

Chapter - I

Introduction

1.1 Background of the Study

Financial Institutions are one of the main sources of economy. They do the several economic and financial activities. But most of them are not operating well. They are suffering from various problems directly and indirectly.

Organized banks are not the pioneers of financial transaction. There was lot of actors who contributed to this field. Even before the establishment of banking system in Nepal, financial transactions were in practice as under taken by some moneylenders like Sahu-mahajan & Jamindars. The transactions that help during those days were not in an organized manner. Such organized way of financial affairs could not direct the nation towards the economic development. Hence, to fulfill the growing need of economy; Nepal Bank Limited came into existence in 1937 as the first commercial bank of Nepal even before the establishment of central bank i.e. Nepal Rastra Bank.

Nepal Bank Ltd. started the act of consolidating the scattered capital since its establishment in order to mobilize in productive sector. It developed a systematic tradition & culture of modern banking system in Nepal. Such system could able to establish a strong base for the upliftment of the National economy.

In 1995, Nepal Rastra Bank has been established under Nepal Rastra Bank Act, 1995. It has been playing the significant role in following aspects; "to insure proper management for the issue of Nepalese currency notes to make proper arrangements for the circulation of Nepalese currency throughout the kingdom and to stabilize the exchange rates of the Nepalese currency in order to ensure the convenience and economic interests of the general public." (Nepal Rastra Bank Act. 1995, p.8)

Nepal Rastra Bank also plays most important role in different sectors. It helps to

mobilize capital or fund for development and encourages trade and industrial sector for enhancement. It provides financial security as well as valuable instructions to commercial banks and other related sectors. Therefore it is more essential to the development of banking system and regulation of financial activities in the government of Nepal.

Through by this study I want to compare and analyze the trend of cash flow in different selected financial institutions. The selected institutions are Nabil Bank Limited and Himalayan Bank Limited are in Joint Venture Commercial Banks and Machhapuchchhre Bank Ltd. and Kumari Bank Ltd are in Nepalese Commercial Banks.

In 1974, commercial bank Act has been introduced in Nepal. This Act has helped to emerge numbers of commercial banks with a view "to maintain the economic interest and comfort of the public in general, facilitate to provide loan for agriculture, industry and trade, and make available banking services to the country and the people". (Commercial Bank Act. 2031 B.S., p.12)

Now commercial banks are operated under the directive of NRB and NRB act 2058. There is also existence of Bank and Financial Institution Ordinance (BAFIO) to operate commercial bank on the new climate. After the liberalization in the decade of 2050 various commercial banks started to provide the service in the field of monetary sector of the country. Number of finance companies and saving and credit co-operative institutions have been established to provide monetary service to the country.

After the restoration of multiparty democracy, Nepal government has adopted to implement the economic liberalization. The economy is based on mixed economy .Only the finance companies Act, 2042 (1985) became operational and finance companies started to solve. Later, in 2042 (1985), finance companies Act has been formulated "to incorporate finance companies for non-banking business having about dynamism in the economic development of the country in order to promote the economic benefit of the people in general through institutionalized investment consolidating the scattered capital in the country." (Finance Company Act. 2042 B.S., p.13)This statement

clarifies that finance company Act has been introduced in Nepal to enhance the speed of economic growth by the use of accumulated for the peoples' economic benefit.

1.2 Focus of the Study

Cash is the life blood of business organization. It is the fuel that keeps the business alive. Without cash no business transaction can even imagined to be done. So, analysis of liquidity positions is an important aspect of modern business organizations. As such the decision makers must pay close attention to the firm's cash position and events and transaction that affect the causes of cash position to change. The analysis of the events and transaction that effect the cash position of the company is termed as cash flow analysis.

Cash flow simply refers the flows of cash 'In' and 'Out' of a business over certain period of time. It defines the flow of cash. Normally there are the two types of cash flows (i.e. positive and negative) Positive cash flow means inflow of cash and negative means outgoing of cash. Cash flow exclude movements between items that constitute cash or cash equivalents because these components are the part of cash management of enterprises rather than parts of its operating, investing & financing activities.

Cash flow simply refers to the flow of cash into or outflow of business over a period of time. Watching the cash inflow and out flows is one of the major management tasks. The outflow of cash is measured by those checks issued by every month to pay salaries, suppliers, creditors and others. The inflows are the cash received from customers, lenders & inventories or any type of sources. The terms of cash outflow and inflow systematically defined as sources & uses of cash.

Cash flow can be defined as a two ways positive cash flow and negative cash flow. If incoming of cash is more then out going of cash in a business, the company has a positive cash flow. A positive cash flow is very good position for business enterprises like a good health. 'Cash flow' is one of the must vital elements for the survival of a business. It can be negative or positive; the later is

obviously a most undesirable situation.

1.3 General information about Selected Commercial Banks

Machhapuchhere Bank Limited (MBL)

Machhapuchchhre Bank Limited was registered in 1998 as the first regional commercial bank to start banking business from the western region of Nepal with its head office in Pokhara. Today, with a paid up capital of above 820 million rupees, it is one of the full fledged commercial bank operating in Nepal; and it ranks in the topmost among the private commercial banks.

Machhapuchchhre Bank Limited is striving to facilitate its customer needs by delivering the best of services in combination with the state of the art technologies and best international practices.

Machhapuchchhre Bank Limited is the pioneer in introducing the latest technology in the banking industry in the country. It is the first bank to introduce centralized banking software named GLOBUS BANKING SOFTWARE developed by Temenos NV, Switzerland. The bank provides modern banking facilities such as Any Branch Banking, Internet Banking and Mobile Banking to its valued customers.

The bank in the last few years have really opened up with branches spread all around the country. At this stage, it has its Corporate Office in Kathmandu and branch offices in other parts of Kathmandu, Damauli, Bhairahawa, Birgunj, Banepa, and different parts of Pokhara in addition to the Head Office in Naya Bazar, Pokhara. A full-fledged banking branch is in operation in Jomsom located high up in the mountains too. The bank aims to serve the people of both the urban and rural areas. The bank intends to open many more branches in the coming years and have already envisaged the opening of 8 branches during the year 2007/08.

The share holding pattern is illustrated as follows:

1. Promoters Ownership	70 %
Government of Nepal	-
“A” Class Licensed Institutions	-
Other Licensed Institutions	-
Other Institutions	25.14%
Personal	44.86%
Others	-
2. General Public Ownership	30 %
Total	100%

(Sources: Annual Report 2062/063)

Kumari Bank Limited (KBL)

Kumari Bank Limited, came into existence as the fifteenth commercial bank of Nepal by starting its banking operations from Chaitra 21, 2057 B.S (April 03, 2001) with an objective of providing competitive and modern banking services in the Nepalese financial market. The bank has paid up capital of Rs. 750 million, of which 70 % is contributed from promoters and remaining from public.

Kumari Bank Ltd has been providing wide - range of modern banking services through 9 points of representations located in various urban and semi urban part of the country, 5 outside and 4 inside the valley. The bank is pioneer in providing some of the latest / lucrative banking services like E-Banking and SMS banking services in Nepal. The bank always focus on building sound technology driven internal system to cater the changing needs of the customers that enhance high comfort and value. The adoption of modern Globus Software, developed by Temenos NV, Switzerland and arrangement of centralized data base system enables customer to make highly secured transactions in any branch regardless of having account with particular branch. Similarly the bank has been providing 365 days banking facilities, extended banking

hours till 7 PM in the evening, utility bill payment services, inward and outward remittance services, and various other banking services.

Visa Electron Debit Card, which is accessible in entire VISA linked ATMs (including 11 own ATMs) and POS (Point of Sale) terminals both in Nepal and India, has also added convenience to the customers.

The bank has been able to get recognition as an innovative and fast growing institution striving to enhance customer value and satisfaction by backing transparent business practice, professional management, corporate governance and total quality management as the organizational mission.

The key focus of the bank is always center on serving unfulfilled needs of all classes of customers located in various parts of the country by offering modern and competitive banking products and services in their door step. The bank always prioritizes the priorities of the valued customers.

The share holding pattern is illustrated as follows:

1. Promoters Ownership	70 %
Government of Nepal	-
“A” Class Licensed Institutions	-
Other Licensed Institutions	1.67 %
Other Institutions	0.64 %
Personal	67.69%
Others	-
2. General Public Ownership	30 %
Total	100%

(Sources: Annual Report 2062/063)

Nabil Bank Limited (NABIL)

NABIL Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. NABIL was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, NABIL provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

NABIL, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business.

Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Telebanking system.

The share holding pattern is illustrated as follows:

1. Local Ownership	50 %
Government of Nepal	-
“A” Class Licensed Institutions	-
Other Licensed Institutions	10 %
Other Entities	10 %
General Public	30 %
Others	-
2. Foreign Ownership	50 %
NB International Limited	<u>50 %</u>
Total	100%

(Sources: Annual Report 2062/063)

Himalayan Bank Limited

Himalayan Bank Limited is the 6th commercial bank and 4th joint venture bank in Nepal. Himalayan bank, a joint venture with Habib bank of Pakistan was established on the 6th February 1992. It started its operation 18th January 1993 (5th Magh 2049) with a paid of capital of 60 million. It has raised the equity fund to Rs. 240 million by capitalizing of profit only of the total issued share capital.

Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL. Himalayan bank's policy is to extend quality and personalized services to its customers as promptly as possible. All customers are treated with utmost courtesy as valued clients. The bank as far as possible, offers tailor made facilities to its clients, based on the unique needs and requirements. To extend more efficient services to its customer, Himalayan bank has been adopting innovative and latest banking technology. This has not only helped the bank to constantly improve its service level but has also kept it prepared for future adaptation of new technology. Therefore the bank gives a slogan to customers that "Banking with a Difference".

The share holding pattern is illustrated as follows:

Promoter shareholders	51%
Habib Bank Ltd. Pakistan	20%
Financial institution (Employees Provident Fund)	14%
Nepalese Public Shareholder	<u>15%</u>
Total	100%

(Sources: Annual Report: 2062/063)

1.4 Statement of the Problem

Being the reputed banking institution and having almost same organization structure and objectives, the banks are not earning the same amount of profit, cash flows and not able to meet the return on cash basis on equal term and also the share price of these banks is also differ. May be the limited investment bounding and low banking attitude of customer are quite serious problem of these banks. Government rules and regulation with competitive attitude and behavior of commercial banks are the barrier to meet their on going operating cost. Misused of loan amount by the borrowers is the main problem of banking sector in these days in the country.

The investment opportunities are declining due to the economic recession faced by the country. This may be the major reason that commercial banks have been found to be unable in utilizing its fund efficiently. Because of unfavorable situation prevailed in the country these banks are compelled to reduce the interest rate offered to depositors and they are adopting new technique to discourage low scale depositors. Joint venture and other commercial banks are suffering from NPA and low spread rate, which are the major causes to minimize cash in flow

Rules and regulation as well as directives imposed by government and NRB provide both opportunity and threat to the commercial banks operating in the country. The main problems of these commercial banks are mentioned below:

- ✓ What does their cash flow indicate? Is the cash managed properly or not? Are there any irregularity regarding cash flow?
- ✓ Why these banks have not same amount of cash flow?
- ✓ How far they have been able to keep the sound status in terms of business success?
- ✓ What are the factors that affect's company's liquidity & solvency?
- ✓ Why the investment opportunities of these banks differ?
- ✓ What is the condition of cash flow with the highest amount of annual operating profit?
- ✓ What is the role of spread to generate positive cash flow from operating activity?

The problem of the commercial banks of the country with special reference to with to Nepal Bank Limited and Rastriya Banijya Banks as reported by KPMG Barents Group, an International Auditing Company, is their unsatisfactory fund position.

The report by the KPMG Barents Group says "By international standard both RBB and NBL suffer serious critical short falls in all key areas, both are technically insolvent". According to the report of KPMG, RBB and NBL are associated with under mentioned difficult systematic problems.

- ✓ Poor bank governance
- ✓ Lack of rational banking strategies as well as international banking experience
- ✓ Lack of independent and capable supervision
- ✓ Weak financial and management information
- ✓ Weak legal and accounting practice

To solve the above mentioned problem, management of the banks has been taken by Nepal Rastra Bank the central bank of the country and reforms programmed are operating with the help of World Bank through foreign management contract with ICCMT.

1.5 Objectives of the Study

The main objective of this study is to know about the cash flow analysis. This dissertation helps to evaluate and compare cash flow statement of the selected financial institutions. Cash flow statement provides information that enables users to evaluate the change in net assets of an institution, its financial structure its ability to affect the amount of timing of cash flow. This research has the following objectives:

- ✓ To examine, analyze and compare the cash flow statement.
- ✓ To analyze trend of cash flow of the Nepalese and Joint Venture Commercial Banks.

- ✓ To evaluate the trend of cash flow from different activities of banks.
- ✓ To compare the cash flow performance of individual banks.
- ✓ To recommend the appropriate suggestions to the concerned financial institutions for future improvement.

1.6 Significance of the Study

Nepalese financial institutions and capital markets are suffered from various cash management problems. Whole Financial sectors are becoming a victim of the same. Shrinking investment opportunities due to recession has put the Nepalese entrepreneurs in a great trouble. This may be the only reason that Nepalese investors are drawing back their hands from the investment sector.

Although the present economic situation is not satisfactory, evaluation of financial institutions, mostly finance companies, are increasing, however under such circumstances the objective finance companies in accordance with finance companies act, 2042 (1985) may not be easily fulfilled. It is because these companies may not properly mobilize, the domestic resources for a sustainable economic growth right this time since most of the Nepalese entrepreneurs are discouraged and they like to prefer idle stay rather than to operate the business by loans from financial institutions due to the lack of opportunities. At present Nepal became a member of WTO family. The world is becoming a single market due to globalization. It creates competitions everywhere. But still, Nepalese Financial sectors are not fully conscious. So activities, especially operating activities, which are the main source, which generates cash in those financial companies, are not enough for the regular flow of cash. Therefore, the study of financial institutions regarding cash flow becomes an in dispensable subject in today's contest.

Regarding the present situation of Nepal there is not properly managing of cash. Still most of the financial institutions are following in a traditional way. They are not maintaining the trend of cash flow in effective way. Due to the crisis of national economy, the investing opportunities are becoming placeless. Therefore I believe that, this study tries to understand how far these institutions are able to

sustain in such a quite unfavorable situation. Obviously saying, this study is essential to check the viability of these institutions regarding cash management. The study detects in the companies and efficiencies of these institutions and helps to explore the appropriate and effective measures for the remedy of company's cash management troubles.

1.7 Limitations of the Study

The study is fundamentally based on the data published financial statements, reports through by financial institutions. Therefore there are various limitations to analyze in details. The data, published by the institutions, public accountants certified are believed as true, accuracy and fairness.

The effect of inflation, which is one of the most important factors for the analysis of economic activities, has not been taken into consideration for the purpose of study. As the whole data have been extracted from the published financial statements, it is mainly based on historical financial information.

Since the methods, theories, standards and indicators etc. employed in the study have their own limitation & assumptions, this study, therefore, is within the limitation of all those employed methods.

In order to analyze & compare the financial position consistently, the B/S & P/L A/C of all the selected companies has been taken into consideration since F/Y 2059/60 to 2063/64.

Regarding the above, I have mentioned the following points:

- ✓ The study is mainly confined only on two joint venture banks and two Nepalese commercial banks
- ✓ The study is fundamentally based on the data of published financial statements of banks mention under study.
- ✓ Only five years data from F.Y. 2058/059 to 2062/063 is taken for analysis.
- ✓ Data are base historical accounting rather than on price-level changes.

1.8 Organization of Study

Considering the objectives in mind, the study has been organized into the following five chapters.

Chapter 1: Introduction

This chapter includes background information on the subject matter, focus of the study, profile of sample banks, statement of the problems, objectives of the study, significance of the study, limitation of the study and organization of the study.

Chapter 2: Review of Literature

This chapter includes the relevant previous writing and studies to find the existing gap; review of textbook, dissertation thesis has been included in this chapter.

Chapter 3: Research Methodology

This chapter contains research design, population and sample size, data collection procedure and tools used for analysis.

Chapter 4: Data Presentation and Analysis

This chapter consists of systematic presentation and analysis of financial statement employing financial and statistical tools. It also includes major findings.

Chapter 5: Summary, Conclusion and Recommendations

This chapter includes the summary, conclusion and recommendations of the study.

Chapter - III

Research Methodology

3.1 Introduction

This chapter is mainly associated with Research Design, sample design, period of study, sources of data & data collection procedures. Data processing & terms methods, tools techniques, theories employed in the analysis & interpretation.

3.2 Research Design

In order to fulfill the objectives of the study as much as possible, an adequate attention has been paid in the process of research design. The research is carried out on the basis of secondary data. All the required data and essential information is collected from the concerned commercial bank and chartered accountants firm. In the study, the researcher has followed the descriptive cum analytical research design to analyses the financial performance of the selected finance companies various financial parameters and an effective research technique are employed to especially identify the weaknesses of these institutions. On the ground of observed in ferities and inefficiencies, an attempt will lie made to suggest the reasonable and useful recommendations to the concerned authorities.

3.2.1 Population and Sample

Now a day a number of commercial banks have been emerging rapidly. Some have already been established and others are in the process of establishment. Currently there are 23 (17 listed in NEPSE) commercial banks in Nepal. In the study all the commercial banks are population of study. Among them NABIL and HBL are from joint venture commercial banks and MBL and KBL are from Nepalese commercial banks has been selected as sample for the present study. Financial statements of last five years from 2058/059 to 2062/63 have been taken as sample data for the comparative study of cash flow.

Sample banks are taken on the basis of date of establishment, investors of the bank and financial transaction of the banks. Among the selected sample banks Nabil Bank Limited, is the first foreign joint venture bank of Nepal operating from 1984. Himalayan Bank Limited is the 4th joint venture commercial banks established in 1993 with the joint venture with Habib Bank Limited, Pakistan. The bank has good financial transaction among other joint venture banks so this bank is taken as sample banks for this study. Similarly Machhapuchchhre Bank Limited registered in 1998, is the first commercial bank in the western part of the Kingdom of Nepal having head office in Pokhara. This bank is promoted by the Nepalese investors. Kumari Bank Limited, came into existence as the fifteenth commercial bank of Nepal by starting its banking operations from Chaitra 21, 2057 B.S (April 03, 2001). Kumari Bank is promoted by the Nepalese investors. Financial transaction of Kumari Bank is better than other Nepalese commercial banks so this bank is considered as sample bank for this study.

Among 23 (17 listed in NEPSE) commercial banks only four banks (Two Joint Venture and Two Nepalese Commercial Banks) have been taken into analysis. They are,

- ✓ Nabil Bank Limited (NABIL)
- ✓ Himalayan Bank Limited (HBL)
- ✓ Kumari Bank Limited (KBL)
- ✓ Machhapuchchhre Bank Limited (MBL)

3.2.2 Period of Study

The study is based on previous 5 years data covering the F/Y 2058/59 to F/Y 2062/63.

3.3 Sources of Data & Data Collection Procedures

The data employed in the study derived is from secondary sources. The audited Balance Sheet, profit & loss A/C and related schedules of the concerned commercial

Banks were collected. Besides these, other essential data and information were collected from some published and unpublished documents.

So Far as the data collection procedure is concerned, annual reports of selected organization were collected by making an access to the commercial Banks and the Chartered Accountants firm. In addition, answers on certain queries made to the staff's of concerned organization also assists in data collection procedure. The researcher has also consulted the library to gather necessary data and information during the course of study.

Annual report of the bank and internet are the most important source of the data they are taken into consideration while collecting the data.

First of all, the audited accounts of different years of all the concerned commercial banks presented in two different separate sheets each for balance sheet & profit/loss account in order to depict the over all picture of different years of such banks. Thereafter, cash flow statement has been prepared by comparing the 5 consecutive fiscal year balance sheets. After preparing the cash flow statements the data are analyzed by observing all the financial statement.

3.4 Terms, Tools, Methods & Techniques of Analysis

While conducting the analysis the researcher use trend of cash flow through chart of cash flow and other important method of analysis is ratio or percentage.

3.4.1 Cash Flow Analysis

Cash is the lifeblood of business enterprises. It is the fuel that keeps a business alive. Without cash no activities can take place. So a business must have an adequate amount of cash to operate. As such the decision makers must pay close attention to the firm's cash position and events and transaction that affect the cash position of the company is termed as cash flow analysis.

3.4.2 Importance of Cash Flow Analysis

Information about cash flow is useful in many ways. It can also influence the decision makers in many ways. Decision makers may be,

- ✓ Investors
- ✓ Creditors
- ✓ Management

Investor have to decide whether to invest or not in a given company. Investor will value higher to the company whose regular operating cash flow in more than uses.

Creditors have to decide whether to provide credit facility or not to the given company. Information about cash flow can help creditors decide whether a company will have enough cash to pay the debts as they mature.

Management has to evaluate whether the company has ability to meet unexpected obligations and ability to take advantage of new business opportunities that may arise, and for this the management has to use cash flow analysis. Cash flow analysis could be done by either using cash budget of Cash flow Statement.

3.4.3 Cash Budget

Cash budget is not a financial statement and such used only by decision makers within the organization. A cash budget is always prepared for expected results for future period's cash transaction. The cash budget usually broken into monthly segments showing in detail the cash flows expected from each department. It emphasizes on the financial pattern to meet seasonal to temporary cash needs. (Munankarmi, 2003: 13.03) In thesis work cash flow statement is used to cash flow analysis which is based on historical cost basis.

3.4.4 Cash Flow Statement

An important activity-oriented financial statement is the statement of cash flows. This Statement provides information not otherwise available in either an income statement or balance sheet; it presents the Sources and the uses of the enterprise's funds by operating activities, investing activities, and financing activities. The statement identifies the cash generated or used by operations; the cash exchanged to buy and sell plant and equipment; the cash proceeds from stock issuances and long term borrowings; and the cash used to pay dividends, to Purchase tile company's outstanding shares of its own stock, and to pay off debts. (www.cashflow.com)

Introduction

Cash is the lifeblood of a business enterprise. It is the fuel that keeps a business alive. Without cash no activities can take place, so a business must have an adequate amount of cash to operate. As such the decision makers must pay close attention to the firm's cash position and events and transaction that affect the cash position of the company is termed as cash flow analysis.

Cash Flow Statement as per the International Accounting Standard 7

- ✓ The cash flow statement should report cash flows during tile period classified by operating, investing and financing activities.
- ✓ An enterprise presents its cash flow from operating investing and financing activities in a manner which is most appropriate to its business. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the enterprise and the amount of its cash and cash equivalent. This information may also be used to evaluate the relationship among those activities.
- ✓ A single transaction may include cash flows that are classified differently. For example when the cash repayment of a loan includes both interest and capital the interest element may be classified as an operating activity and he capital elements is classified as a financing activity.

Operating Activity

- ✓ The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the enterprises have generated sufficient cash flows to repay loans. Maintain the operating capability of the enterprise, pay dividends and make new investments without resource to external sources of financing. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.
- ✓ Cash flows from operating activities are primarily derived from the principal revenue producing activities of the enterprise. Therefore they generally result from the transactions and other events that enter into the determination of net profit or loss.

Examples of cash flows from operating activities are,

-) Cash receipts from the sale of goods and the rendering of services
-) Cash receipts from royalties, fees, commissions and other revenue;
-) Cash payments to suppliers for goods and services
-) Cash payments to and on behalf of employee
-) Cash receipts and cash payments of an insurance enterprise for premiums and claims, annuities and other policy benefits.
-) Cash payments of refunds of income taxes unless they can be specifically identified with financing and investing activities; and
-) Cash receipts and payments from contracts held for dealing or trading purposes.

Some transaction, such as the sale of an item of plant, may give rise to a gain or loss which is included in the determination of net profit or loss. However the cash flows relating to such transaction are cash flows from investing activities.

- ✓ An enterprise may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore cash flows arising from the purchase and sales of dealing or trading

securities are classified as operating activities. Similarly cash advances and loans made by financial institutions are usually classified as operating activities since they relate to the main revenue producing activity of the enterprise.

Investing Activity

- ✓ The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditure has been made for resources intended to generate future income and cash flows. Examples of cash flows arising from investing activities are.
 -) Cash payments to acquire property plant and equipment intangible and others long term assets. These payments include those relating to capitalized development costs and self constructed property plant and equipment.
 -) Cash receipts from sales of property plant and equipment intangible and other long term assets.
 -) Cash payments to acquire equity or debt instrument of other enterprises and interest in joint venture.
 -) Cash receipts from sales of equity of debt instrument of other enterprises and interest in joint venture.
 -) Cash advances and loans made to other parties.
 -) Cash receipts from the repayment of advances and loans made to other parties.
 -) Cash payments for futures contracts forward contracts option contract and swap contracts except when the contracts are held for dealing of trading purposes of the payment are classified as financing activities. and
 -) Cash receipts from future contracts, forward contracts option contract and swap contracts except when the contract are held for dealing of trading purposes of the receipts are Classified as financing activities.

Financing Activity

The separate disclosure of cash flows from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the enterprise. Examples of cash flows arising from financing activities are.

- ✓ Cash proceeds from issuing shares or other equity instruments
- ✓ Cash payments to owners to acquire or redeem the enterprise shares
- ✓ Cash proceeds from issuing debentures, loans, notes, bonds, mortgage and other short or long term borrowings.
- ✓ Cash repayments of amounts borrowed and,
- ✓ Cash repayments by a lessee for the reduction of the outstanding liability relating to a finance lease.

3.5 Financial Statement

Financial statements are organized summaries of detailed financial information. The financial statements employed in this study are as follows;

3.6 Balance Sheet

Balance sheet is a financial statement, which reveals information about the financial position of a company at a particular point of time. It contains information in respect of capital & liabilities, assets & equities.

3.7 Income Statement / P/L a/c

It is the financial statement or an accounting report that summarizes the revenue and the expense items along with their difference during the accounting period of time.

3.8 Comparative Balance Sheet

The balance sheets of selected commercial banks over the study period are presented

in five separate sheets each for an institution to see the comparative changes in items of liabilities & assets during that particular time.

3.9 Trend Analysis

The trend analyses are performed to check whether the cash position of the concerned organizations are improving or deteriorating over the study period. In this study, an attempt has been made to observe the financial trends maintained by selected Banks on the basis of computed data derived from the annual report.

3.10 Statistical Tool

Ratio is the tools to analyze cash flow statement. Also the tools bar is used for cash flow analysis.

3.11 Assumptions of the Study

The following assumptions are made in this study to draw valid and reliable conclusions;

- ✓ Short term liability like bills payable are assumed as financing source.
- ✓ The numbers of working days are assumed as 360 in a year
- ✓ The fixed assets which are in balance sheet are kept by deducting depreciation.
- ✓ Annex presented by the banks on annual report are reliable.

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Shrestha, B.P., **An Introduction to Nepalese Economy**, Ratna Pustak Bhandar, Kathmandu, 1981

C. INTERNET

Website: www.cashflow.com
www.hbl.com.np
www.nabilbank.com
www.kumaribank.com
www.nsbi.com.np

APPENDIX - CIV
Nepal SBI BANK LIMITED

Profit and loss Account

From the year 2059/060 to 2063/64

Particulars	2059/60	2060/61	2061/62	2062/63
Expenditure				
Interest expenses	64480000	76155898	113579093	187123456
Employee expenses	11808000	17435464	19872460	29876543
Office operating expenses	23181000	34078609	42357602	59876543
Currency exchange loss	-	-	-	-
Non-operating expenses	-	-	2260	-
Bad loan & advance written off	-	-	-	-
Provision for loan loss	20067000	6465802	15980436	21876543
Provision for non-banking assets	-	-	-	-
Provision for staff bonus	-	1700832	5187772	12345678
Provision for income tax	-	-	-	30987654
Net profit (Carried Down)	-	15307486	46689945	84567890
Income				
Interest income	70089000	139040043	215206844	387654321
Commission & discount income	3113000	5653912	14840269	21876543
Currency exchange gain	3718000	5945606	12621092	11234567
Non-operating income	1000	-	-	-
Other income	267000	504529	1001361	13456789
Net loss (Carried down)	-42348000	-	-	-

Balance Sheet

As at 32 Ashad 2059/60 to 2063/064

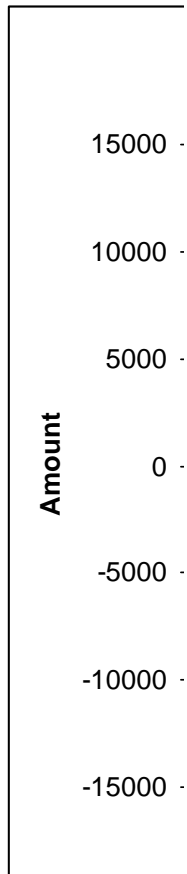
Particulars	2059/60	2060/61	2061/62	2062/63
Capital & Liabilities				
Share Capital	136200000	544174000	550000000	550000000
Reserve and Funds	-56656000	-42468102	4221843	87654321
Loans and Borrowing	-	90000000	102167330	154321098
Deposit Account	994817000	1778786289	2754632090	558765432
Bills Payable	2466000	3956740	5135728	9876543
Provision for dividend	-	-	-	-
Provision for income tax	-	-	-	-
Other Liabilities	27550000	25408167	32477260	68765432
Total	1104377000	2904234912	3448634251	6456789012

Assets				
Cash Balance	31538000	550000000	65256536	121
Balance with Banks	194591000	156082367	345488632	609
Money at call and short notice	-	220000000	150000000	15
Investment	117484000	398356200	274406945	468
Loans Advances & Bills Purchase	655061000	1464165456	2493107932	5061
Fixed Assets	57080000	59244645	62412574	86
Other Assets	48623000	56386245	57961633	94
Total	1104377000	2904234912	3448634251	6456

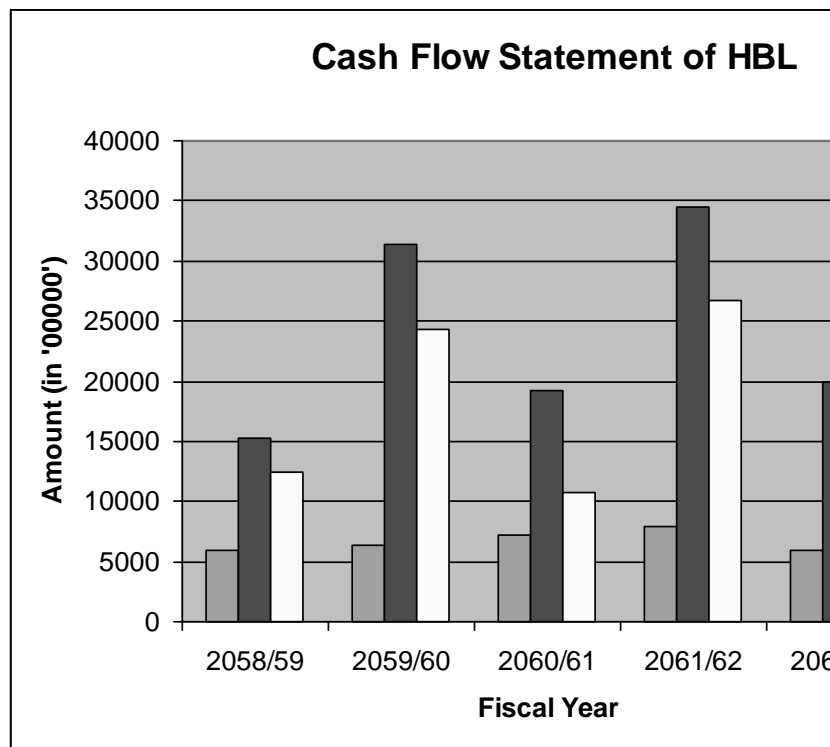
APPENDI
X - A

**High
Lights of
Cash Flow
Statement
of all
Sampled
Commerci
al Banks**

APPENDIX
- AI

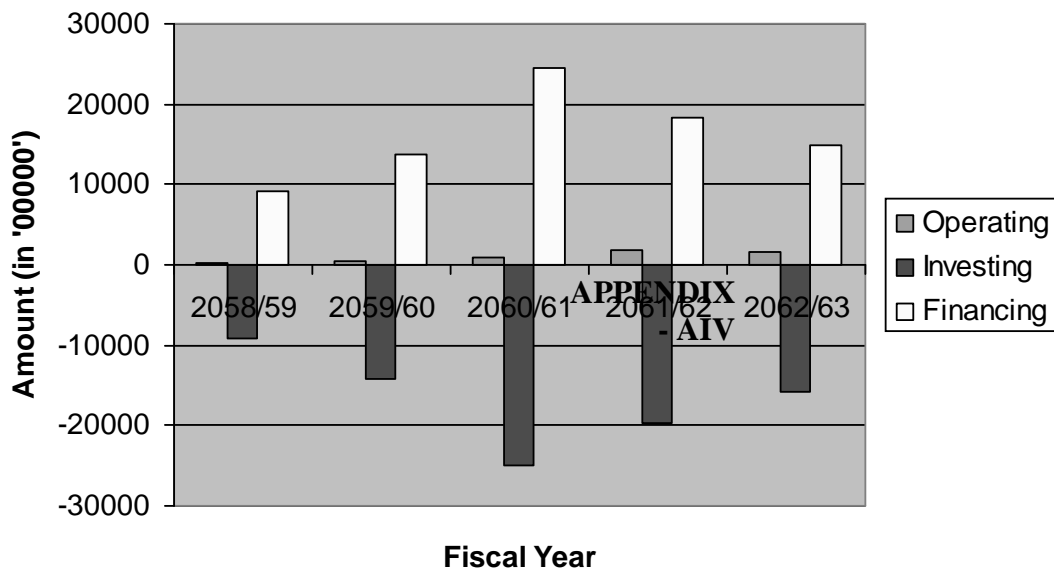


**APPENDIX
- AII**

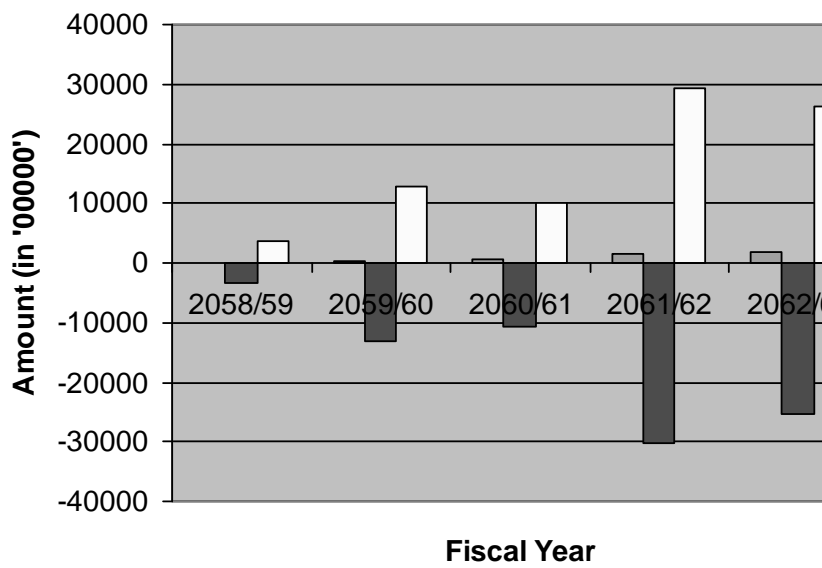


**APPENDIX
- AIII**

Cash Flow Statement of KBL



Statement of MBL

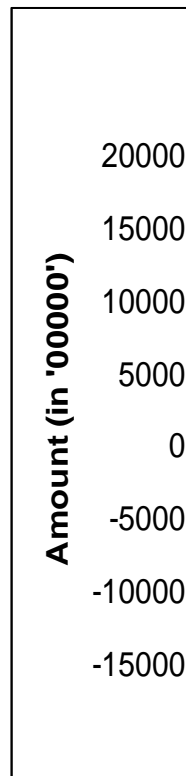


Annex – B

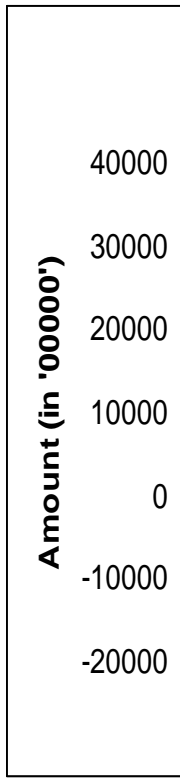
High

Lights of
Comparativ
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Statement
between all
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Commercia
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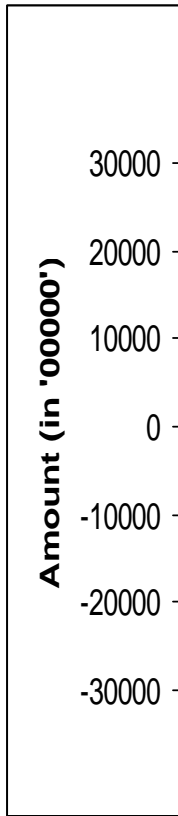
Annex - BI



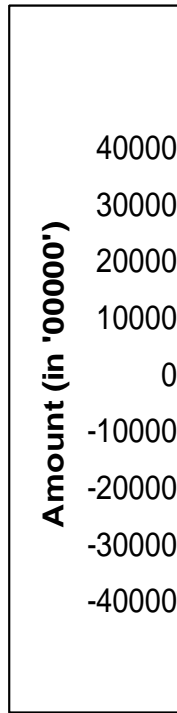
Annex - BII



Annex - BIII



Annex - BIV



Annex - BV

