysis

Ratio analysis is a powerful tool of financial analysis which helps in identifying financial strengths and weakness of business concerns. It is an important way to state meaningful relationships between components of financial statements. The primary purpose of ratios is to point out areas for further investigation.

Ratios are the tools for measuring liquidity, solvency, profitability and management efficiency of a firm and it is also equally useful to the internal management, prospective investors, creditors and outsiders etc. The role of accounting ratios is very significant to increase the efficiency of the management. As such it is important tool of management accounting also. [Paul: 1994]

Powerful and the most widely used tool of financial analysis is ratio analysis. A financial ratio is the relationship between two accounting figures, expressed mathematically or the term ratio refers to the numerical or quantitative relationship between two items/ variables. This type of relationship can be expressed as percentage, fraction and proportion of numbers.

Ratio analysis is defined as the systematic uses of ratio to interpret the financial statements so that the strengths and weakness of a firm as well as its historical performance and current financial condition can be determined [Khan & Jain, 2003]

Ratio analysis is a powerful tool of financial analysis. A ratio is defined as "the indicated quotient of two mathematical expressions" and as the relationship between two or more things. In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. The absolute accounting figures reported in the financial statements do not provide a meaningful understanding of the performance and financial position of a firm (Pandey, 1999; p.109).

A large number of ratios can be generated from the components of profit and loss account and balance sheet. There are sound reasons for selecting different kinds of ratios for different types of situations. Ratio can be classified for the purposed of exposition into four broad groups.

2.12 Types of Ratio

Form the financial data contained in the financial statements, several ratios can be calculated, those several ratios be classified into different groups on some basis. In this connection, Weston and Brigham say, "It is useful to classify ratios six fundamental types. They are liquidity ratio, leverage ratio, activity ratio, profitability ratio, growth ratio and valuation ratio."

The major groups of ratio analysis can be classified as:

2.12.1Liquidity Ratios:

A firm's "liquidity position" deals with the question of how well the firm is able to meet its current obligations. So, the liquidity ratios are provided the quick measure of the liquidity position or the ability of the firm to meet its current obligation. Liquidity ratios are also the indicator of short-term solvency or financial strength of the firm. [Wagle and Dahal, 2004]

Liquidity ratios are used to judge a firms ability to meet short- term obligations. From them, much insight can be obtained into the present cash solvency of a company and its ability to remain solvent of adversities. Essentially, we wish to compare short term obligations with the short- term resources available to meet these obligations [Van Horne, 2004]

Current ratio = $\frac{\text{Current Assets}}{\text{Current Liabilties}}$

Quick or Acid test ratio = $\frac{\text{Current Assets} \, Z \, \text{Inventories}}{\text{Current Liabilties}}$

2.12.2 Leverage or Capital Structure Ratios:

Leverage or capital structure ratios show the degree of extent of debt available by the organization and its capacity to serve such debt. The following ratios are incurred under leverage ratio: [Munakarmi, 2004: 468]

Leverage ratios may be calculated from balance sheet items to determine the proportion of debt in total financing. Many variations of these ratios exist: but all these ratios indicate the same thing- the extent to which the firm has relied on debt in financing assets. Leverage ratios are also computed from the profit and loss items by determining the extent to which operating profits are sufficient to cover the fixed charges (Pandey, 1999; p. 118

Debt equity ratio = $\frac{\text{Total Debt}}{\text{Share holder Equity}}$

Debt to total capital ratio = $\frac{\text{Total Debt}}{\text{Total Capital}}$

2.12.3 Activity or Turnover Ratio:

Turnover ratios indicate the degree of conversion of assets into sales. The quickest the conversion in conformity with the investment, the more efficient is the management of the assets. The efficiency ratio represents the intensity with which the firm uses its assets in generating sales. It is also known as activities, turnover ratio. It is related with measuring the efficiency in assets management as well as the effectiveness of the investment of resources in the business concern."An activity ratio may be defined as a test of the relationship between sales and the various assets of a firm. Depending upon the various assets there are various types of activity ratio. [Khan and Jain, 2003]

Inventory turnover ratio = $\frac{\text{Cost of goods sold}}{\text{Average Inventories}}$

Debtors Turnover Ratio = $\frac{\text{Credit sales}}{\text{Average debtors}}$

Fixed assets turnover ratio = $\frac{\text{Sales}}{\text{Net fixed assets}}$

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

Capital Employed Turnover Ratio = $\frac{\text{Sales}}{\text{Capital employed}}$

2.12.4 Profitability Ratio

A company should earn profit to service and grow over a long period of time. Profit is the difference between revenues and expenses over a period of time. Profit is the ultimate output of a company and it will have no future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of its company. [Pandey, 1997]

Profitability is a measure of operating efficiency that can be measured by profitability ratio. It indicates degree of success in achieving desired profit levels, measure management's overall effectiveness as shown by the return generated on sales and investment. These ratios are composed of "a group of ratio showing the combined effects of liquidity, asset management and debt management on operating result" [Weston & Brigham, 1987]. So such ratios are regarded as a central measure of the earning power and operating efficiency of a firm.

For the analytical purpose, different measurement tools profitability are used in this study. They are;

Gross profit margin = $\frac{\text{Gross Profit}}{\text{Sales}}$ **× 100**

Net profit margin = $\frac{\text{Net Profit after Tax}}{\text{Sales}}$ **× 100**

Return on assets = $\frac{\text{Net Profit after Tax}}{\text{Total Assets}}$ **× 100**

Return on shareholder equity = $\frac{\text{Net Profit after Tax}}{\text{Shareholders' Fund}} \times 100$

2.13 Trend Analysis

In the situation of analysis, different kinds of tools can be used to know the actual position of a business concern, out of them trend analysis is one which show percentage changes in several successive years instead of between two years. Trend analysis of ratio indicates the direction of change. It is always desirable to express the trend in absolute term as well as relative terms.

Trend analysis examines the financial position of a firm is improving or deteriorating over the years. With the help of trend analysis, analyst can know the direction of movement. It shows whether the trend is favorable or not .Trend analysis is very essential because with its long term view. It may point to basic changes in the nature of the objectives.

To facilitate the study of trends in an enterprise, the trend ratios can be plotted on graph either in arithmetic scale or semi logarithmic or ratio chart. However, the trend ratios are recommended to be plotted on semi logarithmic paper for various benefits. The index percentage for trend analysis can be computed using the following formula.

Index percentage = $\frac{\text{Index Yearly Amount}}{\text{Base Year Amount}} \times 100$

2.14 Review of the Previous Thesis

Literature review is the study of past research. Review of literature is an essential part of all studies. The purpose of literature review is to find out what research studies have been conducted in one's chosen field of study and what remains to be done? Many researches have been made in the profit, planning and control and management accounting etc in Nepalese context. So an attempt is made here to review some the researchers, which have been submitted in profit planning and control. The research is:

2.14.1 Miss Pramita Dangol (2001) had conducted a research on the topic "Profit planning in manufacturing public Enterprise; A case study in Hetauda Cement Industry Ltd." Miss Dangol had focused her study in the application of profit planning concepts in PE's.

The time period covered by the research was five years from FY 2051/52 to FY 2055/56. The necessary data and other information were collected from secondary as well as primary sources of data. Miss Dangol had pointed out various findings. Some remarkable findings were as follow:

- No proper application any effective sales foresting technique.
- Planning of budgeting policy of the company is very poor and there is no system of taking corrective action for pre-planning.
- Decision making power is centralized.
- There were no clear cut duties and responsibilities of the employee.

2.14.2 Mr. Sagar Sharma (2002) had conducted a research on the topic "Management Accounting Practices in Listed Companies of Nepal." He had focused his study to examine the practice of Management Accounting tools in the listed companies of Nepal. Mr. Sharma's research study was based on only primary sources of data. Stratified random sampling with proportionate allocation of percentage was followed to draw the sample. In his research, he had pointed out various objectives & findings, among those some remarkable objectives are as follow:

- To study and examine the present practice of management accounting tools in the listed companies in Nepal.
- To identify the areas where management accounting tools can be applied to strength the companies.
- To identify the difficulties in applying management accounting tools in Nepalese companies.
- To make recommendations to overcome the difficulties in applying management accounting tools in Nepalese companies.

Some major findings were as follow.

- Different types of Management Accounting tools, which are tough in the colleges, are not found applied by the listed companies of Nepal.
- Management Accounting is help to managers in overall managerial activities by providing information and helping in planning, controlling decision making.
- Nepalese listed companies are infant stage in practicing of management account tools such as capital budgeting, annual budgeting, cash flow, ratio analysis, zero based budgeting, activity based costing, target costing and value engineering

2.14.3 Mr. Ailendra Kumar K.C. (2006) had conducted a research on the topic "Management Accounting Practices in Public Enterprises." He had focused his study to examine the practice of Management Accounting Tools in public enterprises. Mr. K.C.'s research was based on only primary sources of data. In his research, he had pointed out various objectives & findings. Some remarkable objectives were as follow:

- To study and examine the present practice of management accounting tools in public enterprises in Nepal.
- To identify the areas where management accounting tools can be applied to strengthen the public enterprises.
- To identify difficulties in applying management accounting tools in Nepalese public enterprises.
- To make recommendations to overcome the difficulties in applying management accounting tools in Nepalese public enterprises.

Some major findings were as follow.

- Different types of management accounting tools, which are tough in the colleges, are not found applied by Public Enterprises.
- Management Accounting is help to managers to formulate organizational strategies as well as policy. PE's as practicing MA tools such as Capital Budgeting, Annual Budgeting, Cash Flows and Ratio Analysis. And not practicing MA Tools such as zero Based Budgeting, Activity Based Budgeting, Activities Based Costing, Target Costing and Value engineering.
- In PE's hiring outside experts for carrying out different activities are almost nil because of high cost.
- PE's are with the concept that MA is similar to financial Accounting.
- In NJVBs practicing the MA tools such as capital Budgeting, Annual Budget, Ratio Analysis and cash flow. And not practicing MA tools such as zero Based Budgeting, Activity Based costing, Target costing, value engineering.

2.14.4 Mr.Narayan Prasad Acharya (2006) had conducted research study on topic "Management Accounting practice in Nepalese Public Enterprises." He had focused his study to examine the practices of MA tools in NPE's. Mr. Acharya's research study was based on only primary sources of data collection. In his research, he had pointed out various objectives & findings. Some remarkable objectives were as follows:

- To study and examine the extent of practice of MA tools and techniques made in Nepalese PEs.
- To identify the business sector, where MA tools can be applied to strengthen the PEs.

- To identify the major difficulties for applying the MA tools in Nepalese companies.
- To make recommendation to overcome the difficulties in applying MA tools and techniques in Nepalese PEs and other business companies.

Some major findings were as follow.

- Different types of MA tools, while are tough in the colleges are not found applied by the NPE's. So, it shows gap between the theory and practice. Managerial Accounting is a new discipline and still in developing stage in the context of modern business organization.
- In NPE's not practicing MA tools such as Standard Costing, Cost Segregation and allocation activity based costing. The use of overall Master Budgets was very low. Activity based Budgeting and zero-based budgeting were not proper practicing to prepare the budget.
- The pricing strategy was completely based on cost of production and government's decision.

2.14.5 Miss Eliza Amatya (2005), Entitled with "An Evaluation of financial Performance of Nepal electricity Authority" has examined the financial strength and weakness of NEA based on its liquidity, activity, profitability, and leverage ratios.

The main objectives of her study are as follows:

- To analyze the financial performance of NEA through financial analysis taking relevant variables.
- To identify major weakness and strengths of NEA.
- To find out the past and present challenges undergone by NEA.
- To provide some suggestions and recommendation based on the findings for the improvement of financial performance.

Major Findings of her Study Were:

- The current assets are not been used in the profitable manner; the excess of the current assets utilization has increased the opportunity loss.
- Long terms as well as short –term debt utilization has increased the opportunity loss.
- Long terms as well short term debt utilization are also seen more irrational in the sense that their turnover ratio is not satisfactory.
- Capital employed according to profitability is not seemed to be reasonable as there is negative relationship between these variables.

2.14.6 Mr. Madan Kandel (2005), Entitled with **"**Financial Performance and Employee Opinion on the Performance of NEA**"** is considering the financial performance analysis of NEA and also study about performance to the point of view of employee.

The Main Objectives of his Study are as follows:

- To analyze the financial performance of the NEA with respect to its liquidity, activity, profitability and leverage.
- To analyze the liquidity and debt utilizing capacity of NEA.
- To suggest for the improvement of financial performance of NEA in order to improve financial performance of the basis of findings of this studies.

Major Findings of his Study were:

- The financial performance of NEA according to the analysis is seem to be more deteriorating regarding to working capital analysis. The basic problem can be found as following:
- The current assets are not been used in the profitable manner; the excess of the current assets utilization has increased the opportunity loss.
- Long terms as well as short –term debt utilization has increased the opportunity loss.
- Long terms as well short term debt utilization are also seen more irrational in the sense that their turnover ratio is not satisfactory.
- Capital employed according to profitability is not seemed to be reasonable as there is negative relationship between these variables.

He has recommended that:

- NEA should plan to generate its required fund mainly by operating activity.
- It should reduce the volume of power purchase and resort to expansion utilization of its own capacity.
- It should reduce the loss arose out of leakage outage and theft of electricity.
- The finance division of the NEA should be more involved in planning of the activities of organization. It should also build up a management information system to help top management to take timely & appropriate actions.
- Profit motive should be applied in practice to reduce dependency and subsidy from government and any other subjects it is most important for every PEs.
- Increase the volume of industrial sales of electricity.

2.14.7 Mr. Ram Chandra Khatiwada (2007), Entitled with "Financial performance analysis of Butwal power Company" examines the financial strengths and weakness of BPC based on its ratio analysis, income and expenditure analysis and least square trend analysis. He has also used statistical tools.

The main objectives of his research are as Follows:

- To highlight about Butwal power Company like objective, policy, growth etc.
- To study the trend of financial performance and analyze the related financial indicators.
- To analyze financial strength and weakness of Butwal power Company.
- To provide recommendation and suggestions on the basis of study and findings.

Major Findings of his Research are:

- The current ratio indicates that the company is using excessive current assets in the first 3 fiscal years. It is maintaining the current ratio in the later 3 years near to its normal standard. It reveals that the company is in perfect liquidity position. The firm is in strong credibility position.
- The debtors' turnover ratio reflects that debtor's turnover ratio of Butwal Power Company is fluctuating each year but is better in last two years study period than the first two year.
- Fixed assets turnover ratio shows that Butwal Power Company utilized its fixed assets in better way in later years in comparison to previous years except in 2059/060. Increment in fixed assets turnover ratio indicates the improved work efficiency and financial condition. It shows the efficiency of a concern on utilizing its fixed assets.
- The total assets turnover ratio of BPC in the study period is not good, it shows the increment in ratio but increment is not satisfactory. Higher ratios indicate better utilization of total assets of the organization. To improve the total assets turnover ratio BPC should utilize total efficiency. But the company is improving efficiency utilization of total assets.
- The non operating income to total income ratio shows in 2060/61 the non operating income took a high percentage in the total income. Likewise in the year 2057/58 and 2061/62, the non operating income covers a high percentage in total income. It explains that the income of the company is diversified a lot which can help the company to sustained in hard times.
- The local sales to bulk sales ratios shows that the BPC has extended the sales system to the local and Nepal Electricity Authority by power purchase agreement. This helps the company that the dependency of power selling is not constraint and diversified selling process helps to mange hard times. The company sells to local sales and to Nepal electricity Authority as bulk sales.

2.14.8 Mr. Chandra Dahal (2007), Entitled with "Cost –Volume Profit Analysis of Public Enterprises and Private Company Ltd. (A Comparative analysis between NEA and BPC)". He was concerned with profit and cost analysis of NEA and Butwal Power Company Limited. He used secondary data of annual reports of their companies.

The Main Objectives of his Study were as Follows:

- To study and analyze existing position of costs of NEA and BPC Pvt. Ltd.
- To identify break even point of both enterprises for avoiding losses.
- To compare and analyze P/V ratio, BEP and volume of these Enterprises.
- To examine problems being faced by these two enterprises and recommend for solving these problems on the basis of study results.

Major Findings of his study were:

- Sales of the BPC are increasing every year in fluctuating rate while sales has increased in lower rate than BPC. BPC forecasted sales for FY 2064/65 is Rs 575.73 million and forecasted sales for NEA for FY 2064/65 is Rs 14518.6 million. The sales plan of both BPC and NEA are not systematic. So it is difficult to achieve their target of increasing operating income.
- Variable cost of BPC is less compare to its fixed cost. Contribution margin ratio of NEA is very less while it is satisfactory in place of BPC.
- BPC is running in profit while NEA is suffering from loss. BPC has earned reliable profit and has made it able to stand as one of the most successful enterprise of the country. In other hand, loss of NEA is gradually increasing. No any systematic plans have been implanted for preventing the loss and improve profit by NEA.
- BPC has high P/V ratio which reduces the break even level of the company but in the case of NEA P/V ratio is very less which increase the BEP sales of the authority.
- BPC’s margin of safety is in average above 50 percent which indicates the safety of the company. But NEA’s margin of safety is negative due to higher BEP sales than actual sales or there is no safety margin in NEA.

2.14.9 Mr. Roshan Karki (2008), Entitled with “Financial Performance Analysis of Purbanchal Gramin Bikash Bank”. In his thesis he has used ratio analysis tools as well as statistical tools.

The Main objectives of his Thesis are as Follows:

- To identify the existing financial position of PGBBL.
- To evaluate the sources and application of funds of PGBBL.
- To find out the loopholes in operating PGBBL.
- To provide reformative suggestion for future improvement.

In his Thesis, Some Major Findings Pointed Out by Mr. Karki are as Under:

- Borrowing is the main sources of fund although the main source of fund is used in loan disbursement.
- Financial ratio indicates poor financial position except FY 2059/060 and 2060/ 061 B.S. but it is Minimum.
- Trend of operating expenses is increasing day by day except FY 2059/060 and 2060/ o61 B.S.
- The relationship between deposit and investment is not in good condition.
- Loan disburse by the bank are quite small in amount, it is not practicable to legal action against the defaulters.
- The PGBBL is going to break even level in last two years it activities are also expanding day by day.
- The bank has not charged interest of its branches against borrowing amount therefore not show the actual viability position of the branches.

He has recommended the Followings Points:

- Equity is the permanent source of funds, its help manage the source of funds. The PGBBL must be increased its share capital and decrease in its borrowings. Therefore, the bank can operate its financial activities on low risk.
- PGBBL has low investment in government bonds, company share as well as fixed deposit of commercial bank. It helps to reach in the access of the capital market.
- The PGBBL has been managing its function by the leverage of borrowing for a long time. In this way, it has now become overburden with debt. The bank must attention towards that matter and tries to enhance its internal resources.
- The PGBBL has poorer liquidity position. So it should be increase in cash and bank balance for good liquidity position.
- The bank should be expanding its activities in hills side by establishing branch offices.

2.14.10 Mr. Parshuram Sharma (2009) had conducted a research work on the topic "Implementation of Profit Planning techniques in Commercial Bank Ltd." The research of Mr. Sharma was centered in the various techniques are implemented in profit planning in commercial bank or not. This research is based on both primary and secondary data for the time period from fiscal year 2060/61 to 2064/65.

The main objectives of this research were;

- To focus the current profit planning premises adopted and its effectiveness in NIBL.
- To study the variance of budged and actual achievement.

- To analyze the growth of business of bank over the period.
- To analyze the various financial plans formulate and functional budget implemented.

The major findings are:

- The bank is conscious about the human resources due to rapid growth and advent new ventures.
- The bank is awarded “bank of the year 2003,2005 and 2008” by the London based “Financial Times Group’s the banker”. The bank was awarded by “Best Presented Account Award 2006” by the institute of chartered Accounts of Nepal. (ICAN)
- The amount of interest margin of NIBL is in increasing trend where as increment percentage is fluctuating trend over the study period.
- The cash flow analysis of NIBL shows that there is sufficient fund to repay the short term obligation and it has maintained the liquidity position as per the NRB direction.

2.14.11 Mr. Mekh Bahadur Gurung (2010) “The Financial Performance of Dairy Development Corporation” The objective of this study is as follows;

- To analyze the profit or loss of DDC.
- To find out the financial trend of DDC
- To analyze the financial ratios of DDC.
- To examine how the financial position could be carried for the purpose of the optimum utilization of the resources.

These recommendations can be listed as below for easy understanding;

- First of all, DDC should develop realistic long term plan as well as short term plan.
- DDC should operate on commercial basis.
- DDC should use effective inventory management tools to make optimum use of the inventory
- DDC should prepare its periodic performance report for evaluating of performance of the poor achievement.
- To reduce the cost of operations, the new technologies should be adopted.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 INTRODUCTION:

The research methodology is the systematic way of solving research problem. Research methodology refers to overall research processes, which a researcher conducts during his/her study. It includes all the procedures from theoretical underpinning to the collection and analysis of data. As most of the data are quantitative, the research is based on the scientific models. It is composed of both parts of technical and logical aspect, on the basis of historical data. Research is systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well thought out activities of gathering recording, analyzing and interpreting the data will the purpose of finding the answer to the problem. Thus the entire process by which we attempt to solve problem is called research.

Research methodology is a path from which we can solve research dilemma systematically to accomplish the basic objective of the study. This study is to problem is called research.

3.2 Research Design:

The primary objective of study is to make a comparative analysis of two public enterprises. In order to achieve aforesaid objective, descriptive research design has been employed. The reason for the selection of this type of research design is the requirement of the study.

3.3 Population and Sample:

Population of the study is all public enterprises in Nepal which comprises of 36 public enterprises. Among 36 public enterprises, two public enterprises were selected to carry out the study i.e. Salt Trading Corporation (STCL) and Dairy Development Corporation (DDC).

3.4 Nature and Sources of Data:

This study is basically based on secondary data. The relevant secondary data will obtained from balance sheet, profit/loss account and income statement of an organizations. As well as data and other information are collected from the periodical economic journals, managerial magazines and other published and unpublished reports and documents from various sources and websites.

3.5 Method of Data Collection:

It includes the sources of data and how they collected. In this study data are collected through published sources. They were collected from the correspondent office and their respective websites.

3.6 Method of Data Analysis:

In this research study financial and statistical tools are used for interpretation and analyze the data. So, the following tools and instruments of financial and statistical methods are used for this research study.

3.6.1 Financial Tools:

Financial analysis is the process of identifying the financial strengths and weakness of the organization by properly establishing relationship between the items of the balance sheet and the profit and loss account. Ratio analysis is a powerful tool of financial analysis. A ratio is designed as “the indicated quotient of two mathematical expression” and as “the relationship between two or more things”. In financial analysis, ratio is used as a benchmark for evaluating the financial position and performance of a firm. Several ratios, calculated from the accounting data, can be grouped into various classes accounting to the financial activity and function to be evaluated.

3.6.1.1 Ratio Analysis

Ratio analysis is a technique of analysis and interpretation of financial statement through mathematical expression. It may be define as the mathematical expression of the relationship between two accounting figures. Ratio analysis is an important technique of financial analysis. To evaluate the different performances of an organization by creating the ratios from the figures of different accounts is termed as ratio analysis.

(a)Liquidity Ratio

The ability of a firm to meet its short term obligation is known as liquidity. It reflects the short term financial strength of the business. Theses ratios are used to know the capacity of the concern to repay its short term liability. Usually the following two ratios are calculated for this purpose.

Current ratio = $\frac{\text{Current Assets}}{\text{Current Liabilties}}$

Quick or Acid test ratio = $\frac{\text{Current Assets Z Inventories}}{\text{Current Liabilties}}$

(b) Financial Leverage Ratio:

Financial leverage shows what portions of the capital assets are financed by outside funds. When successfully employed, this ratio benefits the shareholders by raising their expected return-earnings per share. High ratio shows success in exploiting debt to be more profitable as well as it risk.

Debt equity ratio = $\frac{\text{Total Debt}}{\text{Share holder Equity}}$

Debt to total capital ratio = $\frac{\text{Total Debt}}{\text{Total Capital}}$

(c)Turnover Ratio

Turnover ratio are also known as activity ratio or efficiency ratio this ratio shows relations between the amount of various types of resources and attempt to determine how if they are too high or too low with regard to operating levels. This ratio measures the how efficiently the company is managing its resources.

Inventory turnover ratio = $\frac{\text{Cost of goods sold}}{\text{Average Inventories}}$

Debtors Turnover Ratio = $\frac{\text{Credit sales}}{\text{Average debtors}}$

Fixed assets turnover ratio = $\frac{\text{Sales}}{\text{Net fixed assets}}$

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

Capital Employed Turnover Ratio = $\frac{\text{Sales}}{\text{Capital employed}}$

(d) Profitability Ratio:

A company should earn profit to survive and grow over a long period of time profits are essential, but it would be wrong to assume that every action initialed by management to company should be aimed at maximizing profits. Profitability ratios are calculated to measure the operating efficiency of business enterprises. Through profitability ratio the lenders and investors want to decide whether to invest in a particular business or not.

Gross profit margin = $\frac{\text{Gross Profit}}{\text{Sales}}$ **× 100**

Net profit margin = $\frac{\text{Net Profit after Tax}}{\text{Sales}}$ **× 100**

Return on assets = $\frac{\text{Net Profit after Tax}}{\text{Total Assets}}$ **× 100**

Return on shareholder equity = $\frac{\text{Net Profit after Tax}}{\text{Shareholders' Fund}}$ **× 100**

3.6.2 Statistical Tools:

For the purpose of the study simple statistical tools are used. Mainly financial tools and techniques have been used to show the financial condition of the NBL. Hence, statistical tools are as follows:

3.6.2.1 Mean:

$$\text{Mean}\ f\bar{x}\,A\,\frac{x}{n}$$

Where, n = Number of Year

∑X= Sum of series

3.6.2.2 Standard Deviation:

$$\text{S.D.}\ X\sqrt{\frac{x^{2}}{n}\ Z\ \frac{x}{n}^{2}}$$

3.6.2.3 Coefficient of variance:

The corresponding relative measure is known as the coefficient of variation. This measure developed by Karl Person's is the most commonly used measure of relative variation. It's used to compare the variability of two most or one then two series or group. Coefficient of variation is denoted by C.V. and is obtained as follows:

Coefficient of Variance (CV) = $\frac{\exists}{\bar{x}}\,|\,100$

Here,
$\bar{x}$ = actual mean or average
$\exists$ = Standard deviation

CHAPTER-IV

PRESENTATION AND DATA ANALYSIS

4.1 INTRODUCTION

The basic objective of this study as stated in chapter one is to have true insight into the financial performance in Nepalese public enterprises. This is a survey type of research. To achieve the specific objectives of the research, this chapter presents the presentation, analysis and interpretation of data. Now, in this study the effort has been made to assess and analyze the financial performance, to disclose the actual position of financial performance in Nepalese public enterprises.

It is survey types of research. So the study is based on the Secondary source of information. The data has been collecting from the respective public enterprises. To meet the objectives, the two public enterprises of Nepal were selected, namely Salt Trading Corporation Limited (STCL) and Dairy Development Corporation (DDC). Besides structured queries, discussions are also made with various staffs of the two corporations. The secondary data have been collected from various authentic sources like reports of concern authority, annual reports, acts and directives issued by Government of Nepal.

Salt Trading Corporation Limited (STCL)

Salt trading corporation limited is one of the public enterprises of Nepal, which was established in 2020 B.S. (1963 A.D.) through the joint effort of his majesty government of Nepal and private sector to ensure proper supply of consumer items throughout the country. Its first task was to make edible salt readily available. The STCL was not only to meet the demand but also to maintain quality and later was able to provide ionized salt to prevent goiter a disease that once plagued the Nepalese society.

This success in supply management led to the addition of essential commodities such as sugar, tea, wheat, grams, maize, oil seed, fruits, and cement into its distribution network profit from training activities for economic growth and gain public support and providing employment opportunities.

Dairy Development Corporation (DDC)

In an agricultural country like Nepal, the effective mobilization of the agricultural resources is vey necessary. In order to mobilize internal resources of the country, dairy industry represents one of the basic agro –hand industry of people engaged in producing milk and milk products. In an agricultural country like ours', it is the only nutritious food available as the main source of livelihood.

The objective of DDC is to fulfill the social benefit rather than gaining profit so it collects milk from rural areas at reasonable price and supplies pasteurized milk in urban area. It develops technological and managerial skills of the personnel. It helps to promote socially desirable activities.

4.2 Analysis of financial and statistical tools

Financial analysis is the process of identifying the financial strengths and weakness of the organization by properly establishing relationship between the items of the balance sheet and the profit and loss account. Ratio analysis is a powerful tool of financial analysis. A ratio is designed as “the indicated quotient of two mathematical expression” and as “the relationship between two or more things”. In financial analysis, ratio is used as a benchmark for evaluating the financial position and performance of a firm. Several ratios, calculated from the accounting data, can be grouped into various classes accounting to the financial activity and function to be evaluated.

4.2.1 Liquidity Ratio

The ability of a firm to meet its short term obligation is known as liquidity. It reflects the short term financial strength of the business. Theses ratios are used to know the capacity of the concern to repay its short term liability. Usually the following two ratios are calculated for this purpose.

4.2.1. a. Current Ratio

This ratio shows the relation between current assets and current liabilities. The current ratio is calculated by dividing current assets by current liabilities. The objective of this ratio is to measure the ability of the firm to meet its short term obligation.

Current ratio = $\frac{\text{Current Assets}}{\text{Current Liabilties}}$

Table No 4.1

Current Ratio

F.Y/P.E	STCL	Index (%)	DDC	Index (%)
063/064	1.04	100	3.76	100
064/065	1.04	100	3.52	93.62
065/066	1.02	98.08	4.65	123.67
066/067	1.01	97.12	4.17	110.90
067/068	1.02	98.08	3.77	100.27
Mean	1.03		3.98	
S.D	1.05		0.11	
C.V	4.85		2.76	

Higher the current ratio, better the liquidity position is. For many types of business 2:1 is considered to be an adequate ratio. If the current ratio of a firm is less than2:1, it means the firm has difficultly in meeting its current obligations. If the current ratio is more than 2:1, the company may have an excessive investment in current assets that do not produce satisfied return.

In the table above, current ratio of STCL and DDC is shown. The current ratio of STCL is in fluctuating trend. The current ratio Is 1.04 times in the fiscal year 2063/064 and it remains same in the fiscal year 2064/065. The ratio has decreased in the fiscal year 2065/066, where the ratio is 1.02 times. The ratio is 1.01times in the fiscal year 2066/067 and it is 1.02 times in the fiscal year 2067/068. The mean of current ratio is 1.03 times, S.D. is 1.05 and C.V. is 4.85. The index of current ratio is calculated by taking fiscal year 2063/064 as the base year. The index is 100, 100, 98.08, 97.12 and 98.08 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively.

The current ratio of DDC is 3.76times, 3.52 times, 4.65 times, 4.17 times and 3.77 times in five fiscal years i.e. from 2063/064-2067/068. It is in fluctuating trend. The index is 100 in the fiscal year 2063/064, 93.62 in the fiscal year 2064/065, 123.67 in the fiscal year 2065/066, 110.90 in the fiscal year 2066/067 and 100.27 in the fiscal year 2067/068.

Current ratio of STCL is lower as compared to that of the DDC. The high current ratio of shows that DDC has excessive investment in current assets which do not produce satisfied return. The lower current ratio of STCL shows that it has difficulty in meeting its current obligation.

4.2.1. b. Quick Ratio

A relation between quick assets and current liability is termed as quick ratio. Quick assets include all the current assets other than stock and prepaid. This ratio measures the ability of firm to pay current liabilities immediately. It is calculated by dividing quick assets by current liabilities.

Quick or Acid test ratio = $\frac{\text{Current Assets Z Inventories}}{\text{Current Liabilties}}$

Table No 4.2

Quick Ratio

F.Y\P.E	STCL	Index (%)	DDC	Index (%)
063/064	1.64	100	1.78	100
064/065	1.60	97.56	1.82	102.25
065/066	1.43	87.20	1.59	89.33
066/067	1.01	61.83	1.75	98.31
067/068	1.26	76.83	1.60	89.88
Mean	1.39		1.71	
S.D	0.77		1.11	
C.V	55.40		64.91	

The quick ratio of STCL is 1.64 times in the fiscal year 2063/064 and it decreases to 1.60 times in the fiscal year 2064/065. The ratio is further decreasing in the fiscal years 2065/066 and 2066/067 which is 1.43 times and 1.01 times respectively. Quick ratio increases in the fiscal year 2067/068, where it is 1.26 times. The mean of quick ratio is 1.39 times, S.D. is 0.77 and C.V. is 55.40. The index is 100, 97.56, 87.20, 61.83 and 76.83 in the five fiscal years respectively.

Index of quick ratio of DDC is 100 in the fiscal year 2063/064, 12.25 in the fiscal year 2064/065, 89.33 in the fiscal year 2065/066, 98.31 in the fiscal year 2066/067 and 89.88 in the fiscal year 2067/068. The mean of quick ratio is 1.71 times, S.D. of quick ratio is 1.11 and C.V. of quick ratio is 64.91.

The quick ratio of DDC is higher than that of the DDC. Generally quick ratio of 1:1 is assumed as the ideal position. Here both the enterprise has ratio greater than 1:1. Quick ratio of DDC is higher. Quick ratio of STCL is much closer to 1:1 than DDC's.

4.2.2 Financial leverage

Financial leverage shows what portions of the capital assets are financed by outside funds. When successfully employed, this ratio benefits the shareholders by raising their expected return-earnings per share. High ratio shows success in exploiting debt to be more profitable as well as it risk.

4.2.2.a. Debt-equity ratio

Debt equity ratio shows the relationship between debts and shareholder's fund. It is a test of long-term solvency of the firm. It measures the relative claims of creditors and owners are against the assets of the firm. The objective of computing this ratio is to judge the effectiveness of the long term financial policy of the business.

This ratio is computed by dividing the long term debts or total debts by the shareholder's funds.

Debt equity ratio = $\frac{\text{Total Debt}}{\text{Share holder Equity}}$

Table No. 4.3

Debt equity ratio (%)

F.Y\P.E	STCL	Index (%)	DDC	Index (%)
063/064	29.76	100	14.95	100
064/065	31.79	106.82	14.35	95.99
065/066	32	107.53	0.99	6.62
066/067	32.68	109.81	0.49	3.28
067/068	32.86	109.89	-	-
Mean	31.82		7.7	
S.D	1.04		6.95	
C.V	3.42		90.25	

The index shows the D|E ratio of STCL has ranged between 100% -109.81%. It is 100% in the fiscal year 2063/064, 106.82% in the fiscal year 2064/065, 107.53% in the fiscal year 2065/066, 109.81% in the fiscal year 2066/067 and 109.89%. The average debt-equity ratio of STCL is 31.82 % that means the debt capital financing is 31 % in the total equity. The S.D. and C.V. is 1.04 and 3.42 respectively.

The index of D|E ratio of DDC is 100%, 95.99%, 6.62%, 3.28%,in the fiscal years 2063/064, 2064/065, 2065/066, 2066/067 respectively. Since there is no debt financing by DDC in the fiscal year 2067/68, so there is no D|E ratio in this fiscal year. The average of D|E ratio of DDC is 7.7%, standard deviation is 6.95% and coefficient of variation is 90.25%.

The average of STCL is greater than that of the DDC in D|E ratio and S.D. and C.V. is lower than that of DDC.

4.2.2. b. Debt-total capital ratio

This ratio shows the relationship between long term debt and total capital. The total capital includes shareholders equity as well as long term debt. This ratio is the variation of the debt equity ratio and gives the similar indication as the debt equity ratio.

Debt to total capital ratio = $\frac{\text{Total Debt}}{\text{Total Capital}}$

Table No 4.4

Debt-total capital ratio (%)

F.Y\P.E	STCL	Index (%)	DDC	Index (%)
063/064	2.93	100	13	100
064/065	24.12	823.21	12.54	96.46
065/066	24.21	826.28	0.98	7.54
066/067	24.63	840.61	0.49	3.78
067/068	24.73	844.03	-	-
Mean	20.12		6.75	
S.D	8.6		6.02	
C.V	42.74		89.18	

The index shows the debt to capital ratio of STCL which has ranged between 100% -844.03%. it is 100% in the fiscal year 2063/064, 823.21% in the fiscal year 2064/065, 826.28% in the fiscal year 2065/066, 840.61% in the fiscal year 2066/067 and 844.03% in the fiscal year 067/068. The average debt-equity ratio of STCL is 20.12 that mean the debt capital financing is 20.12 in the total equity. The S.D. and C.V. is 8.6 and 42.74% respectively.

The index of debt to total capital ratio of DDC is 100%, 96.46%, 7.54%, 3.78% in the fiscal years 2063/064, 2064/065, 2065/066, 2066/067 respectively. Since there is no debt financing by DDC in the fiscal year 2067/68, so there is no D|E ratio in this fiscal year. The average of D|E ratio of DDC is 6.75, standard deviation is 6.02 and coefficient of variation is 89.18%.

The mean and S.D of STCL is greater than that of the DDC in D|E ratio and C.V. is greater than STCL than that of DDC.

4.2.3 Turnover Ratio

Turnover ratio are also known as activity ratio or efficiency ratio this ratio shows relations between the amount of various types of resources and attempt to determine how if they are too high or too low with regard to operating levels. This ratio measures the how efficiently the company is managing its resources.

4.2.3. a. Inventory turnover ratio

The relation between cost of goods sold and average inventory is shown by this ratio. It is computed by dividing the sales by closing or average inventory. It indicates as to how fast the goods are sold. It shows the speed with which stock is rotated into sales. It is also known as stock turnover ratio.

Inventory turnover ratio = $\frac{\text{Cost of goods sold}}{\text{Average Inventories}}$

Table No. 4.5

Inventory turnover ratio

F.Y\P.E	STCL	Index (%)	DDC	Index (%)
063/064	2.68	100	10	100
064/065	3.50	130.6	15	150
065/066	3.17	118.28	8	80
066/067	2.32	86.57	6	60
067/068	2.45	91.42	12	120
Mean	2.82		10.2	
S.D	2.31		3.12	
C.V	82.04		30.6	

A high inventory turnover is indicative of efficient inventory management. A low inventory turnover ratio implies excessive inventory levels than warranted by production and sales activities. With the help of this ratio, management can assess whether stock has been more efficiently used or not.

In the above table, the inventory turnover ratio of STCL is shown which is low in all five fiscal years. The inventory turnover ratio is highest in the fiscal year 2064/065. The inventory turnover ratio is 2.68 times in the fiscal year 2063/064, 3.50 times in the fiscal year 2064/065, 3.17 times in the fiscal year 2065/066, 2.32 times in the fiscal year 2066/067 and 2.45 times in the fiscal year 2067/068. The mean of inventory turnover ratio is 2.82 times, S.D. is 2.31 times and C.V. is 82.04. The index of the inventory turnover ratio is also shown in the table. Fiscal year 2063/064 is taken as the base year for calculating the index. The index of inventory turnover ratio is 100 for the fiscal year 2063/064, 130.6 for the fiscal year 2064/065, 118.28 for the fiscal year 2065/066, 86.57 in the fiscal year 2066/067 and 91.42 in the fiscal year 2067/068.

The inventory turnover ratio of DDC is also shown in the table which is higher than that of the STCL. The ratio is highest in the year 2064/065 and lowest in the year 2066/067. The mean, S.D. and C.V. of inventory turnover ratio of DDC is 10.2, 3.12 and 30.59 respectively. The index is also presented in the table. The fiscal year 2063/064 is taken as the base year for calculating the index. The index for inventory turnover ratio of DDC is 100, 150, 80, 60 and 120 for the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively.

The inventory turnover ratio of DDC is higher than that of STCL which means there is efficient management of inventory in DDC. A low inventory turnover ratio of STCL shows less efficiency in management of inventory.

4.2.3. b. Fixed assets turnover ratio

A relation between sales and fixed assets is known as fixed assets turnover ratio. Fixed assets turnover ratio indicates the firm's ability to generate sales based on its various fixed assets like plant and equipment building, machinery, land and other long term assets. It shows the efficiency of an enterprise on utilizing its fixed assets. This ratio is calculated by dividing net sales by fixed assets.

Fixed assets turnover ratio = $\dfrac{\text{Sales}}{\text{Net fixed assets}}$

Table No.4.6

Fixed assets turnover ratio

F.Y\P.E	STCL	Index (%)	DDC	Index (%)
063/064	1.39	100	7	100
064/065	1.60	115	8	114
065/066	2.37	170	9	129
066/067	2.57	185	11	157
067/068	3.03	218	10	143
Mean	2.19		9	
S.D	1.72		1.41	
C.V	78.06		15.67	

The table above shows the fixed assets turnover ratio of STCL and DDC. The table also includes index for the fixed assets turnover ratio of STCL as well as DDC. Fiscal year 2063/064 is taken as the base year for calculating the index for both the enterprises.

In the table, the fixed assets turnover ratio of STCL shows increasing trend. The fixed assets turnover ratio is 1.39 times in the fiscal year 2063/064, 1.60 times in the fiscal year 2064/065, 2.37 times in the fiscal year 2065/066, 2.57 times in the fiscal year 2066/067 and 3.03 times in the fiscal year 2067/068. The index of fixed assets turnover ratio for STCL is 100, 115, 170, 185 and 218 for the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. The mean, S.D. and C.V. of fixed assets turnover ratio is 2.19, 1.72 and 78.06 respectively.

The fixed assets turnover ratio of DDC shows fluctuating trend. The fixed assets turnover ratio is 7 times in the fiscal year 2063/064, 8 times in the fiscal year 2064/065, 9 times in the fiscal year 2065/066, 11 times in the fiscal year 2066/067 and 10 times in the fiscal year 2067/068. The index of fixed assets turnover ratio for DDC is 100, 114, 129, 157 and 143 for the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. The mean of fixed assets turnover ratio is 9, S.D. of fixed assets turnover ratio is 1.41 and C.V. of fixed assets turnover ratio is 15.67.

The fixed assets turnover ratio of STCL is lower than that of the DDC. The DDC has made better utilization of its fixed assets. STCL has not made better utilization of its fixed assets as shown by the fixed assets turnover ratio.

4.2.3. C. Total assets turnover ratio

This ratio is used to take information on total assets for generating sales in operation of business by the firm. It shows the relationship between total assets and sales.

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

Table No 4.7

Total Assets Turnover Ratio

F.Y\P.E	STCL	Index (%)	DDC	Index (%)
063/064	1.05	100	2	100
064/065	1.18	112.38	3	150
065/066	1.78	169.52	3	150
066/067	0.8	76.19	3	150
067/068	0.85	107.62	3	150
Mean	1.13		2.8	
S.D	0.36		0.4	
C.V	31.86		14.29	

In the above table, total assets turnover ratio of STCL is shown for all five fiscal years. The total assets turnover ratio is highest in the fiscal year 2065/066. The total assets turnover ratio is 1.05 times in the fiscal year 2063/064, 1.18 times in the fiscal year 2064/065, 1.78 times in the fiscal year 2065/066, 0.80 times in the fiscal year 2066/067 and 0.85 times in the fiscal year 2067/068. The mean of total assets turnover ratio is 1.13 times, S.D. is 0.36 times and C.V. is 31.86. The index of the total assets turnover ratio is also shown in the table. Fiscal year 2063/064 is taken as the base year for calculating the index. The index of total assets turnover ratio is 100 for the fiscal year 2063/064, 112.38 for the fiscal year 2064/065, 169.52 for the fiscal year 2065/066, 76.19 in the fiscal year 2066/067 and 107.62 in the fiscal year 2067/068.

The total assets turnover ratio of DDC is also shown in the table which is higher than that of the STCL. The total assets turnover ratio is 2 times, 3 times, 3times, 3 times and 3 times for the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. The mean, S.D. and C.V. of inventory turnover ratio of DDC is 2.8, 0.4 and 14.29 respectively. The index is also presented in the table. The fiscal year 2063/064 is taken as the base year for calculating the index. The index for total assets turnover ratio of DDC is 100, 150, 150, 150 and 150 for the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively.

4.2.3.d. Capital employed turnover ratio

A relationship between sales and total capital is represented by this ratio. It is a measure of efficiency of the capital employed in the business. The capital employed includes shareholder equity and long term liabilities. Higher the ratio, the more efficient the management is on utilization of capital. The following formula is used for calculating ratio.

$$\textbf{Capital Employed Turnover Ratio} = \frac{\text{Sales}}{\text{Capital employed}}$$

Table No 4.8

Capital employed turnover ratio

FY/P.E	STCL	Index (%)	DDC	Index (%)
063/064	1.06	100	2.65	100
064/065	1.18	111.32	2.89	109
065/066	1.78	167.92	3.24	122
066/067	1.92	181.23	3.90	147.17
067/068	2.17	204.72	4.37	164.91
Mean	1.62		3.41	
S.D	0.44		0.64	
C.V	27.16		18.76	

The table above shows the capital employed turnover ratio of STCL and DDC. The table also includes index for the capital employed turnover ratio of STCL as well as DDC. Fiscal year 2063/064 is taken as the base year for calculating the index for both the enterprises.

In the table, the capital employed turnover ratio of STCL shows increasing trend. The capital employed turnover ratio is 1.06 times in the fiscal year 2063/064, 1.18 times in the fiscal year 2064/065, 1.78 times in the fiscal year 2065/066, 1.92 times in the fiscal year 2066/067 and 2.17 times in the fiscal year 2067/068. The index of capital employed turnover ratio for STCL is 100, 112.32, 167.92, 181.23 and 204.72 for the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. The mean, S.D. and C.V. of capital employed turnover ratio is 1.62, 0.44 and 27.16 respectively.

The capital employed turnover ratio of DDC shows increasing trend. The capital employed turnover ratio is 2.65 times in the fiscal year 2063/064, 2.89 times in the fiscal year 2064/065, 3.24 times in the fiscal year 2065/066, 3.90 times in the fiscal year 2066/067 and 4.37 times in the fiscal year 2067/068. The index of capital employed turnover ratio for DDC is 100, 109, 122, 147.17 and 164.91 for the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. The mean of capital employed turnover ratio is 3.41, S.D. of fixed assets turnover ratio is 0.64 and C.V. of fixed assets turnover ratio is 18.76.

The capital employed turnover ratio of STCL is lower than that of the DDC. There is efficient utilization of capital in DDC as compared to STCL.

4.2.4 Profitability Ratio:

A company should earn profit to survive and grow over a long period of time. Profits are essential, but it would be wrong to assume that every action initiated by management to company should be aimed at maximizing profits. Profitability ratios are calculated to measure the operating efficiency of business enterprises. Through profitability ratio the lenders and investors want to decide whether to invest in a particular business or not.

4.2.4.a. Gross profit margin

This ratio expresses the relationship between gross profit and sales. The calculation of this ratio is done on the basis of total profit and sales. Generally it is expressed in percentage. The ascertainment of gross profit is completed by reducing cost of goods sold form sales.

$$\textbf{Gross profit margin} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

Table No. 4.9

Gross profit margin (%)

F.Y\P.E	STCL	Index (%)	DDC	Index (%)
063/064	14.17	100.00	10.88	100
064/065	14.00	98.80	9.52	87.5
065/066	11.81	83.35	12.64	116.18
066/067	15.40	108.68	12.03	110.56
067/068	16.78	118.42	13.06	120.04
Mean	14.43		11.63	
S.D	1.67		1.26	
C.V	11.57		10.83	

A higher ratio is a sign of efficient management which reflects lower cost of goods sold and maximizing profit. On the other a lower ratio may reflect higher cost of goods sold due to the firm's inability to purchase at favorable terms.

The table above shows the gross profit margin of STCL and DDC. Index of gross profit margin is also shown in the table. Mean, S.D. and C.V. of gross profit margin is represented for both the enterprises.

The gross profit margin of STCL is 14.17% in the fiscal year 2063/064, 14.00% in the fiscal year 2064/065, 11.81% in the fiscal year 2065/066, 15.40 in the fiscal year 2066/067 and 16.78% in the fiscal year 2067/068. Gross profit margin of STCL is in fluctuating trend. The gross profit margin has decreased in the fiscal year 2064/065 and 2065/066. It has increased in the fiscal year 2066/067 and 2067/068. The index is 100, 98.80, 83.35, 108.68 and 118.42 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068. The mean of gross profit margin is 14.43%, S.D. of gross profit margin is 1.67 and C.V. of gross profit margin is 11.57.

The gross profit margin of DDC is 10.82% in the fiscal year 2063/064, 9.52% in the fiscal year 2064/065, 12.64% in the fiscal year 2065/066, 12.03% in the fiscal year 2066/067 and 13.06% in the fiscal year 2067/068. The gross profit margin of DDC is also in fluctuating trend. It has decreased in the fiscal year 2064/065 and has increased in the fiscal year 2065/066. In the fiscal year 2066/067 and 2067/068 it has increased again. The index of gross profit margin is 100 in the fiscal year 2063/064, 87.5 in the fiscal year 2064/065, 116.18 in the fiscal year 2065/066, 110.56 in the fiscal year 2066/067 and 120.04 in the fiscal year 2067/068. The mean of gross profit margin is 11.63%, S.D. of gross profit margin is 1.26 and C.V. of gross profit margin is 10.83.

4.2.4.b. Net Profit Margin

Form this ratio the relation between sales and net profit becomes clear. The amount after subtracting the whole operating expenses, income tax, interest, etc. from the gross profit is known as net profit.

Net profit margin = $\frac{\text{Net Profit after Tax}}{\text{Sales}} \times 100$

Table No 4.10

Net profit margin (%)

F.Y\P.E	STCL	Index (%)	DDC	Index (%)
063/064	(5.4)	-	0.87	100
064/065	0.61	100	(4.97)	(571.26)
065/066	0.36	59.02	(0.39)	(44.83)
066/067	1.10	180.33	0.98	112.64
067/068	1.55	254.1	2.90	333.33
Mean	(0.36)		(0.12)	
S.D	6.53		6.98	
C.V	1812.57		5721	

Net profit margin of STCL is negative in the fiscal year 2063/064 since it is in loss. Margin is (5.4) in the fiscal year 2063/064. The ratio has become positive in the fiscal year 2064/065 which is 0.61%. it decreases in the fiscal year 2065/066 to 0.36% and there after it increases. It is 1.10% in the fiscal year 2066/067 and 1.50% in the fiscal year 2067/068. The mean of net profit margin is (0.36), S.D. is 6.53 and C.V. is 1812.57. The index is calculated by taking 2064/065 as the base year since the enterprise is in loss in the fiscal year 2063/064. Index is 100, 59.02, 180.33 and 254.10 in the fiscal years 2064/065, 2065/066, 2066/067 and 2067/068 respectively.

Net profit margin of DDC is fluctuating in different fiscal years. It is 0.87% in the fiscal year 2063/064. There is negative margin in the fiscal years 2064/065 and 2065/066 since it is in loss in these two fiscal years. The net profit margin is 0.98 in the fiscal year 2066/067 and it increases to 2.90% in the fiscal year 2067/068. The index of net profit margin of DDC is 100, (571.26), (44.83), 112.64 and 333.33 in the fiscal year 2063/064, 2064/065, 2065/066, 2066/067 and 2067/068 respectively. The mean of net profit margin is (0.12), S.D. is 6.98 and C.V. is 5721.

4.2.4.C. Return on total assets

This ratio establishes the relationship between net profit and total assets. This ratio is also called 'profit to assets ratio'. It is shown in percentage.

$$\textbf{Return on assets} = \frac{\text{Net Profit after Tax}}{\text{Total Assets}} \times \mathbf{100}$$

Table No 4.11

Return on total assets (%)

FY\P.E	STCL	Index (%)	DDC	Index (%)
063/064	(5.70)	-	2.32	100
064/065	0.72	100	(14.25)	(614.52)
065/066	0.64	88.89	(1.27)	(54.74)
066/067	1.10	152.77	3.83	165.08
067/068	1.55	215.28	12.36	532.76
Mean	(0.34)		0.60	
S.D	0.37		75.49	
C.V	37		12566.67	

Higher ratio indicates efficiency in utilizing its overall resources and vice-versa. Return on total assets is major tool to judge the operational efficiency of a firm.

The above table shows return on total assets for STCL and DDC. The table also includes index of return on total assets of both enterprises. Mean, S.D. and C.V. is also shown in the table.

STCL is in loss in the fiscal year 2063/064 so it has negative return on total assets, which is (5.70%). From the fiscal year 2064/065, STCL has been operating with profit. It is indicated by the positive return on total assets as shown in the table. Return on total assets in the fiscal year 2064/065 is 0.72%, in the fiscal year 2065/066 is 0.64%, in the fiscal year 2066/067 is 1.10% and in the fiscal year 2067/068 is 1.55%. The mean of return on total assets is (0.34%), S.D. is 0.37 and C.V. is 37. The index is calculated by taking the fiscal year 2064/065 as the base year since the enterprise is in loss in the fiscal year 2063/064. The index is 100%, 88.89%, 152.77% and 215.28% in the fiscal year 2064/065, 2065/066, 2066/067 and 2067/068 respectively.

Return on total assets of DDC is in fluctuating trend. DDC is in profit in the fiscal year 2063/064. In the fiscal year 2064/065 and 2065/066, it is in loss so return on total assets is negative in these two fiscal years. From the fiscal year 2066/067, return on total assets is positive and in increasing trend. return on total assets is 2.32% in the fiscal year 2063/064, (14.25%) in the fiscal year 2064/065, (1.27%) in the fiscal year 2065/066, 3.83% in the fiscal year 2066/067 and 2.36% in the fiscal year 2067/068.

The mean, S.D. and C.V. of return on total assets of DDC is higher than that of the STCL. DDC has made efficient utilization of its overall resources in comparison to STCL. DDC has not made efficient utilization of its overall resources.

4.2.4. d. Return on Shareholder Equity

This ratio shows the relation between the net profit after tax and shareholder's fund. Shareholder's fund include equity share capital, preference share capital, reserve and surplus, reserve fund, general reserve, capital reserve and share premium. It is calculated by dividing net profit after by shareholder's fund.

Return on shareholder equity = $\frac{\text{Net Profit after Tax}}{\text{Shareholders' Fund}} \times 100$

Table No 4.12

Return on shareholder equity (%)

FY\P.E	STCL	Index (%)	DDC	Index (%)
063/064	(7.41)	-	2.70	100
064/065	9.46	100	(1.63)	(60.37)
065/066	0.85	8.98	(1.28)	(47.41)
066/067	2.82	29.81	3.85	142.59
067/068	4.46	47.15	12.67	469.26
Mean	2.04		3.26	
S.D	5.52		26.74	
C.V	270.59		820.25	

This ratio indicates how well the firm has used the resources contributed by the owners. Higher the ratio, the more efficient is the management in the utilization of shareholder's fund.

The return on shareholders' equity is shown in the table above. The return on shareholders' equity of STCL is in fluctuating trend. It is negative in the fiscal year 2063/064. ROSE is positive in the fiscal year 2064/065 where it is 9.46. The return decrease sharply in the fiscal year 2065/066 and starts to increase from the fiscal year 2066/067. Return on shareholders' fund is 2.82 and 4.46 in the fiscal year 2066/067 and 2067/068 respectively. The mean of ROSE is 2.04, S.D. is 5.52 and C.V. is 270.59.

The return on shareholders' fund of DDC is also in fluctuating trend. It is 2.70 in the fiscal year 2063/064, becomes negative in the fiscal years 2064/065 and 2065/066 where it is (1.63) and (1.28) respectively. Return on shareholders' equity is positive in the fiscal year 2066/067 and 2067/068. ROSE is 3.85 in the fiscal year 2066/067 and 12.67 in the fiscal year 2067/068. Mean of ROSE is 3.26, S.D. is 26.74 and C.V. is 820.25. Index of ROSE is calculated by taking fiscal year 2063/064 as the base year. Index of ROSE is 100, (60.37) in the fiscal year 2064/065, (47.41) in the fiscal year 2065/066, 142.59 in the fiscal year 2066/067 and 469.26 in the fiscal year 2067/068.

4.8 Major Finding of the study

From the analysis of various data collected by secondary sources and on the basis of observation and discussion, the following major findings have been drawn.

- Total sales of the corporations were in fluctuating trends.
- STCL and DDC have no practice of sales forecasting.
- Expenses of STCL and DDC were fluctuating. It has no details of systematic expenses plan.
- The profit trend of company is not satisfactory.
- Total assets and total liabilities of both the enterprise were fluctuating during the study period.
- Financial position of the enterprise is not so good. Net profit and other things are not satisfactory.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter focuses on some selected actionable summary, conclusion and recommendations on the basis of the main findings which are derived form the analysis of financial statement of DDC and STCL.

5.1 SUMMARY

Financial analysis is concerned with analyzing the financial statements of an enterprise and the real picture of financial performance mainly depends on firm's past, present and anticipated financial conditions i.e. financial analysis enables us to evaluate and find out the condition of a firm's financial performance.

"Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of balance sheet and profit and loss account. Analyzing financial statement is a process of evaluating relationship between components, parts of financial statements to obtain a better understanding of a firm's position and performance.

The present study focuses on the analysis of financial performance of two public enterprises, namely DDC and STCL. The study makes use of financial and statistical tools to analyze and compare two public enterprises. For the purpose of conducting this study, mainly secondary data was used. It includes annual report from the two public enterprises which consists of balance sheet and profit and loss account for the five fiscal years i.e. from F.Y. 2063/064-F.Y. 2067/068. Beside these, information has also been obtained form published and other reports of the enterprises.

5.2 CONCLUSION

On the basis of entire study, some conclusions have been deduced. This study particularly deals with conclusion about financial performance of DDC and STCL. The financial statements of five fiscal years have been considered for the purpose of this study.

The conclusion of the study is listed as follows:

a. The liquidity position is shown by the current ratio and quick ratio of both the enterprises. Current ratio of DDC is better than that of the STCL whereas the quick ratio is almost equal of both the enterprises.
b. Financial leverage of STCL is relatively stable than DDC's. Financial leverage of DDC is fluctuating in debt equity, debt-total capital ratio.

c. Inventory turnover ratio of STCL is low than that of the DDC which shows that the inventory is efficiently managed in DDC.
d. Fixed assets turnover ratio of DDC is better in comparison with the STCL's. The low ratio of fixed assets in STCL is an indication of lack of efficient use of fixed assets to generate return i.e. sales.
e. Total assets turnover ratio of STCL is highest in the fiscal year 2065/066 and DDC's is in the fiscal year 2064/065.
f. Capital employed turnover ratio is better for DDC in comparison with the STCL. It is always above 2 times for all the fiscal years and highest in the fiscal year 2067/068. This ratio for STCL is highest in the fiscal year 2067/068 i.e. 2.17 times.
g. Profitability ratio of STCL is better than that of the DDC's.
h. Gross profit ratio of STCL is highest of 16.78% in the fiscal year 2067/068 and is lowest in the fiscal year 2065/066. Profitability ratio of DDC is highest in the fiscal year 2067/068 which is 13.06%.
i. Net profit margin is fluctuating for both the enterprises as both of the enterprises have suffered from loss. STCL is loss in the fiscal year 2063/064 and DDC is in loss in the fiscal years 2064/065 and 2065/066.
j. Return on total assets for both the enterprises is fluctuating since both enterprises suffered loss in some fiscal years. DDC has suffered loss in the fiscal years 2064/065 and 2065/066 whereas STCL has suffered loss in the fiscal year 2063/064.
k. Return on shareholder equity is in fluctuating trend for DDC as well as for STCL. It is fluctuating because of loss the enterprises have suffered.

5.3 RECOMMENDATION

On the basis of the entire research study, some recommendations have been made to overcome the inefficiency and weakness so as to improve the financial performance of both the enterprises. Some of the recommendations are listed below:

a. Both the enterprise has to maintain a check so as to have an adequate liquidity ratio of 2:1 which is mostly recommended for companies. Ratio less than 2:1 shows difficulty of the enterprise to meet its current obligations and higher than 2:1 shows excessive investment in current assets that do not provide satisfied return. Quick ratio is low which shows that there is not so high investment in quick assets.
b. Both companies do not have an appropriate capital structure. Both the enterprises should maintain a proper mix of debt and equity to use long-term debt to take the benefits leverage. Debt-equity ratio for STCL is high. STCL is making greater use of debt

which is costly for the enterprise. It is recommended to make use of equity in order to minimize the cost of capital.

c. Both enterprises should improve their overall turnover through efficient and effective utilization of their existing resources and capacity by proper handling rather than increasing investment.
d. It is found that both enterprises are not conscious on cost. The manufacturing cost has been growing more than the proportional increase in sales. Thus, both companies should look after cost control techniques to check up the hindrance in profitability. With the effective cost controlling mechanism, the profit will increase ultimately.
e. Fixed assets turn over ratio is low for both enterprises, STCL in particular. STCL should make optimum utilization of its fixed assets to generate better revenue through increased sales.
f. Low gross profit margin indicates a high cost of production and inefficient production management of the company. Gross profit margin of DDC is low in comparison with STCL. DDC should reduce the cost by effective cost control mechanism. The resources should be used in such a way so that the output from the given amount of resources is greatest. Cost of production should be minimized by eliminating unnecessary costs such as labour cost, fuel cost etc.

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APPENDIXES

Appendix 1: Income Statement of STCL

Fiscal Years / Particulars	063/064	064/065	065/066	066/067	067/068
Sales Revenue	19162	21390	31904	33663	38740
Cost of Sales	(16445.4)	(18376.31)	(28135.14)	(28479.81)	(32238.98)
Gross Profit	**2716.6**	**3013.69**	**3768.86**	**5183.19**	**6501.02**
Administrative Expenses	(904.78)	(1143.54)	(1424.64)	(1935.93)	(2487.86)
Other Overhead	(1350)	(300)	(298)	(349)	(423)
Operational Profit	**462.22**	**1570.46**	**2046.26**	**2897.63**	**3591.56**
Other Income	260	257	282.15	471	510
Profit in Sale of Fixed Assets	0.9617	0.0899	0.0295	12.87	0.75
Interest Expenses	(1611.88)	(1529.56)	(1971.95)	(2602.01)	(2945.77)
Depreciation Expenses	(42.75)	(51.69)	(70.64)	(77.19)	(72.87)
Provision for Staff Bonus	-	(22.40)	(26.00)	(63.94)	(98.51)
Profit Before Tax	**(931.45)**	**223.90**	**259.85**	**638.36**	**985.16**
Income Tax	(105.11)	(93.76)	(144.46)	(267.85)	(385.09)
Net Profit After Tax	**(1036.56)**	**130.14**	**115.40**	**370.51**	**600.07**
Previous Year's Balance	**1407.31**	**-**	**339.80**	**397.95**	**670.47**
Proposed Dividend	**(99.17)**	**-**	**(57.40)**	**(98.90)**	**(177.98)**
Transfer to Balance Sheet	**271.58**	**130.14**	**397.80**	**669.56**	**1092.52**

Appendix 2: Balance Sheet of STCL

Particulars /Years	**063/064**	**064/065**	**065/066**	**066/067**	**067/068**
ASSETS Current Assets					
inventory	7144.40	6116.10	10071.75	14475.06	15794.15
Cash & Bank Balance	802.92	629.52	1106.34	652.95	1116.89
Debtors	2189.38	2243.10	2447.32	2230.39	2938.13
Misc. Current Assets	8782.72	9756.40	11673.44	11386.52	13013.61
Deferred Tax on Assets	-	29.87	38.16	47.85	186.00
Fixed Assets: Less : Depreciation	14709.26 (930.59)	14932.66 (1318.13)	15140.88 (1706.98)	15150.05 (2061.35)	15187.86 (2418.72)
Net Fixed Assets	13778.67	13614.53	13433.90	13088.70	12769.14
Investment	3686.54	3833.12	3956.06	4034.77	4279.41
Total	**36384.60**	**36222.75**	**42726.98**	**45916.26**	**50097.35**
Capital & Liabilities					
Share Capital	247.77	247.77	285.37	328.59	394.68
Reserve & Retained Earning	13748.82	13517.20	13262.20	12851.03	13059.67
Long Term Loan	4165.32	4376.25	4328.86	4307.37	4420.85
Misc. Current Liabilities & Provision	18222.72	18081.53	24850.55	28429.27	32222.15
Total	**36384.63**	**36222.75**	**42726.98**	**45916.26**	**50097.35**

Appendix 3: Income Statement of DDC

Fiscal Years / **Particulars**	**063/064**	**064/065**	**065/066**	**066/067**	**067/068**
Sales Revenue	16803.50	18006.73	21933.09	26283.50	29268.88
Cost of Sales	(14973.85)	(16291.65)	(19161.07)	(23120.64)	(25446.24)
Gross Profit	**1829.69**	**1715.08**	**2772.02**	**3162.87**	**3822.64**
Administrative Expenses	(802.09)	(1176.65)	(1234.95)	(1339.52)	(1666.80)
Other Overhead	-	-	-	-	-
Operational Profit	**1027.60**	**538.43**	**1537.07**	**1823.35**	**2155.84**
Other Income	124.63	137.56	149.81	175.41	290.49
Profit in Sale of Fixed Assets	-	-	-	-	-
Interest Expenses	(36.15)	(32.13)	(9.16)	(15.02)	(2.14)
Depreciation Expenses	(342.09)	(364.34)	(366.66)	(369.62)	(370.16)
Provision for Staff Bonus	-	-	-	-	-
Profit Before Tax	**773.99**	**279.52**	**1371.06**	**1614.20**	**2074.03**
Income Tax	-	-	-	(64.53)	(186.41)
Net Profit After Tax	**773.99**	**279.52**	**1311.06**	**1549.67**	**1887.62**
Previous Year's Balance	(2474.56)	(2460.89)	(3358.79)	(3444.89)	(3250.09)
Proposed Dividend	**-**	**-**	**-**	**-**	**-**
Transfer to Balance Sheet	(2460.89)	(3358.79)	(3444.89)	(2657.62)	(3250.80)