A STUDY ON ASSETS AND LIABILITIES MANAGEMENT OF NEPAL TELECOM

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CHAPTER – I
INTRODUCTION

1.1 General Background of the Study

Nepal has abundant natural resources, but still is backward in term of socio-economic development because of the inability in exploiting the resources. Proper utilization of the available resources helps to make economy of the nation strong through various development works. In order to development of the nation, there should be good situation of political, economic, socio-cultural, science and technological and legal environment. Since some years the economic condition of Nepal is very poor because it was suffering the Maoist problem. Due to Maoist problem, the government was unable to do any kinds of development works properly at the time. But now, the Maoist problem has been solved up to some level. So, the economic growth of Nepal is hopeful. The primary needs of people are communication, education, health water sanitation, electricity, transportation, security etc. so the government of the nation has to provide such types of facility to people in cheap price and easy way.

Several enterprises were established in the public sector during the 60's and 70's with the industrial sector enterprises mainly set up under the financial and technical assistance of bilateral donors.

"Public Enterprises (PEs) are a kind of state agencies established in order to distribute state resources to the people. Their basic goal is to create social justice under the Economy Laissez faire, no existences of such PEs were accepted. But this kind of notion could not remain static. It was the post second world war period which had contributed to the inception of PEs. Both the capitalist and socialist countries have established the PEs with similar expectations. According to Friedman, Public Enterprise is an institution operating a service of an economic or social character, on behalf of the government, but as an independent legal entity, largely autonomous, though responsible to the public through the government” (Chandra, 1997:2).

The World Bank Report defines State Owned Enterprises (PEs) as government owned or government controlled economic entities that generate the bulk of their revenues from selling goods and services. The term ‘Public Service Corporation’ referred to indicate PEs in the USA (World Bank, 1995:4).

The PEs were established to enhance in production, to develop the society and for the welfare of people. But they are not succeeded to meet the goal. Basically, they suffered from poor management, over staffing, political pressure, pressure of donor agency, corruption, huge losses, inadequate planning, lack of contestability, debts. The features of the problems are mostly similar in the nations where PEs are existed. From the second to the seventh plan, Nepal accorded significant priority to Public Sector Undertakings as a vehicle of development. These were envisaged as instruments for production and for carrying out socioeconomic policies in Nepal. Public Sector Undertaking contributed noticeably in:

a) Creating an industrial base in the country;
b) Enhancing domestic production;
c) Substituting imports;
d) Generating employment opportunities; and
e) Contributing to the national treasury

“However the performances of PSU’s did not prove to be satisfactory. Many suffered from various types of problems and handicaps resulting in economic and financial losses as the government controlled output pricing and internal management decisions”(Bajacharya, 1995:22).

In the context of Nepal, public enterprises in Nepal deserve a crucial role for the socio-economic development of our country. It enjoys a strategic and crucial position in our mixed economic. They have been established in many sectors for overall development of the country with different goals and objectives. Accordingly, Nepal Doosanchar Company Limited (Nepal Telecom) has been established under public utility and social- sector.

In the context of third world developing countries the growing for rapid socio-economic development and nation building process in order to bridge the development gap within the shortest possible time, seems to have provided the rational basis for the choice and growth of the Public Enterprises.

As the political scenario of the country has profoundly changed in the last few months, it is having impact on telecommunication sector also. The demand for all kinds of telecom services, especially GSM mobile and CDMA has increased exponentially all over the country in unprecedented manner. Although this phenomenal growth in demand could be construed as a good news from business point of view, the resulting demand-supply gap with long waiting loss in all cities, towns and villages is being misrepresented as the result of the incumbent Nepal Telecom' inefficiency.

The crux of the matter is that combined result of sudden improvement in the security situation throughout the country as well as affordability of telecom services especially GSM mobile and CDMA due to low pricing policy adopted by Nepal Telecom has created this avalanche of demand which under no circumstances could be fulfilled within next few months time. Of course, Nepal Telecom has already initiated steps to expand both GSM and CDMA on massive scale with an ambitious plan of increasing Tele-density from present 4.7% to about 20% within the next three years. But due to inherent time consumed in procurement procedures and installation time, visible result encompassing the entire country will start coming only after one or two years time.

1.1.1 Profile of the Nepal Telecom (NTC)

Nepal Doorsanchar Company Limited (Nepal Telecom) was registered on 2060/10/22 under company act 2053 and notice to this effect was published in Nepal Gazette the dated 26th Chaitra 2060, after dissolving then Nepal Telecommunications Corporation (NTC). However, the company names was officially effective from 1st Baiskh 2061 (13th April 2004) and the general public knows it by the name of NEPAL TELECOM as its registered trademark.

Nepal Telecom, as a progressive, customer spirited and consumer responsive entity, is committed to provide nation-wide reliable telecommunication services to serve as an impetus to the social, political and economic development of the country. Vision of Nepal Telecom is to remain a dominant player in telecommunication sector in the country while also extending reliable and cost effective services to all. Goal of Nepal Telecom is to provide cost effective telecommunication services to every nook and corner of the country. Since 1913 establishment of first telephone line in Kathmandu, it has making 94 years long history in the field of communication services. But various constraints, it is unable to provide services as per the requirement of people in the rural area. Communication is essential means of information to every person.

1.2 Statement of the Problem

The prime concern of every nation of the world is economic development. Under developed countries are facing several problems in the process of economic development. Nepal is not exception to this condition. The majority of people have not been able to get even basic facilities. Government has established several public enterprises for the sake of providing necessary facilities. Most of PEs is found to be operating unsatisfactory the financial loss and managerial responsibilities for these ailing units have to be borne by the government. This is definitely not contributed to the countries economic growth.

In the communication sector, the government has liberalized its policy and authorized private sector to run communication service. Although up to now profit trend of NTC is increasing trend but now on ward they have to compete with private sector. So NTC should prepare it self to face many challenges which may come for other private company. To meet this challenge NTC should prepare it self and have to realize its management capacity.

NTC is the successful public enterprise of the Nepal, which are still running in the public sector service business. Nepal Telecom is operating in profitable from several years. Now-a-days private telecom companies are also opened in our country i.e. UTL, Mobile to compete it. But NTC is not any effect because public use its service too much than that of private only a few percent public use private companies' phone services. Recent entry of private operators in the sector should, therefore, be considered as government's initiative to make the sector grow at faster pace both in term of quantity and quality. But the facts remains that in spite of new liberal Telecom Act 2053, due to various reasons the market share achieved by private sector is still less than 10 percent of the total telecom business volume. Hence, the incumbent Nepal Telecom shall have to take responsibility of expanding infrastructure at faster pace covering nooks and corners of the country, not only as a competitive strategy but also to cater-ever-increasing demand from general public for both voice as well as data services.

NTC is found to be facing many problems, some the major problems being:

1. Very low revenue in comparison with the investment on total assets
2. Inability to generate required funds to operate its activity.
3. Paying a large amount as interest every year.
4. Increasing trend of the operating expenses.

5. Maintenance of the budget discipline.
6. Huge amount of cash and bank balance lying idle.
7. Lengthy process of decision making due to government intervention.

Different research studies on the assets and liabilities management of Nepal Telecom have pointed out the inefficiency of Nepal Telecom management in utilization of its current assets. The balance sheet shows the huge amount of cash and bank balance lying idle. Volume of sundry debtors seems to be very large and the studies also have pointed out the problem of its outstanding debt collection. They have suggested utilizing its own internal fund rather than accepting high interest bearing loans for capital investment, the studies have shown that the liquidity position of the corporation is quite high as it keeps capacity to pay off whole debt at once.

The main problems, as seen at a glance from outside of assets and liabilities management of Nepal Telecom are as follows:

i) Is there any significant relationship between assets and liabilities?

ii) Even being high demand of the service in the country, is the Nepal Telecom utilizing its assets effectively to meet the demand?

iii) Is there any significant relationship between amount of total acquiring assets and service generation?

iv) Whether there is equal distribution of assets in all the development regions or not?

1.3 Focus of the Study

The present study is focused in the following four subject of study of Nepal Telecom Company Ltd.

Revenue Collection, Utilization of Collected Revenue, Assets Management and Liabilities Management above four subjects (items) are described in brief as follows:

Revenue Collection: Revenue collection means, all the source of revenue of NTC from which collect money by different billing system. Utilization of Collected Revenue: Collected money (revenue) of the public enterprises (NTC) is used in different expenditure heading are called utilization of collected revenue. Assets Management: NTC PE's how manage their different types of assets, study in the Assets Management. Liabilities Management: NTC Company (PE) how manage its different types of liabilities, study in the liabilities management.

This proposed research work is mainly designed to solve the above mentioned problems by taking into account the role of assets and liabilities management.

This research work highlights the assets and liabilities management of the Public Enterprises.

1.4 Objectives of the Study

The main objective of the study is to study on assets and liabilities management of Nepal Telecom. The specific objectives are listed as follows:

i) To receive the assets and liabilities management of Nepal Telecom.

ii) To evaluate the strengths and weaknesses regarding assets and liabilities of Nepal Telecom.

iii) To identify the reason why Nepal Telecom has partially failed to tap its pre-determined objectives.

iv) To identify the sources, uses and volume of the revenue of NTC.

v) To provide suggested course of action, this will strengthen its assets and liabilities position so that it can take concrete steps in achieving its objectives.

1.5 Significance of the Study

The study is needed to frame out the revenue collection and utilization position of NTC. This study aims will provide basic information to public about total revenue and total expenditure of public enterprise for the development of the economy such as trade and industry service, agriculture etc.

Communication development is most necessary. Without the development of NTC, no sector of the economy can flourish. In every country to develop the economic condition, communication services is used.

This research will help to both public and company. Research is made basically on the secondary data, which is provided by the concerned institutions.

However, some significance as follows:

- To know the existing loan position
- To know the strength and weakness of the corporation
- To know the financial position
- To know the sources of revenue/volume of revenue
- To know the revenue collection procedure
- To know the uses of revenue
- To know the assets mgmt method
- To know the liabilities mgmt method
- To know the revenue effectiveness
- It is useful for lenders and shareholders
- It is useful for future plan of the corporation
- It is useful for the public and government

1.6 Limitations of the Study

This study is a partial requirement of Master of Business Study programs. So this study will be limited by following factors.

1. The study cannot cover the company or corporation whole operating period i.e. it only cover 5 years (2001/02-2005/06) operation periods
2. The study aims at finding the facts or revenue collection and utilizations.
3. The completed study is based on the data that provided by corporation/company officer (Annual report of NTC)
4. The study only covers the four subject matters of the company i.e.

   i) Revenue collection
   ii) Utilization of the collected revenue
   iii) Position of Assets and
   iv) Position of liabilities.

1.7 Organization of the Study

This study is divided into five chapters. The format of the chapters is organized in the following framework.

i) Chapter – One

The first chapter is introduction, which contains the following subjects, background of the study, Focus of the study, brief introduction of company, statement of the problem, objective of the study, limitation of the study, significance of the study and organization of the study.

ii) Chapter – Two

The second chapter is literature review, which contains the following subjects, Conceptual review and review of the previous study.

iii) Chapter – Three

This third chapter contains methodology of the study which is as follows, Research Design, Population and Sample, Data Collection and Method of Data Analysis

iv) Chapter – Four

The four chapters contains following subjects, Data Presentation and Major Findings by Analysis

v) Chapter – Five

The five chapter is related to the Summary, Conclusion and Recommendations

CHAPTER - II
REVIEW OF LITERATURE

2.1 Conceptual Review

2.1.1 Meaning of Revenue

Economists defined the term revenue in the sense of total sale proceeds. A term which is used sometimes to describe: the income of business firms or company and the income received by the government from taxation. The wealth that is additionally produced is known as revenue or profit. Suppose a trader has a capital of Rs. 10,000. During the course of a year he earns profit of Rs. 1000. The revenue for that year is Rs 1000.

Capital is the source of revenue: revenue comes out of capital. Capital is invested so that it may give rise to revenue. Revenue receipts are the moneys received in the ordinary course of business; e.g. by selling Merchandise or in the form of discount, commission or interest. Money obtained by selling waste paper, packing cases etc, is usually treated as revenue receipt (Agrawal, 1994:139).

Every firm will sell its products or services to collect the revenue. The profit of the firm depends upon the cost and revenue. The profit earned by any firm is the difference between the cost of production and the revenue colleted by selling products or services in the market. The revenue of a firm can be divided into three parts. They are,

1. Total Revenue
2. Average Revenue
3. Marginal Revenue

1. Total Revenue

The total amount collected by a producer after selling certain quanity of goods in the market is known as Total Revenue. It is necessary for a firm to know its total revenue is for more than the total cost, and then the firm will be in the state of earning profit. This can be shown graphically as blow.

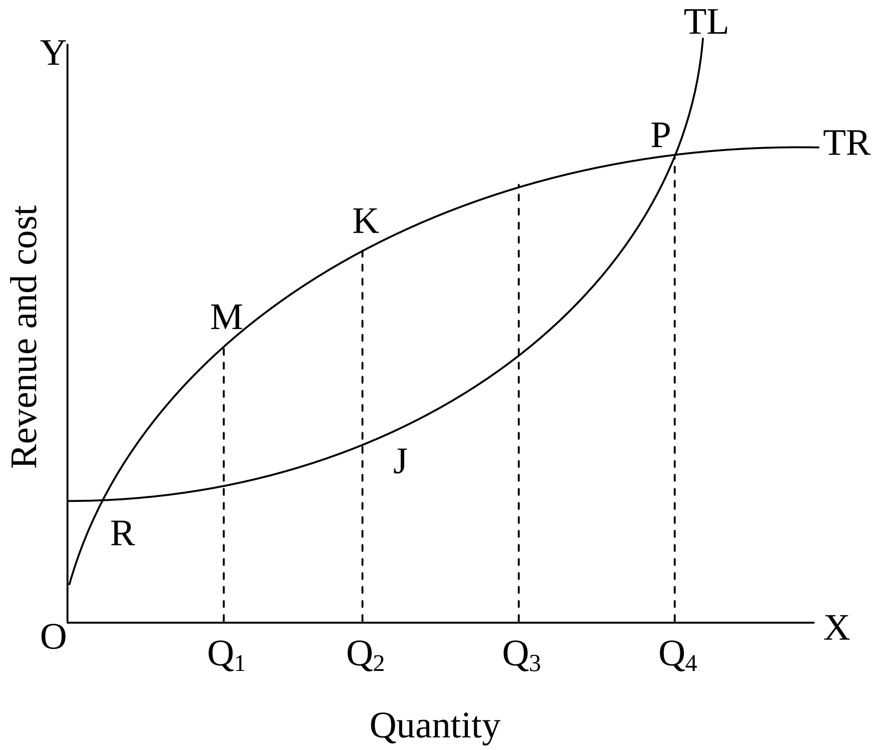


Fig. 2.1 Relation of Revenue and Quantity

In fig 2.1 quantity of output is measured along x-axis (OX) and total revenue with cost are measured along y-axis (OX). TR is the total revenue curve and Te is the total cost curve. Theses curves gives the total revenue and total cost at various level of output. The firm will be earning maximum profit when the distance (gap) between the TR curve and Te curve is the greatest. When a producer sells OO, quantity of output, hen the revenue earned will be equal to MQ. But when the output sold is OQ_2 then the total revenue earned is KQ_2 and respectively (Subedi, 2060:181).

So the total earning of a firm from the selling of the goods at certain price is the total revenue. There fore total revenue is the total amount earned by a producer on a firm by selling the goods. Total revenue can be calculated by multiplying per unit cost with the total quantity.

Mathematically,

$$TR = P \times Q$$

Where, TR = total revenue

P = per unit price of goods

Q = Quantity sold

2. Average Revenue

The amount earned by a producer after selling one unit of a produced commodity is known as the average revenue. In other words, if the total revenue earned by a producer is divided by the total units of goods sold, then the quotient is the average revenue.

Mathematically

$$AR = TR/Q$$

Where,

AR = Average Revenue

TR = Total Revenue

Q = Quantity of goods sold

3. Marginal Revenue

The net revenue earned by a producer by selling one additional unit of goods is known as the marginal revenue.

$$MR = TR_{n+1} - TR_n$$

Where,

MR = Marginal Revenue

TR_{ntl} = Total revenue received by total quantity sold

TRn = Total revenue received before selling additional unit.

So, marginal revenue (MR) is the revenue received from the sale of one additional unit of goods.

2.1.2 The Relationship of Cost, Revenue and Profit Planning In Flows and Out Flows of an Enterprise

Managerial Manipulation of

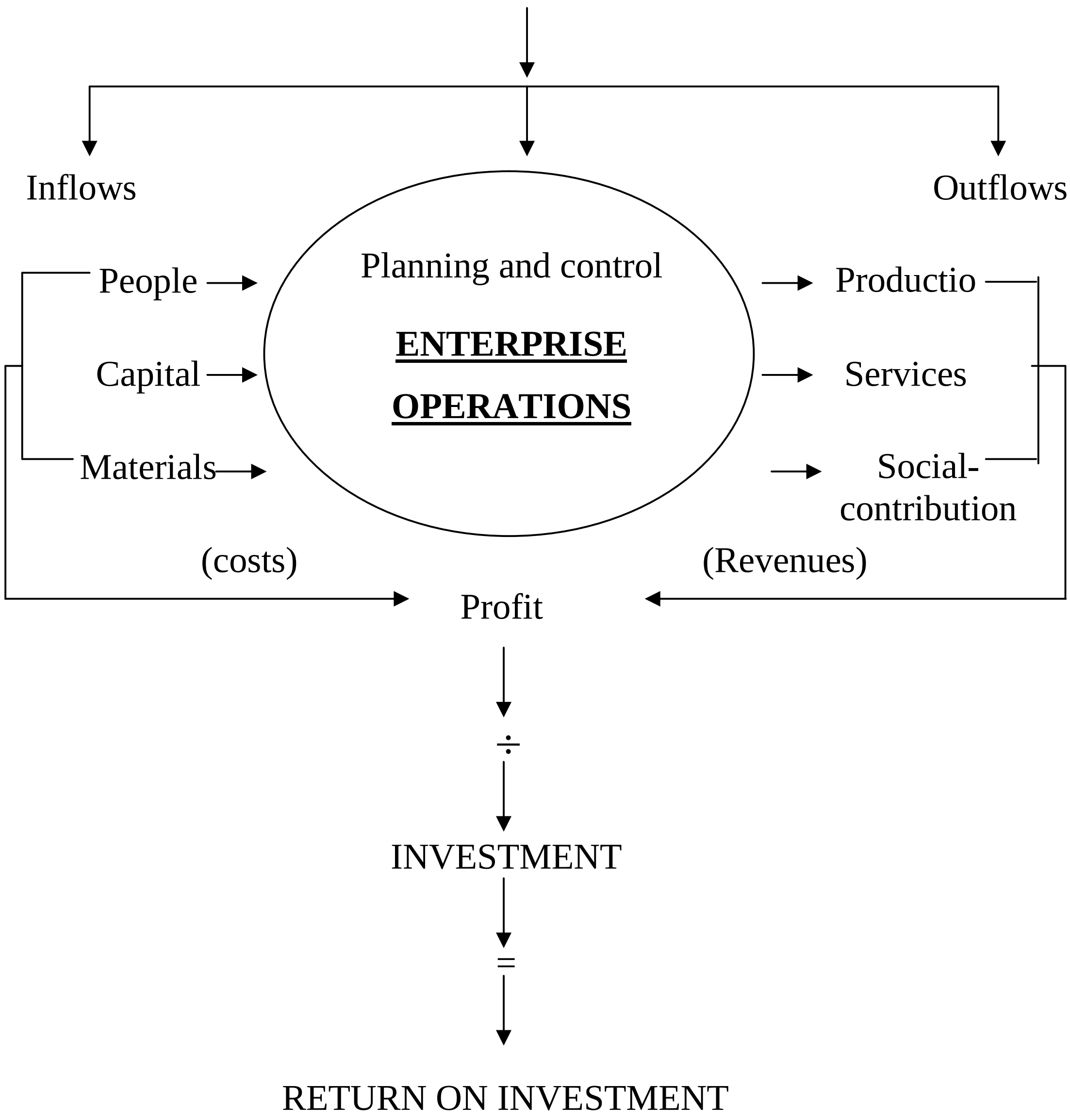


Fig. 2.2 Relationship of Cost Revenue and Profit Planning

2.2 Revenue Collection

Revenue collection means the sale proceeds of a firm or company which is collects during the specific period of time, collection through counters, collections throngs the banks and collection through auction of customer property.

2.2.1 Revenue Collection Process of Nepal

Nepal telecom generates its revenue by providing different type of services like basic fixed line services, GSM mobile, internet, lease line etc. Apart from these the source, which generates significance revenue for the company, is international settlements from international call. Nepal telecom, due to its nature of business, has to transact with significant number of customers in addition to dealing with foreign carriers for its international sharing revenue. Basically, Nepal telecom has two different ways of revenue collocation process.

(i) Collection through Counters

In smaller exchanges collection being done manually but in almost 50 places collection of cash has been done through online cash collection process, which has far better efficiency than manual cash collection. For the sake of increasing efficiency Nepal telecom is collecting its revenue online its exchanges having more than 1000.

(ii) Collection Through the Banks

Now Nepal telecom has stated collecting its revenue through the banks also. Like in mobile's cash Nepal Investment Bank, Bank of Kathmandu, Kumari Bank is collecting revenue through their counters. As a result, subscribers are able to pay their dues at their nearest banks counters as per their convenience. Similarly also in PSTN's case here in Kathmandu valley, already Bank of Kathmandu, Kumari Bank, Nepal Investment Bank, Nepal Industrial and commercial bank, Machhapuchare Bank, Laxmi Bank, Banija Banks are collecting the revenues of Nepal Telecom. And in near future, few other banks will also be participating in PSTN's revenue collection process.

Likewise in 50 places different banks visit company premises to collect the cash and these banks are providing interest at the rate of 4.25 percent per annum. Few years which deserve appreciation in our collection, strategy in establishment of advance payment facility, weekly bill payment facility for high paying subscribers, anywhere payment Kathmandu valley introduction of token system at counters. Presently, Nepal Telecom has made a policy for disconnect telephone line for that customer who doesn't pay in time (3.5 % fine) that generates excess cash to company. Apart from other services provided by the Nepal Telecom, 93% of the total income which was 4956 million in 2057/58, 5487 million in 2058/59 and 6156 million in 2060/61 is achieved from telephone only. In this, ISD takes 36%, STD contributes 23% and 34% and 34% from local call services. Still, Nepal telecommunication is unable to meet the demand of the public. This may be due to lack of proper planning, financial resources and technical known-how. This has directly hampered the other activities of the country (Devekota, 2006:9-10).

2.2.2 Revenue Collection Sources of NTC

NTC collect revenue by the following different types of sources.

(i) Local telephone
(ii) Domestic Trunk Telephone
(iii) International Telephone
(iv) Domestic Telegraph
(v) International Telegraph
(vi) International Telex
(vii) Tele fax
(viii) Mobile & Internet
(ix) Interconnection
(x) Sale of Tele set/ other material
(xi) Interest on Bonds/T-Bills
(xii) Interest from Bank Deposits
(xiii) Interest from Pension Funal
(xiv) Income from Intelsat Investment

(xv) Others

2.3 Utilization of Revenue

Collected revenue utilized by a firm means total expenditure indifferent head during the specific period of time of that company/firm.

2.3.1 Revenue Utilization by NTC

Collected revenue utilized by the Nepal Telecom Company Ltd on the following expenditure headings.

(i) Employees Costs
(ii) Operation and Maintenance Cost
(iii) Interest on Subscribers Deposit
(iv) Operation
(v) Incentive Package
(vi) Provision for Tax
(vii) Interest on Loan
(viii) Loss (Gain) on Foreign Exchange
(ix) Bonus Paid
(x) Other Expenditure
(xi) Balance Transferred to Balance Sheet.

2.4 Assets Management

2.4.1 Meaning of Assets

All the properties possession and debt owing to a business house are known collectively as assets (Agrawal, 1994:6).

In accounting, it refers to any physical property or right that is owned and has a money value. Accountants view an assets as a soiree of wealth, generally expressed in terms of its costs capable of giving its owner future benefits.

2.4.2 Classification of Assets

Assets are classified (a) Fixed, (b) Floating and (c) Fictitious.

a) Fixed Assets

Fixed assets are assets of a durable nature which are used in business over and over again, e.g. Machinery and buildings. These assets are not meant for resealed. They are also sometimes called as capital assets or fixed capital expenditure or long-lived assets.

b) Floating Assets

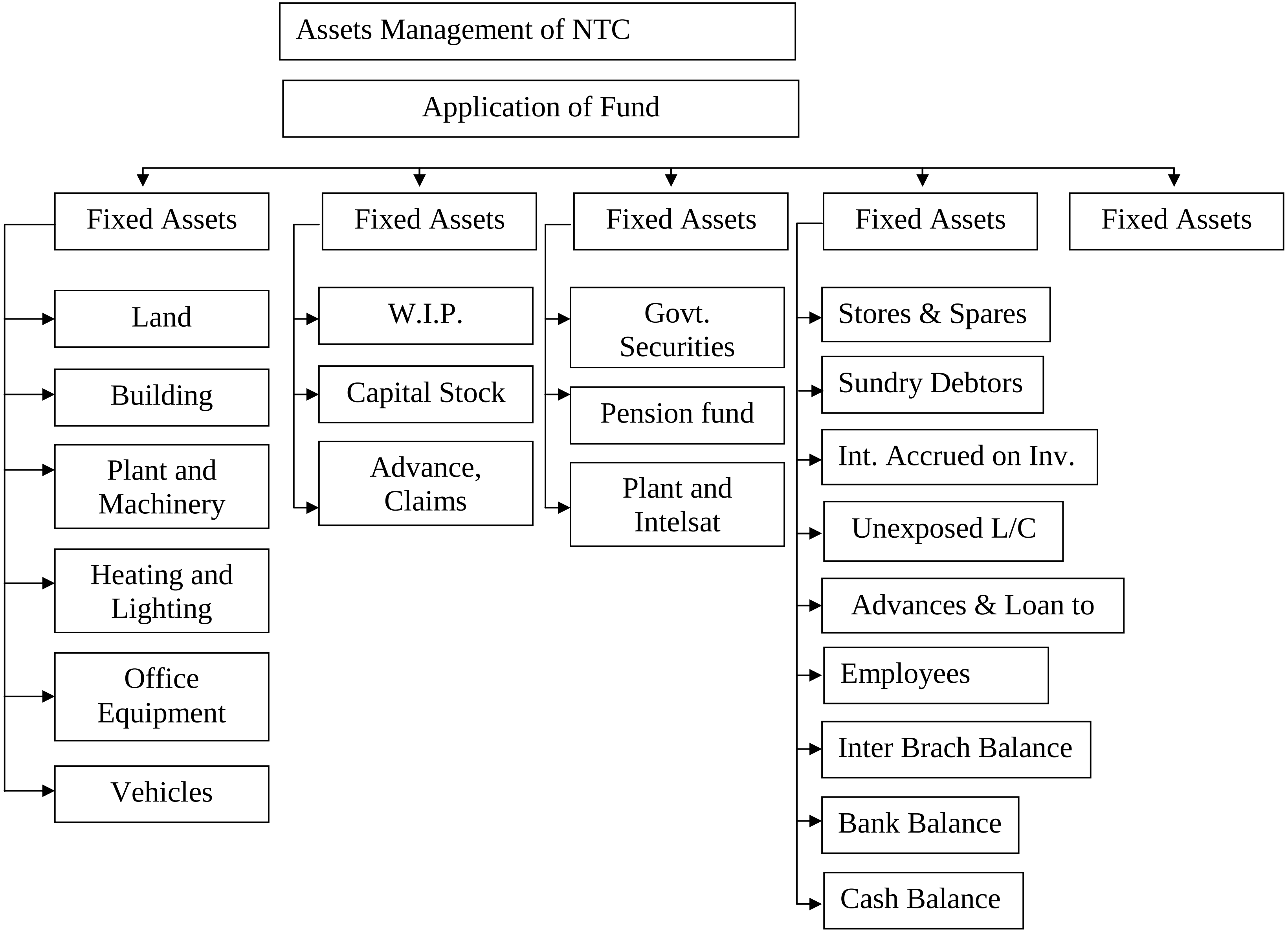
Floating assets are those temporarily held assets which ae meant for resale or which frequently undergo change e.g. cash, stock, stores, debtors and bills receivable are example of floating assets.

c) Fictitious Assets

Fictitious Assets are those assets which are not represented by any thing concrete or tangible: there are no tangible properties behind such assets. Preliminary expenses goodwill, prepaid expenses, and debit balance of P&L a/c are examples of such assets.

2.4.3 Assets Management by NTC

A company or corporation managed of its own assets in specific format. Assets management by Nepal Telecom Company is given prescribed format. Assets management means application of fund of any firm or company.


Assets Management of NTC
Application of Fund
Fixed Assets
Fixed Assets
Fixed Assets
Fixed Assets
Fixed Assets
Land
Building
Plant and Machinery
Heating and Lighting
Office Equipment
Vehicles
W.I.P.
Capital Stock
Advance, Claims
Govt. Securities
Pension fund
Plant and Intelsat
Stores & Spares
Sundry Debtors
Int. Accrued on Inv.
Unexposed L/C
Advances & Loan to
Employees
Inter Brach Balance
Bank Balance
Cash Balance

2.5 Liabilities Management

2.5.1 Meaning of Liabilities

Capital of the proprietor and the debits which are due by the firm to other parties are known collectively as liabilities (Agrawal, 1994:6). An amount which a business is legally bound to pay, it is a claim by an outsider on the assets of a business.

2.5.2 Classification of Liabilities

Liabilities of a concern can be classified into

(i) Fixed Liabilities

(ii) Current Liabilities and

(iii) Contingent Liabilities

(i) Fixed Liabilities

Fixed Liabilities are those liabilities which will be redeemed after a long period of time. These include long-term (loans land capital, only if capital is treated as a liability).

(ii) Current Liabilities

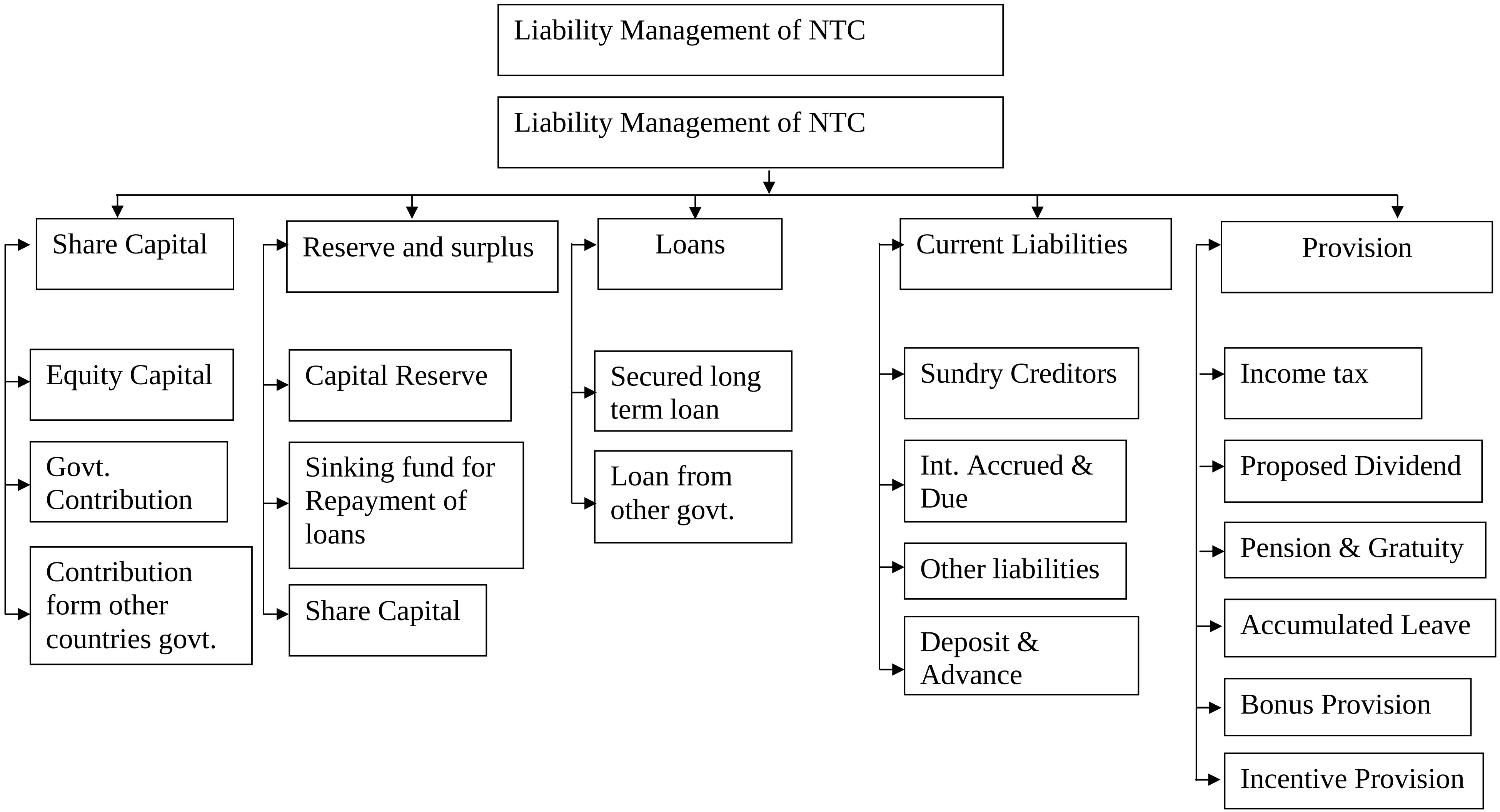
Current liabilities are those liabilities which have to be redeemed in the near future, usually within a year. Trade creditors, bank loans, bills payable etc. are examples of current liabilities.

(iii) Contingent Liabilities

Contingent liabilities are not actual liabilities, but their becoming actual liability is contingent on the happening of a certain event.

2.5.3 Liabilities Management by NTC

Liabilities management is also called sources of fund of a firm. A firm or company or public enterprise managed of it's liabilities to own prescribed format. Liabilities management by Nepal Telecom is given format.


Liability Management of NTC
Liability Management of NTC
Share Capital
Reserve and surplus
Loans
Current Liabilities
Provision
Equity Capital
Govt. Contribution
Contribution form other countries govt.
Capital Reserve
Sinking fund for Repayment of loans
Share Capital
Secured long term loan
Loan from other govt.
Sundry Creditors
Int. Accrued & Due
Other liabilities
Deposit & Advance
Income tax
Proposed Dividend
Pension & Gratuity
Accumulated Leave
Bonus Provision
Incentive Provision

2.6 Accounting Polices of Assts and Liabilities Management and Revenue of NTC

2.6.1 General Basis of Accounting

The financial statements are prepared under the historical cost contention in accordance with relevant international accounting standards and presentational requirement of the communications corporation act, 2028 and amendment of there on.

2.6.2 Revenue

(a) Revenue earned from telephone related services operating income and non operating income comprises mainly interest on investments and bank deposits. Inter administration revenue is accounted for as per statement /in voice provided/received to/from inter administrator.

(b) Revenue from Internet E-mail, Prepaid Card, Rechard Card, Payphone Car Services are accounted for on cash basis.

2.6.3 Fixed Assets

(a) Fixed assets are stated at cost and are inclusive of all expensive, which are incidental to commissioning/putting the assets to use.

(b) Gain and/or loss on disposal of fixed assets arising in the ordinary course of business are taken into profit and loss account as non-operating income/expenditure for the year.

(c) Assets such as tools and office equipment costing less than Rs. 5000 per unit are fully charged to expenses. Quantitative records of such assets are magnetized.

(d) Assets which are damaged beyond economic repair or become obsolete due to change in technology are written off wherever identifiable.

2.6.4 Capital Work-in-Progress

Capital work in progress includes capital stock, advances to contractor and suppliers an capital account.

2.6.5 Depreciation

(a) Depreciations provided on the straight line method on all the items of fixed assets at the rates shown in below which have been determined by the management based on the useful life of the assets.

Description	Depreciation Rate
Land	–
Building	2.8-6.7%
Plant and Machinery	4.20%
Heating and Lighting	10%
Furniture	20%
Office Equipment	20%
Vehicles	20%

Source: Income Tax Act, 2002

(b) Depreciation on assets has been charged from the following month of capitalization for assets, which are added during the year.

(c) No depreciation is charged on the assets under work-in -progress until they are transferred to fixed assets.

2.6.6 Investment

(a) Investment comprises of national saving bonds and treasury bills. Debenture and is stated at cost.

(b) Investment in Intelsat amounting to and $ 1439.40 k has been revalued at the exchange rate prevailing on the balance sheet date.

2.6.7 Foreign Currency Conversion

(a) Foreign currency balances relating to current assets are booked at original value and any profit or loss arising from exchange rate fluctuation on such assets at balance sheet date is recorded in the profit and loss account as foreign exchange loss/gain.

(b) In the cause of long-term liabilities incurred for the acquiring of assets gain or loss, if more than 2% is normally regarded as an adjustment of cost and included in the carrying amount of the related fixed assets. Otherwise the gain or loss is dealt with in the profit and loss account.

(c) Loss or gain on interest payable on foreign loan is changed to profit and loss account.

2.6.8 Provision for Doubtful Debt/Advances/Transit Items

(a) Bad debts are written off, as they become known.

(b) Debtors are reviewed each year and one hundred percent provisions made in respect of debtors outstanding for more than a year. Except the dues from the govt. and inter administrations. In case of dues from the government and inter administration outstanding for more than tree years, one hundred percent provision has been made.

(c) Provisions made against doubtful advances, cash-in -transit, stock-in-transit and claims if required.

2.6.9 Pension and Gratuity

(a) Provision for person eligible employees has been made on the basis of approved years fixed by the corporation.

(b) Provision for gratuity has been made on actual basis.

2.6.10 Provision for Accumulated Leaves

A provision has been made to meet the cost of home and sick leave accumulated up to the year on actual basis

2.6.11 Inventory

(a) Cost of spare ports, the unit price of which is less than Rs. 100.00 is directly changed to profit and loss account at the tie of purchase. A quantitative record of such items is maintained.

(b) Inventory is valued at cost on the basis of the FIFO method of inventory accounting provision is made for slow moving - non - moving and obsolete items at the rate of 25%, 50% and 100% respectively.

2.6.12 Royalty and VAT

Royalty has been calculated at 4% and 2% for contribution to Rural Development fund on operating revenue including sharing loss.

VAT and TSC are accounted for on cash basis.

2.6.13 Transformation of Corporation to Company

With effect from Aprils, 2004, Nepal Telecommunication Corporation has been transformed into M.S Nepal Doorchanchar Company Limited (Nepal Telecom), a company registered under the companies Act. of Nepal. All the assets and liabilities of the coronation are transferred to Nepal Door searcher company limited (Nepal Telecom) with effect from that date.

2.6.14 Equity

As per the communication corporation act 2028, share capital of corporation is to be allocated 51% to government, 25% to the employees of the corporation and 24% to the general public. However government has not confirmed the above allocation as well as issue of shares.

2.6.15 Dividend

Dividend has been provided at the rate of 15% of net profit after tax.

2.6.16 Sinking Fund

Out of each years profit Rs. 5 millionis set-aside in the sinking fund for the erred emption of long term dabt and replacement of the fixed assets. The cumulative balance of the fund at the balance sheet date comprises of the following.

Rs. In ‘000’

Balance at the beginning of the year	80,000
Amount transferred during the period	5,000
Total	85,000

2.6.17 Insurance

Insurance of assets has been done by the management considering the value and importance of assets and also after considering the review and recommendations made by the senior management committee.

2.6.18 Interest

Interest income on investments and deposit are shown in profit and loss account as non-operating income. Interest accrued on long term debt is charged to profit an doles a/c. Interest payable on subscriber's deposits is provided at the rate of 5% p.a. and is charged to profit and loss account.

2.6.19 Cash and Bank Balances

Cash in excess of current requirement is temporarily invested on fixed and saving deposits of commercial banks. Foreign currency bank balances are countered into Nepalese rupees at the exchange rate prevailing on the balance sheet date. Margin money on L/C has been shown under the head supplier advances.

2.6.20 Priority Fees on OYT

Priority fees collected from the subscriber under the Own Your Telephone (OYT) scheme is taken into income.

2.6.21 Deferred Expenditure

Deferred expenditure are amortized over the average period of 35 years in which the related benefits are expected to realize. However deferred expenditure like lines fees and similar expenses are amortized over the period cohered.

2.6.22 Capital Commitment and Contingent Liability

Commitments on Capital a/c not Provided for	Rs.
Letter of Credit	912,484,139
Building construction Contract	8,959,037
Total	921,443,176
Contingent Liability	Amounts
Head Office Land Registration Charge	12,000,000

2.7 Review of Previous Thesis

Review of literature is an essential part of all studies. It is way discover what other research in the area of our problem has uncovered. It is also a way to avoid investigating problems that have already been definitely answered. Review of literature provides the foundation for developing a comprehensive theoretical frame work from which hypothesis can be developed for testing. It also minimizes the risk of pursuing the dead ends in research. But there are very few research paper concerning comparative cost volume profit analysis has been conducted. Few dissertations have been submitted relating to cost volume profit analysis & the study is limited of various constraints. So this study is attempted to review the previous research work on profit planning & control as well as management accounting. As CVP analysis is one of the major tools of PPC, the previous studies related to PPC are reviewed which will helpful to further study.

Mr. Khagendra Prasad Ojha (1995) has done a research on "*profit planning and control in manufacturing public enterprises in Nepal*". For case study he has selected two public enterprises namely Royal Drugs limited (RDL) & Herbs production & processing company limited (HPPCL). His research was in partial fulfillment of MBA, submitted to the central Department of Management, Tribhuvan University. The study has covered a five years period from FY 2046/47 to 2050/51.

The objectives are:

a) To analyze the trend of Profit planning.
b) To compare between production and sales plan.
c) To examine the variation between production plan and actual production.

Mr. Ojha has pointed out various finding based on the analysis of data and information. Some of the major findings are as follows:

a) Objectives of Nepalese public enterprise are 'not clear, conflict between social objectives and profit objectives are hindering profit planning program of PEs.
b) Inadequate planning's of profit due to lack of skilled planner.
c) Inadequate authority and responsibility to planning department.
d) Failure due to inadequate forecasting system.
e) Cost volume profit (price-cost-volume) relationships are not considered when developing sales and pricing strategy.
f) Lack of entrepreneurship & commercial concept in overall operations of the enterprises.
g) In adequate planning of profit due to lack of skilled manpower.
h) Inadequate evaluation of internal and external variables.

Mr. Gajendra Kumar Thakur (2001) has conducted research work on topic of "*cost control mechanism of Jankpur cigarette factory limited*" for partial fulfillment of MBA, Submitted to the central department of management, Tribhuvan University. The study has covered five years of period from FY 2051/52 to 2055/56. The general objective of the study was to evaluate the cost control technique of JCF has for various finding by Thakur.

The objectives are:

a) To analyze the budget and cost control mechanism for the company.
b) To analyze the problems faced by company in terms of budget formulation.
c) To analyze the cost and profit trend of the company in the light of Budget.
d) To analyze the cost-volume-profit analysis for the company
e) To provide suggestions for improving the budgeting problems.

Major Findings:

- The cost volume profit analysis has indicated that contribution margin of JCF is not sufficient to meet all its fixed costs. The factory's break even sales during the study period always exceeded the actual sales volume. It is absorbed that the company has not sufficient margin of safety, which was loss figure. The high proportion of variable cost contribution margin was not able to met increasing fixed costs. In the JCF observing the data loss was occurring yearly but sale figure was fluctuating trend. It means decreased sales over total cost did not bring profit but invite losses.
- Overtime, idle time and absenteeism are found most responsible for labour cost increasing.
- JCF was funning in loss during study period due to high production cost, high selling distributing cost, excess labour cost and material cost. So JCF has to make proper plan to control unusual cost. It should b entrusted with responsibility of categorizing the costs on product wise basis.

Mr. Sagar Sharma (2002) has conducted a research work on "*Management Accounting practices in listed companies of Nepal*." He has focused his study to examine and study to practice of management accounting tools in the listed companies of Nepal. Mr. Sharma's research study is based only on primary data. Stratified random sampling with proportionate allocation of percentage is followed to draw the sample.

The objectives are:

a) To identify the areas where management accounting tools can be applied to make strengthen the companies.
b) To identify the present practice of management accounting tools in Nepalese Manufacturing Enterprises.
c) To identify the problem faced by Nepalese Manufacturing Enterprises in applying management accounting tools.
d) To make recommendations to avoid difficulties in applying management accounting tools in Nepalese Manufacturing Enterprises.

Major Findings are:

- Management accounting is to help managers in overall managerial activities by providing information and helping in planning, controlling and decision making.
- Lack of information & extra cost burden are the main reason behind not practicing such tools.
- Different types of management accounting tools which are taught in the colleges are not found applying by the listed companies of Nepal.
- Nepalese listed companies are in infant stage in practicing of management accounting tool such as capital budgeting, annual budgeting, cash flow, ratio analysis, activity costing, cost volume profit relation etc.
- Regarding the tools practiced by the Nepalese manufacturing companies for measuring and controlling their overall performance. From the study it is cleared that 60% of the manufacturing companies measure their performance on the basis of profit or loss made by them during the year while 26% of the companies practiced for measuring and controlling performance of the company. Where as budgetary costing & break-even point both were followed by 7%.

- Regarding the techniques practiced by the Nepalese manufacturing companies for pricing the product. From study it is cleared that 60 % of the companies practice cost plus pricing, while 26 % of the companies practice going rate pricing and 7 % of the companies practiced target return pricing and break even pricing for their product. Therefore, from the study it is cleared that cost plus pricing technique is widely used by Nepalese manufacturing companies.
- Regarding the joint cost allocation tools practiced by the Nepalese manufacturing companies. From the study 47 % of the companies practiced joint cost allocation a unit or production basis. 40 % of the manufacturing firm had their own method for joint cost allocation. Such as ratio method, department wise and 13 % of the manufacturing companies practice sales value methods for allocating joint cost.
- Regarding the practice of transfer price in the Nepalese manufacturing companies, it is cleared that 67 % of the manufacturing companies practiced cost base transfer pricing 26% of manufacturing companies practiced market based transfer pricing whereas 7% of the manufacturing companies practiced negotiated transfer price for their product.
- Regarding the decision-making and control process followed by Nepalese manufacturing firm, it is cleared that 73% of Nepalese manufacturing companies practiced control during the work period. 20% practiced control before work has to be start technique, where as 7% practiced controls after finish the work. From the table, control during the work period is most practiced techniques for decision-making and control process.
- Regarding the cost and revenue estimation practice of Nepalese manufacturing firm, it was found that 80 % of the manufacturing companies practiced historical trend for cost and revenue estimation

while 20 % manufacturing firm practiced market survey. Where as, no one companies practiced zero based budgeting and judgment analysis for their cost and revenue estimation purpose.

- Regarding the present problem faced by Nepalese manufacturing companies in decision-making process, it is cleared that 53 % Nepalese manufacturing companies face the problem of skilled manpower in decision-making process. 27% of manufacturing companies face the problem of undefined objective and 20% companies face infrastructure problem in decision-making process. While no one companies has lack of knowledge in decision-making process.

Mr. Suraj Chandra Lamichhane (2003) has conducted the research work on "*Budgeting as tools of profit planning of public utility enterprises: A case study of Nepal Telecommunication corporation*" for master degree thesis submitted to Shanker Dev Campus, Tribhuvan University.

The objectives are:

a) To study the present application of cost-volume-profit analysis system of NTC.
b) To apprise and examine the practice and effectiveness of profit plan of NTC
c) To identify Break Even Point (BEP) of NTC.
d) To provide necessary suggestions and recommendations based on analysis for the company.

The major findings are:

- Achievement of sales is not satisfactory with are more variable than budgeted sales.
- Sales budgets prepared by NTC, according to the nature of its customers.

- NTC has prepared short range sales budget but long range budget is not prepared in detail due to luck of effective programmed.
- Actual production lines in NTC are more fluctuated than budgeted production line due to government influenced.
- There is a problem to analysis and control the cost due to overhead cost is not classified systematically.
- Due to government direct interfere to PEs, has created problem of autonomy in NTC.
- NTC has not practice to prepare projected profit and loss account & balance.
- NTC is suffering from high fixed cost; there is idle cash and bank balance and paying a huge amount of interest in every fiscal year.
- From the analysis of profit plan in NTC there is no proper practice of cost segregation into fixed and variable and there is no systematic approach to record manufacturing costs.
- NTC prepares various functional budgets to implement profit planning system to some extent.

Mr. Durga Prasad Baral (2003) has conducted research work on topic of "*profit planning and control of Nepal Telecommunication Corporation*" for partial fulfillment of MBS, submitted to Shanker Dev Campus, T.U. the study has covered five years period of FY 2051/52 to 2055/56 and has pointed out various finding and recommendation.

The objectives are:

a) To analyze the trend of Profit planning.
b) To compare between production and sales plan.
c) To examine the variation between production plan and actual production.

Major Findings are:

- The management of NTC is not success to utilize of its assets properly and not able to sale telephone lines according to demand of customers.
- Customers' service and line maintained service are not satisfactory.
- Profit is earning but it is not satisfactory in monopoly situation of NTC.
- ISO sector is the main revenue sources but calling rate is decreasing day by day.
- Cash budget shows the huge amount of current assets.
- NTC is completely ignored in variance analysis.
- Analysis shows that fixed cost of corporations highly incurred.
- The corporation has not proper practice of segregating cost into fixed and variable.
- Overhead expenses are not classified systematically and it creates problem to analyze expenses properly.

Mr. Prakash Khanal (2004) has conducted research work on the topic of "*Profit planning in public limited company of Nepal: A case study of Nepal Telecom*." For partial fulfillment of MBS, submitted to Central Department of Management, T.U. This study has covered five year period from FY 1997 to 2002.

The objectives are:

a) To analyze the trend of Profit planning for the company.
b) To compare between profit and sales plan.
c) To examine the variation between production plan and actual sales.

Major Findings are:

- There is no proper or systematic way to classify the cost. It consolidates all expenditure pertaining to operation, administrative, salary selling and distribution under single roof as operation and maintenance expenditure budget.

- The operating cost is not creating a drastic problem due to payment of the low amount as interest on long term loan.
- NEA has adequately considered controllable and non controllable variable affecting the organization.
- Break even analysis shows that the break even sales are lower than actual sales which are the signal of good operational situation.
- NTC ignores CVPA, while developing the sales plan and pricing strategy.
- There is a proper co-ordination among various directorates and departments.

Miss Kalpana Bhattarai (2004) has conducted research on the topic "*Budgeting in public Enterprises: A case study of Nepal Telecommunications Corporation*" in partial fulfillment for MBA, submitted Shanker Dev Campus, T.U. She has covered five years period from FY 2053/54 to 2057/58. Bhattarai has stated some objectives and finding.

The objectives are:

a) To analyze the Budget of company.
b) To analyze the problems faced by company in terms of budget formulation.
c) To analyze the cost and profit trend of the company in the light of Budget.
d) To provide suggestions for improving the budgeting problems.

Major Findings:

- NTC prepares both long term and short term budget but the long term budget is confined only on the top level.
- The corporation is not able to maintain to proper coordination between various directorates is required on the goals and objective of the

corporations.

- Because of lack of skilled planners and budgeting experts, budgets are prepared on adhoc basis. So there exists no consistency actual performance with budget.
- Because of high demand of telephone line there exist small gap between actual production and actual sales.
- All expenses are shown under only one budget name as "operating expenses budget."
- CVP analysis shows that BEP is satisfactory. But CVP are not considered while developing the sales plan and pricing strategy which is a vital for profitability.
- Increasing trend in cost is another issue of NTC which needs to be managed.
- Management is totally unknown to profit planning concept, corporate planning and participative management.

Mr. Ramesh Ghimire (2005) has conducted the research work on the "*Profit planning in Nepal Telecom*" for the partial fulfillment of MBS submitted to Central Department of Management, Tribhuvan University. The study has covered a five years of period from FY 2056/57 to 2060/61.

The objectives are:

a) To analyze the trend of Profit planning.
b) To compare between production and sales plan.
c) To examine the variation between production plan and actual production.

Major findings:

- NTC prepares both tactical and strategic profit plan but strategic plan is confined only to the top level executives.
- NTC sales revenue is in increasing trend during the study period.

- Operating costs have been controlled effectively during the study period.
- NTC is succeeding to achieve break even point in sales volume.
- NTC has utilized its available capacity satisfactorily.
- NTC has maintained sound liquidity during the study period.
- The net profit ratio of NTC indicates the sound position of profit. NTC is earning profit in next running years.
- There is proper co-ordination between various directorates in regard of the goals, objectives and strategies.
- NTC has not considered demand determinates such as family income, price of mobile service, connection charges, cost of alternatives available, cost of auto generation of PSTN phone and reliability of NTC service while forecasting demand.
- All the expenses, such as manufacturing administrative and selling and distribution are not separated systematically. Authority has combined all expenses together and named it "Operation and maintenance expenditure budget" like wise, operation and maintenance expenditure was very high due to the higher amount of fixed cost and damage of high cost infrastructure due Maoist insurgency.

Mr. Anil Shah (2005) has conducted a research on "*cost volume profit analysis a tools to measure effectiveness of profit planning and control; A case study of Nepal Telecom*." He has centered his study to examine CVP analysis as a tool in service industry and to analyze the CVP and it s impact in profit planning. For the practical fulfillment of MBS submitted to shaker Dev Campus, Tribhuvan University, Shah has analyzed the five years financial statement and has pointed out various objectives and findings:

The objectives are:

a) To analyze the cost –volume –profit for the company.
b) To compare between production and sales plan.

c) To examine the variation between production plan and actual production.

The major findings are:

- The company's variable cost is in proportion than fixed cost in total cost amount, which contribute for lower contribution Margin.
- The company has high fixed cost (i.e. salary and wages, technical & computer fees, deprecation, interest, provident fund & subsidies)
- Company has no any plan to reduce cost. There is lack of effective cost control programs or techniques.
- The profit trend of the company is satisfactory. As compared to profit, proportion is very high with fluctuated trend.
- The company has no detailed of any systematic expenses plan. The fixed cost, variable cost, mixed expenses plan are the necessary elements for profit planning & control.
- The company has no effective inventory policy. The inventory management, raw material handling and controlling system are not efficient and effective.
- The government and Telecommunication Authority is the main authority in price fixing and it directly interferes to price of telephone services.
- NTC has not proper practiced of segregating the costs into fixed and variable or controllable and non controllable.
- There is no proper co-ordination among production, administration, distribution, inventory and sales department.
- NTC has not utilized its capacity.

Mr. Samir Shakya (2005) has conducted research work on "*Cost volume profit analysis as a tools to measure the effectiveness of profit planning and control: A case study of Nepal Telecom*" in the partial fulfillment for MBS, submitted to Shanker Dev Campus, T.U. Shakya has covered five years period for FY 1998/99 to 2002/03 and listed some objectives and finding.

The objectives are:

a) To analyze the cost –volume –profit for the company.
b) To measure the effectiveness of profit planning and control tools.
c) To examine the variation between production plan and actual production.

Major Findings are:

- Sales plan of NTC is not properly maintained. The company uses the various methods for sales planning like market survey, distribution network etc. but up to date record are not maintained. So they have lack of proper budgeting system.
- NTC is not practicing the scientific and appropriate cost classification technique costs are classified into fixed and variable as per the decision of the management.
- Out of the total cost of NTC, variable cost is almost 60% in every year which cause the low contribution margin.
- NTC is in high interest bracket, out of the total fixed costs almost 60% is to be paid for interest. And the profitability of the company is greatly influenced by high fixed cost.
- This company does not have any detailed and systematic practice of planning of cost which is one of the essential elements of profit planning and control.
- Lack of coordination between top and lower level of management.
- NTC is facing problem fluctuating international price of ISTD service. Sometimes it also faces the problem of illegal calling of ISTD call.
- Out of the many main services, the cellular mobiles services are more profitable than PSTN phone services as shown by the product contribution margin.
- The financial position of the company is satisfactory. Gross profit

margin ratio and net profit margin ration are satisfactory.

Mr. Kailash Poudyal (2005) has submitted a research on "*profit planning system and financial condition of Nepal Telecom*." He has covered five years period from 1996/97 to 2001/02

The objectives are:

a) To analyze the profit planning tools for the company.
b) To analyze the cost –volume –profit for the company.
c) To segregate the costs of company into fixed and variable costs and unit variable cost.

Major Findings are:

- NTC has a practice of preparing both systemic (long range) and (tactical short range) profit plan.
- Overheads are not classified systematically and it creates problem to analyze is expenses properly.
- NTC is playing a huge amount of interest every year and it is suffering from high fixed costs due to damage of infrastructure.
- CVP analysis of the authority has the satisfactory position and also flexible budget analysis, the Telecom is able to earn operating profit of its utilized capacity.
- The NTC does not maintain its periodic performance report systematically.
- The company had not practice of classification of costs in to fixed costs and variable cost.
- The total fixed costs of the company were increasing annually.
- Advertisement, salary and allowance, communication expenses, insurance premium, depreciation and interest on long term loan were higher portion of total fixed cost and the amount of these items were highly incremental condition.
- The variable costs were also at increasing trends, and vital items were material with direct expenses on purchase, royalty, sales promotion

expenses, transportation and insurance expenses, salary and wages, illegal call and breakage, complementary expenses, traveling expenses, and fuel.

2.8 Research Gap

Many public or private enterprises are not practicing various accounting tools and techniques to measure its performance in Nepal. Researcher should face problem for analyzing financial statement. Though there is significant gab between present researcher work and the previous research works. Most of the researches, profit planning tools are analyzed in one way or the other but impacts are rarely explained. Especially assets and liability management analyses in public or private enterprises have not been done yet by other researcher. For this purpose assets and liability management in NTC is studied. It will also clear the contribution of public enterprises to build strong economic condition of the nation. So, this study will be fruitful to those interested person parties, scholars, professor, students, businessman and government for academically as well as policy perspective.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

"Research may be defined as the systematic and objective analysis and recording of controlled observations that may lead to the development of generalization principles or theories, resulting in prediction and possibly ultimate control of events"(Kothari, 1990:56).

Since the definitions of this sort are rather abstract, a summary of some of the characteristics of research may help to clarify its spirit, meaning and methodology.

Thus the research:

- Is directed towards the solution of the problem
- Is based upon observable experience or empirical evidence.
- Demands accurate observation and description.
- Involves gathering new data from primary or first hand sources or using existing data for a new purpose.
- Requires expertise and courage necessary to carry out investigation, search the related literature and to understand and analyze the data gathered.
- Involves the quest for answers to unsolved problems.

To sum up research is the process of a systematical and in depth study or search of any particular topic, subject or area of investigation backed by the collection, compilation, presentation and interpretation of relevant details or data (Kothari, 1990:60).

Research Methodology refers to the various sequential steps to be adopted by researcher in studying a problem with certain objectives in view. There for this chapter deals with the following aspects of Methodology.

- Research Design
- Population and sample
- Sources of Data
- Data collection and procedure
- Data processing
- Research Variables
- Analytical Tools

3.2 Research Design

A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework of the project that stipulates what information is to be collected from which sources by what procedure. If it is a good design, it will ensure that the information obtained is relevant to the research questions and that it is collected by objective and economical procedures.

"Research design is the plan structure and strategy of investigation convinced so as to obtain answer to research questions and to control variance. The plan is the overall scheme of program of the research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implication to the financial analysis of data" (Kothari, 1990:72).

The research design is a plan to obtain the answer of research questions through analysis of data. The research design of this study is analytical and descriptive as this study is an examination and evaluation of assets and liabilities management and revenue collection procedure in the Nepal Telecom. The study is closely related with the various financial sections and other accounting statements. This information is used to analyze and evaluate the revenue collection and utilization and Assets and Liabilities Management system of Nepal Telecom.

3.3 Population and Sample

In this study Nepal Telecom is taken for the research. So in this study, the population as well as sample for the research is same. This unit represents the total population and is studied in various aspects.

3.4 Nature and Sources of Data

Collection of data is the first step on statistical investigation. The structure of statistical analysis and decision making is built on the data collected. Thus government, business house and individuals collect requisite statistical data to carry out their activities efficiently and effectively. The statistical data are collected primarily due to the realizations that better decisions are possible with more information. But, the data are inaccurate and inadequate may be wrong. Hence, utmost care must be taken while collecting data.

The persons or organizations that have collected the data and the reports and publications in which data are published are known as sources of data. Data may be obtained either from the primary source or secondary source. A primary source is one that itself collects the data as secondary source is one that makes available the data through some other agency. For example, the records and publications of the Ministry of Agriculture are illustrations of primary source for agriculture data. If we take such data from publications of some other sources say Trade promotion center this will constitute secondary sources for these data.

Data collection by the research or through agent for the first time from related field and possessing original character are known as primary source (data). Primary data are also called field source. On the other hand, data collection by some one else, used already and are made available to others in the form of published statistics are known as secondary data. Once primary data have been used, it loses its primary characteristics (originality) and becomes secondary (Kothari, 1990:79).

3.5 Data Collection Procedure

The main source of the data is Nepal Telecom which is basically related with secondary data. The secondary data for research is collected from published and unpublished reports, articles and dissertations on concerned subjects.

Secondary data have been collected from the annual reports of Nepal Telecom. Similarly other necessary data have been collected form the publication of corporation, coordination council of Ministry of Finance (MOF), Central Bureaus of Statistics (CBS), National Planning Commission, official accounting and planning records of Nepal Telecom and related publication. For the reference of materials, the researcher visited library of Shanker Dev Campus and Central Library of T.U.

3.6 Research Variables

Revenue from sale of communication service in different types of consumers of Telecom, Expenses, inventories, capacity utilization, profit and loss, Balance sheet (NTC), Accounting policies are the research variables of the present study.

3.7 Analytical Tools

Primary and secondary data which collected from the different sources are used for analytical study by using the following statistical and financial tools.

- Financial Tools
- Statistical Tools

3.7.1 Financial Tools

Financial tools are those, which are used for the analysis and interpretation of financial data. These tools can be used to get the precise knowledge of the enterprises, which in turn are fruitful in exploring the strengths and weakness of the financial policies and strategies. In order to meet the purpose of the study, Ratio analysis has been used.

Ratio analysis helps us to summarize the large quantities of financial data and to make quantitative judgments about the organization's financial performance.

Types of Financial Ratios

a) Liquidity Ratio:

Liquidity ratios measure the firm's ability to meet its maturing obligations.

i) Current Ratio: The current ratio is computed by dividing current assets by current liabilities.

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

Standard of current ratio = 2:1

ii) Quick Ratio: The quick ratio, or acid test, is calculated by deducting inventories from current assets and dividing the remainder by current liabilities.

$$\text{Quick ratio or acid test} = \frac{\text{current assets} - \text{Inventies}}{\text{current liablities}}$$

Standard of quick ratio = 1:1

b) Leverage Ratios

Leverage ratios measure the degree to which the assets of the firm have been financed by the use of debt.

i) Debt Equity Ratios (D/E Ratio): D/E ratio can be calculated by dividing Long Term Debt (Total Debt) by shareholders Equity.

$$\text{Debt Equity Ratios} = \frac{\text{Long term Debt (total Debt)}}{\text{Shareholders Equity}}$$

ii) Debt to total capital Ratio (DTC Ratio): DTC ratio can be calculated by dividing Long Term Debt by permanent capital.

$$\text{Debt to Total Capital Ratio (DTC)} = \frac{\text{Long Term Debt}}{\text{Parmanent Capital}}$$

iii) Interest coverage Ratios (IC Ratio): IC Ratio is determined by dividing earnings before interest and taxes (EBIT) by the interest charges.

$$\text{Interest coverage Ratio (IC Ratio)} = \frac{\text{EBIT}}{\text{Interest}}$$

c) Asset Management Ratio

A set of ratios which measure how effectively a firm is managing its assets and whether or not the level of those assets is properly related to the level of operation as measured by sales.

i) Inventory turnover ratio (It Ratio): The inventory turnover is defined as the cost of goods sold divided by inventory.

$$\text{Inventory turnover ratio: } = \frac{\text{Cost of good sold (Sales)}}{\text{Inventory (Closing stock)}}$$

ii) Debtor Turnover Ratio (DT Ratio): The DT is defined as the sales divided closing debtors.

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

iii) Average collection period (ACP): The ACP is calculated by dividing Days in year by Debtors turnover Rations:

$$\text{Average collection period (ACP)} = \frac{\text{Days in a year}}{\text{Debtors Turnover Ratio}}$$

iv) Fixed Assets Turnover Ratio (FAT Ratio): The Ratio of sales to total fixed assets. It measures how effectively the firm uses its plant and equipment to generate sales.

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

v) Total Assets turnover Ratio (TAT Ratio): The total assets turnover ratio is calculated by dividing sales by total assets.

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

vi) Capital Employed Turnover Ratio (CET Ratio): The CET ratio is calculated by dividing sales by capita Employed.

$$\text{Capital Employed turnover Ratio} = \frac{\text{Sales}}{\text{Capital Employed}}$$

d) Profitability Ratio:

Profitability ratios measure management effectiveness by the returns generated on sales and investment.

i) Operating profit Ratio (OP Ratio): The operating profit is calculated by dividing operating profit by sales:

$$\text{Operating profit Ratio (OP Ratio)} = \frac{\text{Operating profit}}{\text{Sales}}$$

ii) Net Profit Ratio (NP Ratio): The Net profit ratio is calculated by dividing Net profit After Tax (NPAT) by sales.

$$\text{Net profit Ratio (NP)} = \frac{\text{Net profit After Tax}}{\text{Sales}}$$

iii) Operating Expenses Ratio (OE Ratio): The operating Expenses Ratio is calculated by dividing operating Expenses by sales.

$$\text{Operating Expenses Ratio (OE Ratio)} = \frac{\text{Operating Expenses}}{\text{Sales}}$$

iv) Return on Assets (ROA): The return on assets ratio is calculated by dividing operating income (NPAIT Interest) by Total Assets.

$$\text{Return on Assets} = \frac{\text{NPAT} + \text{Interest} + \text{(Operating Income)}}{\text{Total Asset}}$$

v) Return on shareholders Equity (ROSE): ROSE ratio is calculated by dividing NPAT (NET profit After Tax) by shareholders Equity.

$$\text{Return on Shareholders Equity (ROSE)} = \frac{\text{NPAT}}{\text{Shareholders Equity}}$$

3.7.2 Statistical Tools

Some statistical tools which are useful to the research for the Analysis and presentation of the data are as follows:

a) Arithmetic Mean (A.M)
b) Standard Deviation (S.D)
c) Co-efficient of Variation (C.V)
d) Correlation and Regression Analysis and P.E

e) Diagram and Graphic Representation:

(a) Arithmetic Mean (A.M):

Arithmetic mean of a given set of observations is the sum divided by the number of observations.

In general, if x_1, x_2 ….. x_n are the given observations, then their arithmetic mean, usually denoted by $\overline{X}$ is given by :

$$\overline{X} = \frac{X_1 + X_2 + \ldots\ldots + x_n}{n}$$

$$= \frac{\sum X}{n}$$

Where, n = no. of observations

Σx = sum of the observation

If frequency is given then $\overline{X} = \frac{\sum fx}{N}$

(b) Standard Deviation (S.D):

Standard deviation is defined as the position square root of the arithmetic mean of the squares of the deviations of the given observations from their arithmetic mean. Thus if x_1, x_2 ….. x_n is a set of n observations then its standard deviation is given by:

Standard deviation, usually denoted by the letter b (small sigma)

$$\sigma = \sqrt{\frac{1}{n}\sum\left(X - \overline{X}\right)^2}$$

where, $\overline{X} = \frac{1}{n}\sum x$ is the arithmetic mean of the given values.

(c) Coefficient of Variation (C.V)

According to professor Karl Pearson who suggested this measure, “coefficient of variation is the percentage variation in mean, standard deviation being considered as the total variation in the mean”.

$$\text{Coefficient of variation (C.V)} = \frac{\text{S.D.}(\sigma)}{\text{Mean}(\bar{X})}$$

For the comparison the variability of two distributions are computed by the co-efficient of variation for each distribution. A distribution with smaller C.V. is said to be more homogeneous or uniform or less variable than the other and the series with greater C.V is aid to be more heterogeneous or more variable than the other.

(d) Correlation and Regression Analysis

i. Correlation analysis deals with the statistical techniques which measures the degree of relationship or association between the variables. In other words it helps us in analyzing the co-variation of two or more variables.

Karl Pearson’s coefficient of correlation or product moment correlation coefficient or co-efficient of correlation measures the degree of association between the two variables say x and y and is defined by

$$r = \frac{N\sum ZY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 (\sum Y)^2}}$$

Where,

N	=	number of observation in series x and y
ΣX	=	sum of observation in series x
ΣY	=	sum of observation in series y
ΣX^2	=	sum of squared deviation in series x
ΣY^2	=	sum of the squared deviation in series y

ΣX ΣY= sum of the product of observation in series x and y.

r = co-efficient of correlation

Value of r lies between -1 to +1

i.e. $-1 \leq r \leq +1$

a) If r = 1, there is perfect positive relationship
b) If r = 1, there is perfect negative relationship
c) If r 0, there is no any relation between the series.

ii. Regression Analysis

Regression analysis is a mathematical measure of the average relationship between two or more variables in terms of the original units of the data.

iii. Probable Error:

After computing the value of the correlation coefficient the next step is to find the extent to which it is dependable. Probable error of correlation coefficient, usually denoted by P.E (r).

Probable error of the correlation co-efficient is given by:

P.E. (r) = 0.6745 x SE (r)

$$= 0.6745 \frac{\left(1 - r^2\right)}{\sqrt{n}}$$

Where , r = correlation coefficient

n = no. of observation

d) Diagram and Graphical Representation

Diagrammatic and graphic presentation has a number of advantages, some of which are enumerated below (Gupta, 1981).

i) Diagrams and graphs are visual aids which give a bird’s eye view of a given set of numerical data. They present the data is simple, readily comprehensible form.

ii) Diagrams are generally more attractive, fascinating and impressive than the set of numerical. They are more appealing to the eye and leave a much lasting impression on the mind as compared to the dry and uninteresting statistical figures. Even a layman, who has no statistical background, can understand them easily.

CHAPTER-IV
DATA REPRESENTATION AND ANALYSIS

4.1 Introduction

The main purpose of this study is to examine the revenue collection, utilization of collected revenue, assets management, and liabilities management of Nepal Telecom. To achieve these objectives this chapter has analyzed the various aspects of revenue collection, utilization, assets and liabilities from income statement, balance sheet, accounting policies of the company and its related variance of the company.

This chapter highlights the revenue collection sources and volume, assets and liability management or position of assets and position of liabilities of NTC. Some financial and statistical tools have been used to evaluate the financial position of these organizations. Under the financial tools, ratio analysis is used likewise under the statistical tools Arithmetic Mean (A.M), Standard Deviation (S.D.), Correlation and probable Error (PE) is used. In ratio Analysis, liquidity position is evaluated. With the help of ratio analysis financial performance of NTC has been analyzed and interpreted, so that the strengths and weakness of these organization as well as historical performance and financial condition can be determined.

4.2 Revenue Collection of NTC

NTC collects its own revenue from sales of telephone service on different sources to the different types of customers, which are as follows:

(a) Operation Revenue Sources:

(1) Local telephone, (2) Domestic Trunk Telephone, (3) International telephone, (4) Domestic telegraph, (5) International telegraph, (6) International

telex (7) Leased circuits, (8) Tele fax, (9) Mobile and Internet, (10) Interconnection (11) Others.

(b) Non-Operating Revenue Source:

(1) Interest on Bonds/ T-bills (2) Interest from Bank Deposits (3) Interest from pension fund, (4) Income from Intelsat Investment and (5) other.

Table 4.1
Revenue Collection Source and Volume

(NRs. In million)

Fiscal Year / Source	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Operating revenue	3320.429	4321.053	4629.892	4956.376	5487.179	6159.520	7208.087	8093.89
Local telephone	559.045	734.203	868.582	1072.736	1369.664	1533.157	1876.737	2047.005
Domestic T. Telephone	641.387	814.914	938.900	1123.786	1401.774	1535.094	1452.860	1540.769
Int. Telephone	1874.516	2517.759	2529.431	2295.139	2134.614	2278.136	2732.728	2702.210
Domestic telegraph	1.167	1.021	0.829	0.682	0.574	0.768	0.231	0.289
Int. Telegraph	1.325	0.931	0.989	0.770	1.454	0.950	0.754	0.78933
Int. Telex	34.880	29.992	30.645	19.673	19.192	14.597	10.446	6797
Leased circuits	39.770	48.593	49.318	32.137	38.150	30.395	15.628	20.016
Tele fax	0.874	0.745	0.231	0.225	0.110	0.06	0.117	0.09733
Mobile internet	-	-	8.276	185.285	292.804	428.558	719.164	1482.434
Interconnection	-	-	-	-	-	-	-	17.103
Others	167.467	172.895	202.690	225.983	228.843	337.805	399.422	276.391
Non operating	196.360	267.046	310.473	372.006	441.469	396.472	461.197	445.589
Int. on Bond/ T.Bills	21.716	0.820	-	102.612	99.305	94.305	110.974	134.311
Int. From Bank Deposit	39.782	56.063	179.525	218.361	306.056	284.559	308.572	269.380
Int. from P. fund	45.505	66.358	92.502	-	-	-	4.234	9.527
Income from internet	11.413	15.417	18.011	20.678	20.662	-	-	-
Others	71.338	123.854	13.774	30.354	15.446	17.094	37.417	32.372
Sales of T.P.	5.606	4.533	6.660	-	-	-	-	-
Total revenue	3516.789	4588.099	4940.364	5328.382	5928.648	6555.992	7669.284	8539.486

Source: Nepal Telecom, Annual Report 2006/07

Above different sources can be categorized in two parts only (ii) Operating revenue (ii) non operating revenue.

Table 4.2
Total, Operating and Non-operating Revenue

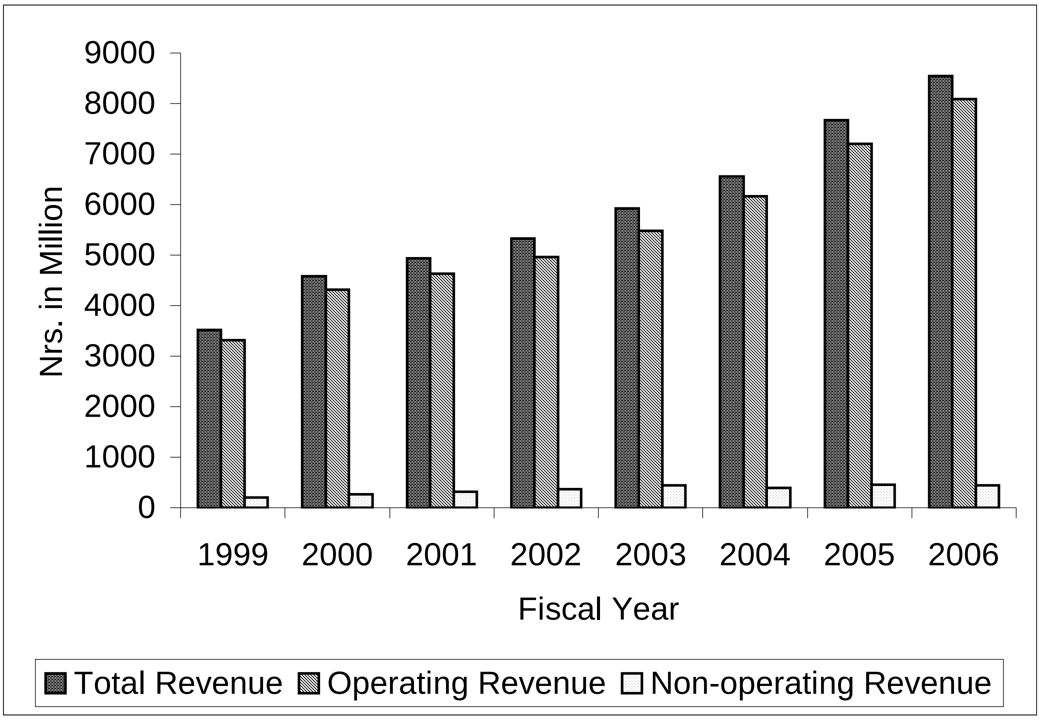
(NRs in million)

Source / Fiscal Year	Total Revenue	Operating Revenue	Non-operating Revenue
1999	3516.789	3320.429	196.360
2000	4588.099	4321.053	267.046
2001	4940.364	4629.892	310.473
2002	5328.382	4956.376	372.006
2003	5928.648	5487.179	441.469
2004	6555.992	6159.520	396.472
2005	7669.284	7208.087	461.197
2006	8539.486	8093.897	445.589

Source: Nepal Telecom, Annual Report 2006/07

Figure 4.1

Total, Operating and Non-operating Revenue



4.2.1 Operating Revenue Ratio (ORR)

Operating revenue ratio can be calculated by the following formula:

$$\text{Operating Revenue Profit} = \frac{\text{Operating Revenue in the year}}{\text{Total Revenue in the year}} \times 100\%$$

Table 4.3
Operating Revenue Ratio (ORR)

(NRs. In million)

Fiscal Year	Total Revenue	Operating Revenue	ORR (%)
1998/1999	3516.789	3320.429	94.42
1999/2000	4588.099	4321.053	94.18
2000/2001	4940.364	4629.892	93.72
2001/2002	5328.382	4956.376	93.02
2002/2003	5928.648	5487.179	92.55
2003/2004	6555.992	6159.520	93.95
2004/2005	7669.284	7208.087	93.99
2005/2006	8539.486	8093.897	94.78

Source: Nepal Telecom, Annual Report 2006/07

In above table operation revenue ratio shows that the ORR in 1998/1999 is 94.42% but it is in decreasing trend up to 2002/2003. From 2002/2003 to 2004/2005 it is going in increasing trend but less than the FY 1998/1999.

4.2.2 Non-operating Revenue Ratio (NORR)

It can be calculated by the following formula,

$$\text{Non-operating Revenue Ratio} = \frac{\text{Non - operating Revenue}}{\text{Total Revenue}} \times 100\%$$

Table 4.4
Non-operating Revenue Ratio (NORR)

(NRs. In million)

Fiscal Year	Total Revenue	Operating Revenue	ORR (%)
1998/1999	3516.789	196.360	5.58
1999/2000	4588.099	267.046	5.82
2000/2001	4940.364	310.473	6.28
2001/2002	5328.382	372.006	6.98
2002/2003	5928.648	441.469	7.45
2003/2004	6555.992	396.472	6.05
2004/2005	7669.284	461.197	6.01
2005/2006	8539.486	445.589	5.22

Source: Nepal Telecom, Annual Report 2006/07

In above table shows that the NORR in year 1998/1999 is 5.58% and it is in increasing trend up to F. year 2002/2003. But, from fiscal year 2003/2004 to 2004/2005 it is in decreasing trend and decreased to 5.22%.

4.3 Revenue Collection of NTC

Revenue of different years (1999 to 2006) of NTC is shown by the following table:

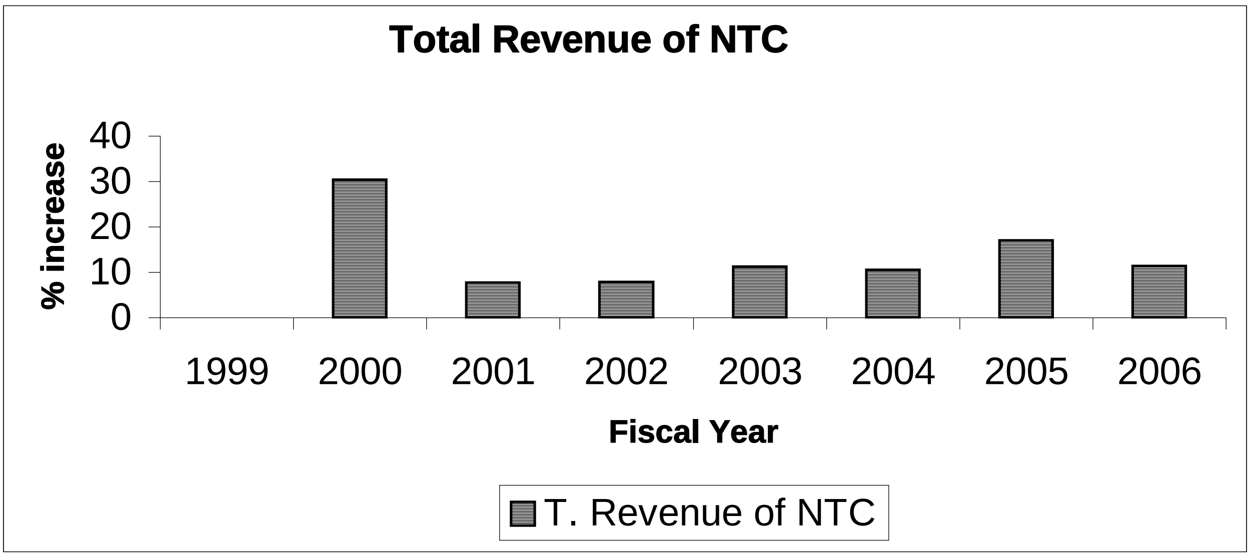
Table 4.5
Revenue Collection Year Wise

(NRs. In million)

Year	Total Revenue of NTC	% increase
1998/1999	3516.789	-
1999/2000	4588.099	30.46
2000/2001	4940.364	7.68
2001/2002	5328.382	7.85
2002/2003	5928.648	11.27
2003/2004	6555.992	10.58
2004/2005	7669.284	16.98
2005/2006	8539.486	11.35

Source: Nepal Telecom, Annual Report 2006/07

Figure 4.2



Above table shows that the total volume of revenue collection of NTC is increasing trend. In FY 1999/2000, NTC revenue is increased by 30.46% but in year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 are 7.68%, 7.85%, 11.27%, 10.58%, 16.98% and 11.35% respectively.

4.4 Revenue Expenditure in Different Heading by NTC

Collected Revenue utilized by the Nepal Telecom on the following expenditure headings: (i) Employees costs, (ii) operation and maintenance cost, (iii) Administrative expenses, (iv) Interest on subscribers Deposits, (v) interest on loan, (vi) Depreciation (vii) loss (Gain) on foreign exchange, (viii) Bonus, (ix) Incentive package, (x) provision for Income Tax (xi) Income Tax Adjustments, relating to earlier years (xii) adjustment relating to earlier year (net) divided of Equity and (xiii) transfer to sinking fund.

Table 4.6

Revenue Utilization of NTC

Fiscal Year / Uses	1999	2000	2001	2002	2003	2004	2005	2006
Employees costs	260.467	326.049	567.51	527.763	773.630	664.193	717.408	607.873
Operation and main	269.323	284.134	304.060	386.247	453.831	503.303	490.886	330.980
Adm. Exp.	221.897	127.859	174.322	205.155	577.402	949.569	874.343	1068.212
Int. on sub. Deposit	25.833	35.694	43.604	57.069	67.396	38.35	82.249	64.385
Int. on loan	303.793	345.731	290.714	269.908	143.654	38.407	15.955	3.234
Depreciation	588.706	667.087	769.026	786.986	799.491	863.863	931.685	755.578
Bonus	69.277	96.537	112.894	127.620	170.396	174.982	180.670	137.038
Incentive package	62.740	83.893	88.382	93.071	107.825	131.231	120.939	90.045
P/L on Foreign Ex.	-	-	-	(72.033)	(207.992)	(157.992)	162.000	251.422
Priors years Adj.	(19.192)	21.527	(28.657)	121.731	43.598	(20.563)	(55.999)	(538.144)
Income tax pro.	552.269	638.352	726.374	702.081	761.081	852.933	100.337	848.547
Income tax Adj	-	32.816	46.374	-	44.182	161.964	6.556	256.108
Dividend to	66.597	66.597	123.231	164.309	143.771	348.979	554.002	217.957

Eq.								
Transfer of Sinking Fund	5.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000
Total Expenditure	2406.71	2731.296	3217.843	3374.907	3883.265	4583.442	5081.061	5174.52
Total income	3576.789	4588.098	4940.364	5328.382	5928.648	6555.992	7669.284	6404.0
Net Profit A. Divided	1110.079	1856.802	1722.541	1953.475	2045.383	1972.550	2588.233	1230.092
Add. Opening Bal.	4050.642	5166.721	7017.521	8740.044	10693.519	12738.902	14711.472	17299.68
Retained earning	5160.721	7017.523	8740.044	10693.519	12738.902	14711.452	17299.676	18529.77

Source: Nepal Telecom, Annual Report 2006/07

Total Income, utilization and retained Earning can be shown on the following table clearly.

Table 4.7
Total Income, Utilization and R/E of NTC

(NRs. In Millions)

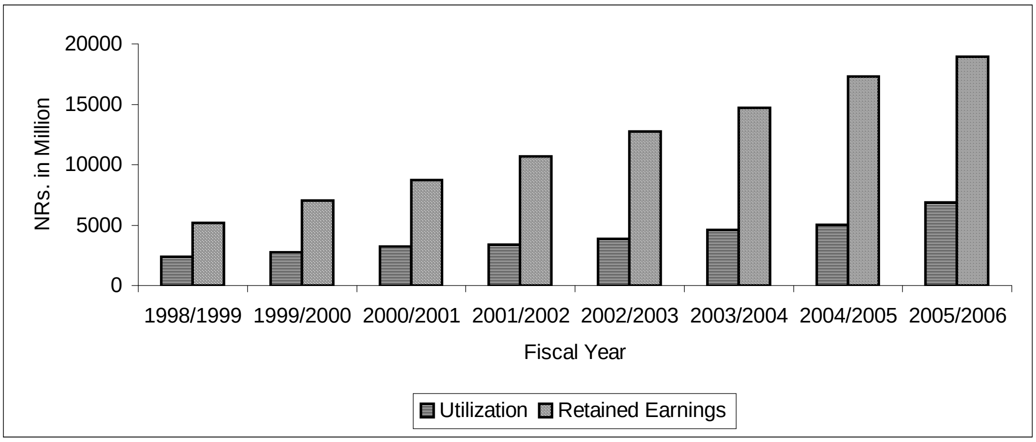
Fiscal Year	Total income	Utilization	Retained Earnings
1998/1999	7567.431	2406.71	5160.721
1999/2000	9748.819	2731.296	7017.523
2000/2001	11957.887	3217.843	8740.044
2001/2002	14068.426	3374.97	10693.519
2002/2003	16622.167	3883.265	12738.902
2003/2004	19294.894	4583.442	14711.452
2004/2005	23280.736	5001.061	17299.675
2005/2006	25839.162	6899.364	18939.798

Source: Nepal Telecom, Annual Report 2006/07

Above table shows clearly that the total income, utilization and retained earning is in increasing trend year by year, so it is favorable condition for the NTC and the retained earning money should be utilized in productive sector to earn more benefit.

Figure 4.3

Total Income, Utilization and R/E of NTC



4.5 Utilization of Revenue by Nepal Telecom

Table 4.8
Utilization of Revenue by NTC

(NRs. In Million)

Fiscal Year	Nepal Telecom		
	Collection	Utilization	Profit (Loss)
1999	3616.789	3406.71	1110.079
2000	4588.098	2731.296	1856.802
2001	4940.364	3217.843	1722.521
2002	5328.382	3374.97	1953.457
2003	5928.648	3883.265	2045.383
2004	6555.992	4583.442	1972.55
2005	7669.284	5081.061	2588.223
2006	8539.487	6899.364	1640.123

Source: Nepal Telecom, Annual Report 2006/07

Above table shows that the revenue collection volume of NTC is increasing trend through out the study period. NTC shows more profits up to 2006.

NTC from year 1999, it is going to increasing trend of profit up to 2006. From year 2003, NTC shows the grater volume of profit to year by year to 2006. So that NTC should not out its utilization (expenditure) to upward its profit further.

4.6 Assets and Liabilities Management by NTC

4.6.1 Assets Management by NTC

Nepal Telecom includes the following items in Asset management

A. Fixed Assets

- Fixed Assets (Land, Building, Plant and Machinery)
- Capital work-in0 progress (EIP, capital stock)
- Investment (Govt. Securities, Pension, Fund, etc.)

B. Current Assets, Loans and Advances

- Stores & spares
- Sundry Debtors
- Interest Accrued on Investment
- Unexpired L/C & Advances
- Advance & Loans to Employees
- Inter-branch Balance
- Bank-Balance
- Cash Balance

C. Deferred Expenditure

Table 4.9
Assets Management

(Rs. In million)

Fiscal Year	Fixed Assets	Current Assets	Deferred Exp.	Total Assets.
1998/1999	7113.40	5714.90	-	12828.3
1999/2000	7761.97	8285.90	-	16047.87
2000/2001	9098.65	9461.47	-	18560.12
2001/2002	8938.72	11153.68	-	20092.4
2002/2003	9263.79	12320.60	180.48	21764.87
2003/2004	10033.00	15403.34	166.16	25602.50
2004/2005	11300.49	18424.15	168.34	29892.98
2005/2006	11552.34	20925.639	144.808	32652.79

Source: NTC, Annual report 2000/01 to 2006/2007

4.6.1.1 Fixed Assets Ratio (FAR)

Fixed assets ratio can be calculated by the following formula

$$\text{Fixed Assets Ratio (FAR)} = \frac{\text{Fixed Assets}}{\text{Total Assets}} \times 100\%$$

4.6.1.2Current Assets Ratio (CAR)

It is calculated by dividing current assets by total assets.

$$\text{Current Asset Ratio (CAR)} = \frac{\text{Current Assets}}{\text{Total Assets}} \times 100\%$$

Table 4.10
Calculation of Fixed and Current Ratio

(NRs. In millions)

Fiscal Year	Total Assets	Fixed Assets	Current Assets	FAR (%)	CAR %
1998/1999	12828.30	7113.40	5714.90	55.45	44.55
1999/2000	16047.87	7761.97	8285.90	48.37	51.63
2000/2001	18560.12	9098.65	9461.47	49.02	50.98
2001/2002	20092.4	8938.72	11153.68	44.49	55.51
2002/2003	21764.87	9263.79	12320.60	42.56	56.61
2003/2004	25602.50	10033.00	15403.34	39.19	60.16
2004/2005	29892.98	11300.49	18424.15	37.80	61.63
2005/2006	32652.79	11552.34	20925.639	35.38	64.09

Source: Nepal Telecom, Annual Report 2006/07

Above table shows that the fixed assets ratio in the year 1998/1999 is 55.45% and it is in decreasing trend up to the year 2005/2006 is 35.47, which is favorable condition for the company current asset ratio is in increasing trend from year 1998/1999 to 2005/2006 (44.55 to 64.09), so the working capital is in an increasing trend, which is favorable condition for the company.

4.6.2 Liabilities Management by NTC

Nepal Telecom Ltd includes the following items in liabilities management

A. Equity Capital and Reserve:

- Equity Capital
    - Government's original contribution
    - Contribution from Government of India
    - Contribution from Government of Japan
    - Contribution from Government of FRG
    - Contribution from Government of Denmark.
    - Contribution from Government of Finland.
    - Contribution from UNDP.
- Reserve & Surplus
    - Capital Reserve
    - Sinking fund
    - Retained Earning

B. Long term Debt:

- Loans from Government of Nepal Against
    - IODA credit
    - Belgium Grant
    - French Grant/ Loan
    - NDF credit
    - Finland Government
    - Danish Government

C. Current Liabilities and Provisions

- Current liabilities
    - Sundry Creditors
    - Interest of Accrue and Due
    - Other Liabilities
    - Deposit & Advances
- Provisions

- Income tax
- Proposed dividends
- Pension and Gratuity
- Accumulated leave
- Bonus provisions
- Incentive Provisions

Table 4.11
Liabilities Management by NTC

(Rs. In Million)

Fiscal Year	Equity and Revenue	Long term Debt	CLC provision	Total liabilities
1998/1999	6666.14	3435.24	2726.91	12828.30
1999/2000	8554.37	3702.39	3790.71	16047.47
2000/2001	10979.12	3050	4500.22	18530.12
2001/2002	12881.71	2218.11	4992.58	20092.94
2002/2003	14954.42	952.35	5858.10	21764.87
2003/2004	16927.41	299.99	8054.42	25281.82
2004/2005	19521.864	233.780	10137.347	29892.99
2005/2006	20757.10	-	11895.69	32652.787

Source: NTC, Annual Report, 2000/2001 to 2006/07

4.6.2.1 Equity and Reserve Ratio (ERR)

It is calculated by dividing Equity and Reserve Ratio y Total Liabilities.

$$\text{Equity and Reserve Ratio (ERR)} = \frac{\text{Equity and Reserve}}{\text{Total Liabilities}} \times 100\%$$

4.6.2.2 Long Term Debt Ratio (LTDR)

Long Term Debt Ratio can be calculated by dividing long term Debt by total liabilities.

$$\text{Long term Debt Ratio (LTDR)} = \frac{\text{Long Term Debt}}{\text{Total Liabilities}} \times 100\%$$

4.6.2.3 Current Liabilities and Provision Ratio (CLPR)

It is calculated by the following formula

$$\text{Current liabilities \& Provision Ratio (CLPR)} = \frac{\text{CL \& Provisions}}{\text{Total Liabilities}} \times 100\%$$

Table 4.12
Calculation of Different Liabilities Ratios

(Rs. In million)

Fiscal Year	Eq & Reserve	LTD	CL & Provision	Total Liab.	ERR (%)	LTDR (%)	CL{PR (%)
1998/1999	6666.14	3435.24	2726.91	12828.30	51.96	26.78	21.26
1999/2000	8554.37	3702.39	3790.71	16047.47	53.31	23.07	23.62
2000/2001	10979.12	3050	4500.22	18530.12	59.25	16.46	24.29
2001/2002	12881.71	2218.11	4992.58	20092.94	64.11	11.04	24.85
2002/2003	14954.42	952.35	5858.10	21764.87	68.71	4.38	26.92
2003/2004	16927.41	299.99	8054.42	25281.82	66.95	1.19	31.86
2004/2005	19521.864	233.780	10137.347	29892.99	65.31	0.78	33.91
2005/2006	20757.10	-	11895.69	32652.787	63.57	0	36.43

Source: Nepal Telecom, Annual Report 2006/07

Above calculation shows that the equity and reserve ratio is in increasing trend it means the company has sufficient equity capital and reserve volume.

Long term dent ratio in year 1998/1999 is 26.78% and its trend is decreasing and up to year 2005/2006 is zero so that Ltd. Ratio is the company is favorable and the company has no long term debt the company should not pay interest in future.

Current liabilities and provision ratio is in increasing trend. In Fiscal year 1998/99 it shows that the company has more current payment and provision.

4.6.3 Assets Management Position of NTC

Assets position shows that fixed assets of NTC are increasing trend. Similarly current assets of NTC are increasing trend, it means working capital capacity is better and working capital is sufficient.

Table 4.13
Assets Management (Position) of NTC

Fiscal Year	Fixed Assets	Current Assets	Def. Exp.	Total Assets
1999				
NTC	7113.40	5714.90	-	12828.3
2000				
NTC	7761.97	8285.90	-	16047.87
2001				
NTC	9098.65	9461.47	-	18560.12
2002				
NTC	8938.72	11153.68	-	20092.44
2003				
NTC	9263.79	12320.60	180.48	21764.87
2004				
NTC	10033.00	15403.34	166.16	25602.5
2005				
NTC	11300.49	18424.15	168.34	29892.98
2006				
NTC	11582.34	20925.639	144.808	32652.79

Source: Annual Report 2006/07

Among the assets of NTC there are fewer amounts of account receivable and prepaid, advances loans and deposits. Instead of increasing this amount it is being decreased year by year.

The NTC should decreased its fixed assets and increased its current assets to achieve the better performance of working capital, which can be help for future profit (benefit) and loan amount will be decreased.

4.6.4 Liability Management Position of NTC

The liability side of balance sheet of NTC from F/Y 1999 to 2006 shows that capital reserve and retained earning with increasing trend of large volume ; which are kept ideality, is not a good sign. This shows that NTC financial structure is not well structured. The amount of retained earning should be used in productive sector for more benefit and for society improvement

Table 4.14
Liability Management of NTC

(Rs. In million)

Fiscal Year	Equity and Reserve	Current Liabilities	Deferred Expenses	Total Liabilities
1999				
NTC	6666.15	3435.24	2726.91	12828.3
2000				
NTC	8554.37	23702.39	3790.71	16047.47
2001				
NTC	10979.12	3050.78	4500.22	18530.12
2002				
NTC	12881.71	2218.11	4992.28	20092.4
2003				
NTC	14954.42	982.35	5858.10	21764.87
2004				
NTC	16927.41	299.90	8054.42	25281.70
2005				
NTC	19521.864	233.780	10137.347	29892.98
2006				
NTC	20757.1	–	11895.69	32652.79

Source: Annual Reports, 2006/07

4.7 Analysis and Presentation of Financial Tools Financial Analysis

Ratio analysis is a widely used tool of financial analysis. The term ratio represents the numerical or quantitative relationship between two variables. Financial analysis is a tool used to know the performance of any enterprise. It provides guidelines especially in spotting trend towards better or poor performance. Since financial efficiency is vital element to achieve the goal the management should be aware of the current financial position. If present condition can be assessed than the management can predict the future position. Corrective action can be taken to improve financial position. So, it is very important for any enterprise to analyze its financial position with the help of Ratio Analysis.

4.7.1 Current Ratio

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

This ratio helps to analyze the financial capacity to repay current debt.

Table 4.15
Current Ratio

[Rs. in Millions]

Fiscal Year	NTC		
	Current Assets	Current Liabilities	Current Ratio
1999	5714.90	2726.91	2.10
2000	8285.50	3790.71	2.19
2001	9461.47	4500.22	2.10
2002	11153.68	4992.58	2.23
2003	12320.60	5858.10	2.10
2004	15403.34	8054.42	1.91
2005	18424.15	10137.347	1.82
2006	20925.64	11895.69	1.76
Arithmetic Mean			1.76
Standard Deviation			0.16
Co-efficient of variation (C.V)			7.88

Source: Annual Report 2006/07

The current ratio of NTC is around standard (2:1). NTC is maintaining the standard of current ration and capable in payment of current liabilities at the time of requirement. Standard deviation and C.V. is also minimum. Among many public utilities, NTC seems too efficient in maintaining the good liquidity position.

4.7.2 Debt Equity Ratio (D/E Ratio)

Debt Equity Ratio is calculated as follows:

$$\text{Debt Equity Ratio (D/E Ratio)} = \frac{\text{Total Debt}}{\text{Shareholder Equity}}$$

Table 4.16
Debt Equity Ratio

[Rs is millions]

Fiscal Year	NTC		
	Total Debt	Shareholder Equity	Ratio
1999	4981.81	6666.15	0.75
2000	5637.77	8554.37	0.66
2001	4980.64	10979.13	0.45
2002	4020.319	12881.72	0.31
2003	3292.82	14954.419	0.22
2004	3243.37	16927.41	0.19
2005	3909.192	19521.87	0.20
2006	4090.353	20757.1	0.20
Mean			0.37
S.D.			0.21
C.V.			56.76

Source: Annual Report 2006/07

Debt Equity Ratio standard is 1:1 Higher ratio shows the large amount of external source i.e. debt and lower ratio shows the less utilization of debt. NTC's mean ratio is 0.37 which is less than standard. NTC has emphasized internal funding rather than external.

4.7.3 Debt to Total Capital Ratio (DTC Ratio)

To know the proportion of long term debt on total capital employed. It is calculated as follows:

$$\text{DTC Ratio} = \frac{\text{Long Term Debt}}{\text{Permanent Capital (Capital Employed)}}$$

Table 4.17
Debt to Total Capital Ratio

[Rs in million]

Fiscal Year	NTC		
	Long Term Debt	Capital Employed	Ratio
1999	3435.277	10101.384	0.34
2000	3702.391	12256.76	0.30
2001	3050.780	14029.90	0.22
2002	2218.105	15099.82	0.15
2003	952.357	15906.77	0.06
2004	299.99	17227.40	0.02
2005	233.780	19755.65	0.01
2006	0.000	20757.10	0
Mean			0.14
S.D.			0.13
C.V.			92.86

Source: Annual Report 2006/07

Mean of the ratio came to be 0.14 and C.V. is 92.86% of NTC. The ratio of NTC is in decreasing trend. NTC with lower ratio is subjected to lower risk and this will in turn decrease the chance of getting higher return.

4.7.4 Interest Coverage Ratio (IC Ratio)

It indicates the ability of a firm to pay interest charges on its borrowed capital. It is also called time interest earned ratio.

$$\text{Interest Coverage Ratio (ICR)} = \frac{\text{(NPBIT) Net Proft Before Int. and Tax}}{\text{Interest}}$$

Table 4.18
Interest Coverage Ratio

[Rs. in million]

Fiscal Year	NTC			
	Ratio	NPBIT	Interest	Ratio
1999	1.71	2063.57	329.63	6.26
2000	1.15	2981.24	381.425	7.82
2001	1.15	2957.82	334.32	8.85
2002	1.61	3079.81	326.98	9.42
2003	1.00	3210.47	211.05	15.21
2004	0.49	3447.41	106.782	32.28
2005	0.85	4247.32	98.204	43.25
2006	0.50	3500.43	90.16	38.82
Mean	1.06			20.24
S.D.	0.42			14.32
C.V.	39.62%			40.75%

Source: Annual Report 2006/07

NTC's interest coverage ratio is in increasing year by year i.e. 6.26 to 38.82 and Mean ratio is 20.24.

NTC has very sound interest payment capacity through its operating profit, which guarantees the secured investment for creditors as well as high dividend rate and high EPS to shareholder.

4.7.5 Inventory Turnover Ratio (IT Ratio)

This ratio measures how many times the overage stock is sold during the year. It is calculated as follows:

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

Table 4.19
Inventory Turnover Ratio

[Rs. in million]

Fiscal Year	NTC			
	Ratio	Sales	Closing Stock	Ratio
1999	5.93	3320.43	388.036	0.56
2000	5.56	4321.053	397.38	10.87
2001	7.29	4629.89	458.43	10.10
2002	6.98	4956.38	474.80	10.44
2003	8.49	5487.18	507.91	10.80
2004	8.96	6159.52	483.23	12.75
2005	10.83	7208.087	400.78	17.99
2006	11.33	8093.90	401.75	20.15
Mean	8.17			12.71
S.D.	2.00			3.86
C.V.	24.48%			30.37%

Source: Annual Report 2006/07

A high inventory turnover is indicative of efficient inventory management. The ratio of NTC is in increasing trend. The inventory turnover ratio's mean of NTC is 12.17. NTC is very good satisfactory (high inventory turnover). The ratio is going to in increasing trend; it indicates the positive relationship between them.

4.7.6 Debtors Turnover Ratio (DT Ratio)

It is calculated as follows:

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

This ratio indicates the velocity of debt collection of a firm.

Table 4.20

Debtors Turnover Ratio

[Rs in million]

Fiscal Year	NTC		
	Sales	Closing Stock	Ratio
1999	3516.80	1612.64	2.18
2000	4588.10	2300.94	1.99
2001	4940.40	2771.43	1.78
2002	5328.4	3108.44	1.71
2003	5928.6	1760.77	3.37
2004	6556.0	2468.08	2.53
2005	7669.00	3030.28	2.53
2006	8539.5	3480.47	2.45
Mean			2.33
S.D.			0.5
C.V.			21.89%

Source: Annual Report 2006/07

The higher debtors' turnover ratio indicates efficient collection of debtors. It shows the short period collection of cash from debtor. DT ratio shows that there is lesser in every year. Average DTR of NTC is 2.33.

Standard deviation shows that there is less deviated in NTC. There is only 21.89% of coefficient of variation. Therefore is homogeneous in debtor turnover ratio in NTC.

4.7.7 Average collection Period (AC Period)

Average collection period is calculated by the following formula.

Table 4.21
Average Collection Period

[Rs. in million]

Fiscal Year	NTC		
	Days in Year	DTR	ACP
1999	365	2.18	167.43
2000	365	2.00	182.5
2001	365	1.78	205.10
2002	365	1.71	213.45
2003	365	3.37	108.31
2004	365	2.66	137.22
2005	365	2.53	144.77
2006	365	2.45	148.98
Mean			162.91
S.D.			33.36
C.V.			20.48%

Source: Annual Report 2006/07

Average collection period of NTC in 1999, 2000. 20001, 2002, 2003, 2004, 2005 and 2006 are 167.43, 182.5, 205.10, 213.45, 108.31, 137.22, 144.27 and 148.98 respectively. The ACP of NTC is worst in year 2002. Average ACP of 8 years of NTC is 162.91.

4.7.8 Total Fixed Assets Turnover Ratio

It is calculated by dividing sales revenue by total fixed assets. This ratio helps to analyze the efficiency with which the firm has been using its fixed assets to generate sales.

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

Table 4.22
Total Fixed Assets Turnover Ratio

[Rs in millions]

Fiscal Year	NTC		
	Sales Revenue	Total Fixed Assets	Total Fixed Assets Turnover Ratio
1999	3320.429	7113.40	0.47
2000	4321.05	7761.98	0.56
2001	4629.89	9098.65	0.57
2002	4956.38	8938.72	0.55
2003	5487.18	9263.79	0.59
2004	6159.52	10033.00	0.61
2005	7208.087	11300.405	0.64
2006	8093.90	11582.34	0.70
Mean			0.58
S.D.			0.07
C.V.			12.07

Source: Annual Report 2006/07

From above table NTC Fixed Assets Turnover Ratios' Mean, S.D and C.V. seemed 0.58, 0.07 and 12.07% respectively. The ratio in NTC depicted increasing trend year by year except 2001.

Increment in fixed asset turnover ratio indicates the improved work efficiency and Fixed Assets has been effectively mobilized and good financial condition. Average ratio of NTC is satisfactory. Higher mean ratio of NTC shows better utilization of Fixed Asset. CV analysis showed moderate uniformity in asset turnover ratio of NTC.

4.7.9 Total Assets Turnover Ratio (TATR)

Total Asset Turnover Ratio is calculated by following formula.

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

This ratio reflects how well the companies assets are being used to gene rate its sales.

Table 4.23
Total Assets Turnover Ratio

[Rs in millions]

Fiscal Year	NTC		
	Sales	Total Assets	TATR (%)
1999	3320.43	12828.30	25.88
2000	4321.05	16.47.48	26.93
2001	4626.89	18530.12	24.99
2002	4956.38	20092.41	24.67
2003	5487.18	21764.87	25.21
2004	6159.52	25602.50	24.04
2005	7208.087	29892.98	24.11
2006	8093.90	32652.79	24.79
Mean			25.08
S.D.			0.89
C.V.			3.55%

Source: Annual Report 2006/07

The above table shows that ratios in NTC are in fluctuating trend. Mean ratio of NTC appeared considerably higher which signifies that NTC is more successful in utilizing the resources in revenue generating sector.

Though sales revenue has increased each year, total assets has also increased CV of the ratio depicted that the ratio remained more consistent in NTC.

4.7.10 Capital Employed Turnover Ratio

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

Capital Employed = Equity Capital + Reserve and Surplus + Long Term Debt

Table 4.24
Capital Employed Turnover Ratio

[Rs. in millions]

Fiscal Year	NTC		
	Sales	Capital Employed	Ratio
1999	3320.43	10101.38	32.87
2000	4321.05	12256.77	32.25
2001	4626.89	14029.90	33.00
2002	4956.38	15099.83	32.82
2003	5487.18	15906.77	34.50
2004	6159.52	17825.12	34.56
2005	7208.087	19755.65	36.49
2006	8093.90	20757.1	38.99
Mean			34.81
S.D.			2.00
C.V.			5.75%

Source: Annual Report 2006/07

Higher mean ratio 34.81 in NTC means that NTC has used capital more efficiently for income generating purpose. The consistency in the ratio was found higher in NTC from the less C.V. value.

4.7.11 Net Profit Ratio

This ratio measures overall firm's ability to turn each rupee sales into profit.

It is calculated by the following formula,

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

Table 4.25
Net profit Ratio

[Rs in Millions]

Fiscal Year	NTC		
	Net Profit	Sales	Ratio
1999	1110.08	3320.43	33.43
2000	1856.80	4321.05	42.97
2001	1722.52	4629.89	37.20
2002	1881.44	4956.38	37.96
2003	2045.44	5487.18	37.28
2004	1972.55	6159.52	32.02
2005	2588.223	7208.887	35.90
2006	1640.12	8093.39	20.26
Mean			34.63
S.D.			6.23
C.V.			17.99%

Source: Annual Report 2006/07

Mean ratio and C.V. of NTC appeared 34.63 and 17.99%. It means the profitability position of the NTC in relation to this ratio is for better, which indicates that variability of the ratio in NTC is less. There is moderately informality in profitability position.

4.7.12 Operating Profit Ratio

Operating profit Ratio can be calculated by dividing operating profit by sales.

$$\text{Operating profit ratio} = \frac{\text{operating profit}}{\text{sales}}$$

Table 4.26
Operating Profit Ratio

(Rs. in millions)

Fiscal year	NTC		
	Operating profit	Sales	Ratio (%)
1999	1714.75	3320.429	51.64
2000	2621.09	4321.05	60.66
2001	2594.80	4629.89	56.04
2002	2874.56	4956.38	58.00
2003	3043.02	5487.18	55.46
2004	3320.63	6159.52	5.40
2005	4093.12	7208.09	56.79
2006	4127.80	8093.90	51.00
Mean	55.45		
S.D	3		
C.V	5.4%		

Source: Annual Report 2006/07

From above table it shows that ratio is increasing trends. It means NTC used better utilization of all resources. Mean ratio of NTC is 55.45, it shows the efficient condition of the organization and its S.D and C.V are 3.0 and 5.4% respectively. This shows that there is less variability in operating profit and uniformity throughout the year.

4.7.13 Net Profit to Total Fixed Assets Ratio

Net Profit To Total Fixed Assets Ratio is calculated by dividing Net profit before interest and tax by total fixed Assets.

$$\text{Net Profit To Total Fixed Asset Ratio} = \frac{\text{NPBIT}}{\text{Total Fixed Assets}}$$

This ratio measures the efficiency of the performing fixed Assets.

Table 4.27
Net Profit to Total Fixed Assets Ratio

(Rs. in million)

Fiscal year	NTC		
	NPBIT	Total Fixed Asset	Ratio (%)
1999	2063.57	7113.40	29.00
2000	2890.99	7761.97	38.41
2001	2957.81	9068.65	32.62
2002	3079.80	8938.72	34.45
2003	3210.46	9263.79	34.66
2004	3830.12	10023.00	38.18
2005	3241.99	11300.49	28.69
2006	2525.88	11582.34	21.81
Mean	32.23		
S.D	5.12		
C.V	15.89		

Source: Annual Report 2006/07

The above table shows that mean and C.V. of NTC are 32.23 and 15.89%. From the table trend moves towards satisfactory position of NTC and there is proper utilization of fixed assets in generating profit.

4.7.14 Return on Capital Employed Ratio

It is calculated by dividing Net profit After Tax by Capital Employed.

$$\text{Return on Capital Employed Ratio} = \frac{\text{Net Profit After Tax}}{\text{Captial Employed}}$$

This ratio measures the overall effectiveness of management in producing profit by using total capital.

Table: 4.28
Return on Capital Employed Ratio

(Rs. in million)

Fiscal year	NTC		
	Net profit	Capital Employed	Ratio (%)
1999	1110.08	1010.38	10.99
2000	1856.80	12256.77	15.15
2001	1722.52	14029.90	12.28
2002	1881.44	15099.83	12.46
2003	2045.45	15906.77	12.86
2004	1972.55	17825.12	11.07
2005	2588.22	19755.65	13.10
2006	1640.12	20757.1	8.50
Mean	12		
S.D	1.94		
C.V	16.18 %		

Source: Annual Report 2006/07

From above table NTC's Mean Ratio and C.V. are 12 and 16.18%. It shows that mean ratio of NTC appeared high. Less C.V. of the ratios of NTC signifies that moderately uniformity in the ratio. Return on capital employed of NTC appears satisfactory as per mean ratio.

4.7.15 Operating Expenses Ratio (OE Ratio)

Operating Expenses Ratio can be calculated by dividing operating Expenses by sales

Operating Expenses Ratio (O/E Ratio) = $\frac{Operating\ Expenses}{Sales}$

Table 4.29
Operating Expenses Ratio

(Rs in millions)

Fiscal year	NTC		
	Sales	Operating Expenses	Ratio
1999	3516.79	1802.04	0.512
2000	4588.10	1967.00	0.43
2001	4910.36	2345.52	0.47
2002	5328.38	2453.82	0.46
2003	5928.65	2885.63	0.49
2004	6555.99	3235.93	0.49
2005	7669.28	3576.17	0.47
2006	8539.49	4411.69	0.52
Mean	0.03		
S.D	0.03		
C.V	6.25%		

Source: Annual Report 2006/07

Above table shows that the operating expenses ratio of NTC Mean is 0.48 and C.V. is 6.25%. Less operating Expenses Ratio will be favorable. So NTC is favourable because it's mean and C.V. is less value.

4.7.16 Return on Asset (ROA)

Return on Assets Ratio can be calculated by the following formula.

$$\text{Return on Assts} = \frac{\text{NPAT} + \text{Interest}}{\text{Total Assets}}$$

Table 4.30
Return on Assets

(NRs is millions)

Fiscal year	NTC		
	NAPT + Int	Total Assets	ROA (%)
1999	1511.302	12828.294	12
2000	2309.823	16047.477	14
2001	2185.065	18530.124	12
2002	2377.724	20092.408	12
2003	2405.267	21764.877	11
2004	2433.311	25281.824	9
2005	3153.18	29892.993	11
2006	2027.56	32652.787	6
Mean	10.88		
S.D	2.3		
C.V	21.14%		

Source: Annual Report 2006/07

Above calculated table shows the ROA of NTC. Mean ratio of NTC is 10.88. A high of ROA shows the better profitability of the organization. It shows that NTC is utilizing the asset in proper way. NTC utilize its assets satisfactory.

4.7.17 Return on Shareholders Equity (ROSE)

Return on shareholders equity can be calculated by dividing Net profit After Tax by shareholders Equity (share capital).

$$\text{Return on Shareholders Equity (ROSE)} = \frac{\text{Net Profit After Tax}}{\text{Shareholders Equity (Share Capital)}}$$

Table 4.31

Return on Share Holders Equity

(Rs in million)

Fiscal year	NTC		
	NPAT	Share capital	ROSE (%)
1999	1181.68	1331.943	88.72
2000	1928.40	1331.943	144.78
2001	1850.75	2053.864	90.11
2002	2050.75	2053.864	100.00
2003	2194.22	2053.864	406.83
2004	2326.53	2053.864	113.28
2005	3137.23	2053.864	152.75
2006	1937.40	2053.864	94.33
Mean	111.35		
S.D	23.01		
C.V	20.66%		

Source: Annual Report 2006/07

Return on shareholder Equity in NTC in above table reflects the good return to shareholder and Mean Ratio is 111.35, which is very high. NTC has very satisfactory return to shareholder.

4.7.18 Revenue Per Employee Ratio (RPER) of NTC

This ratio is an indicator of the earning capacity of per employee in the organization. It can be calculated by the following formula.

$$\text{Revenue per Employee Ratio} = \frac{\text{Total Sales Revenue}}{\text{Number of Employee}}$$

Table 4.32
Revenue Per Employee Ratio

(Rs in millions)

Fiscal year	Nepal Tel come			Increased/ (decreased)%
	Total sales Revenue	No. of employee	Ratio	
1999	3516.79	4213	0.83	-
2000	4588.10	4382	1.05	26.51
2001	4940.36	4509	1.10	4.76
2002	5328.38	4674	1.14	3.64
2003	5928.65	46.32	1.28	12.28
2004	6555.99	4687	1.40	9.38
2005	7669.28	9779	1.23	7.89
2006	8539.49	5728	1.49	

Source: Annual Report 2006/07

In the above table, it can be seen that the revenue per employee is increasing trend over the study period. It increased Rs. 830000 to Rs. 1490000 from the year 1999 to 2006. The revenue per employee is increasing throughout the study period. The revenue per employee is increased by 26.51%, 4.76%, 3.64%, 12.28, 9.38 and 7.89%, from the F.Y. 2000 to 2006 respectively. At the period of F.Y 2002 revenue is increased to 3.64% only.

4.8 Correlation Analysis

4.8.1 Correlation Analysis Between Sales Revenue and Net Profit After Tax

Table 4.33
Correlation Between Sales Revenue and NPAT

(NRs in Millions)

Fiscal year	Sales revenue (x)	NPAT (Y)	$X-\bar{X}$	$Y-\bar{Y}$	$(X-\bar{X})^2$	$(Y-\bar{Y})^2$	$(X-\bar{X})(Y-\bar{Y})$
1999	3320.4	1181.68	-2201.25	-894.19	4845501.563	799575.8	1968336
2000	4321.1	1928.4	-1200.63	-147.47	1441512.397	21747.4	177056.9
2001	4626.9	1850.75	-894.79	-225.12	800649.1441	50679.01	201435.1
2002	4956.4	2050.75	-565.3	-25.12	319564.09	631.0144	14200.34
2003	5487.2	2194.22	-34.5	118.35	1190.25	14006.72	-4083.08
2004	6159.5	2326.53	637.84	250.66	406839.8656	62830.44	159881
2005	7208.1	3137.23	1686.407	1061.36	2843968.57	1126485	1789885
2006	8093.9	1937.4	2572.22	-138.47	6616315.728	19173.94	-356175
Total	44173.44	16606.96			17275541.61	2095129	3950536

$$\bar{X} = \frac{\sum x}{n} = \frac{44173.44}{8} = 5521.68$$

$$\bar{Y} = \frac{\sum y}{n} = \left(\frac{16606.96}{8}\right) = 2075.87$$

Correlation between X and Y

$$r_{xy} = \frac{\sum(X-\bar{X})(Y-\bar{Y})}{\sqrt{\sum(X-\bar{X})^2\sum(Y-\bar{Y})^2}} = \frac{3950536}{\sqrt{17275541.61 \times 2095129}} = 0.65$$

Calculation of Probable Error (P.E.)

$$\because PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-(0.65)^2}{\sqrt{8}}$$

$$= 0.1360$$

$$\because 6 \times P.E. = 6 \times 1360 = 0.8161$$

$\because$ Correlation between Net profit After Tax and sales Revenue is 0.65, which shows that the moderate positive correlation between the two variables i.e. Sale Revenue and NPAT. It implies that the NPAT change in the same direction of sales change.

Since 6*PE> r, i.e. 0.8161> 0.65, so the calculated value of r is not significant, it means the sales revenue and NPAT has not significant relationship. Above table shows that sales revenue is in highly increasing trend but NPAT is in slightly increasing trend.

4.8.2 Correlation Between Current Assets and Current Liabilities

Table 4.34
Correlation Between Current Assets And Current Liabilities

(Rs. In millions)

Fiscal year	Current Assets (x)	Current Liability(Y)	$X-\bar{X}$	$Y-\bar{Y}$	$(X-\bar{X})^2$	$(Y-\bar{Y})^2$	$(X-\bar{X})(Y-\bar{Y})$
1999	5714.9	2726.91	-6996.26	-3767.58	48947653.99	14194659	26358969
2000	8285.5	3790.71	-4425.66	-2703.78	19586466.44	7310426	11966011
2001	9461.5	4500.22	-3249.69	-1994.27	10560485.1	3977113	6480759.3
2002	11154	4992.58	-1557.48	-1501.91	2425743.95	2255734	2339194.8
2003	12321	5858.1	-390.56	-636.39	152537.1136	404992.2	248548.48
2004	15403	8054.42	2692.18	1559.93	7247833.152	2433382	4199612.3
2005	18424	10137.3	5712.99	3642.857	32638254.74	13270407	20811606
2006	20926	11895.7	8214.48	5401.2	67477681.67	29172961	44368049
Total	101689.3	51955.97			189036656.1	73019674	116772750

$$\bar{X} = \frac{\sum x}{n} = \frac{101689.3}{8} = 12711.16$$

$$\bar{Y} = \frac{\sum y}{n} = \frac{51955.97}{8} = 6494.49$$

Correlation between X and Y

$$r_{xy} = \frac{\sum (X-\bar{X})(Y-\bar{Y})}{\sqrt{\sum (X-\bar{X})^2 \sum (Y-\bar{Y})^2}} = \frac{116772750}{\sqrt{189036656.1 \times 73019674}} = 0.99$$

Calculation of Probable Error (P.E.)

$$\because PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-(0.99)^2}{\sqrt{8}}$$
$$= 0.0047$$
$$\because 6 \times P.E. = 6 \times 0.0047 = 0.0285$$

Correlation between Current Assets and Current Liabilities is 0.99; it shows that there is high positive correlation between CA and CL.

Since r > 6*PE i.e. 0.99> 0.0285 the calculated value of r is significant. In other words, current liabilities go in the same direction as the current Assets go.

4.8.3 Correlation Between NPAT And Capital Employed

Table 4.35
Correlation Between NPAT And Capital Employed

(Rs in Millions)

Fiscal year	Capital Employed (x)	NPAT (Y)	X - $\overline{X}$	Y- $\overline{Y}$	(X - $\overline{X}$)^2	(Y- $\overline{Y}$)^2	(X - $\overline{X}$) (Y- $\overline{Y}$)
1999	10101	1181.68	-5615.19	-894.19	31530358.74	799575.8	5021046.7
2000	12257	1928.4	-3459.8	-147.47	11970216.04	21747.4	510216.71
2001	14030	1850.75	-1686.67	-225.12	2844855.689	50679.01	379703.15
2002	15100	2050.75	-616.74	-25.12	380368.2276	631.0144	15492.509
2003	15907	2194.22	190.2	118.35	36176.04	14006.72	22510.17
2004	17825	2326.53	2108.55	250.66	4445983.103	62830.44	528529.14
2005	19756	3137.23	4039.08	1061.36	16314167.25	1126485	4286917.9
2006	20757	1937.4	5040.53	-138.47	25406942.68	19173.94	-697962.2
Total	125732.5	16606.96			92929067.76	2095129	10066454

$$\overline{X} = \frac{\sum x}{n} = \frac{125732.5}{8} = 15716.57$$

$$\overline{Y} = \frac{\sum y}{n} = \frac{16606.96}{8} = 2075.87$$

Correlation between X and Y

$$r_{xy} = \frac{\sum\left(X - \overline{X}\right)\sum\left(Y - \overline{Y}\right)}{\sqrt{\sum\left(X - \overline{X}\right)^2 \sum\left(Y - \overline{Y}\right)^2}} = \frac{10066454}{\sqrt{9292906 7.76 \times 2095129}}$$

$$= 0.72$$

Calculation of Probable Error (P.E.)

$$\because PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}} = 0.6745 \times \frac{1 - (0.72)^2}{\sqrt{8}}$$

$$= 0.1146$$

$$\because 6 \times P.E. = 6 \times 0.1146 = 0.6881$$

Correlation between NPAT and Capital Employed is 0.72. So it shows the positive relationship between these two variables i.e. NPAT and CE. It implies that NPAT change in the same direction as capital Employed.

Since 6PE < r i.e. 0.6881 < 0.72, So the calculated value of r is significant. It means the NPAT and capital Employed has positive relationship. Above table shows that the capital Employed is in increasing trend but NPAT is in fluctuating trend.

4.8.4 Correlation Between NPBIT and TFA

Table: 4.36
Correlation Between NPBIT and Total Fixed Asset
(Rs in Hundred Millions)

Fiscal year	Total fixed Assets (x)	NPBIT (Y)	$X - \overline{X}$	$Y - \overline{Y}$	$(X - \overline{X})^2$	$(Y - \overline{Y})^2$	$(X - \overline{X})(Y - \overline{Y})$
1999	7113.4	2063.57	-2268.14	-911.5	5144459.06	830832.3	2067409.6
2000	7762	2890.99	-1619.57	-84.08	2623006.985	7069.446	136173.45
2001	9068.7	2957.81	-312.89	-17.26	97900.1521	297.9076	5400.4814
2002	8938.7	3079.8	-442.82	104.73	196089.5524	10968.37	-46376.54
2003	9263.8	3210.46	-117.75	235.39	13865.0625	55408.45	-27717.17
2004	10023	3830.12	641.46	855.05	411470.9316	731110.5	548480.37
2005	11300	3241.99	1918.95	266.92	3682369.103	71246.29	512206.13
2006	11582	2525.88	2200.8	- 449.19	4843520.64	201771.7	-988577.4
Total	75052.36	23800.62			17012681.49	1908705	2206999

$$\bar{X} = \frac{\sum x}{n} = \frac{75052.36}{8} = 9381.54$$

$$\bar{Y} = \frac{\sum y}{n} = \frac{23800.62}{8} = 2975.07$$

Correlation between X and Y

$$r_{xy} = \frac{\sum(X-\bar{X})\sum(Y-\bar{Y})}{\sqrt{\sum(X-\bar{X})^2\left(\sum Y-\bar{Y}\right)^2}} = \frac{2206999}{\sqrt{17012681.49 \times 1908705}}$$
$$= 0.38$$

Calculation of Probable Error (P.E.)

$$\because PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-(0.38)^2}{\sqrt{8}}$$
$$= 0.2033$$
$$\because 6 \times P.E. = 6 \times 0.2033 = 1.21$$

Correlation between Total Fixed Assets and NPBIT is 0.38. So it shows the positive relationship between these two variables TFA and NPBIT. It implies that NPBIT slightly change in the same direction of Total Fixed Assets.

Since 6PE > r, i.e. 1.21> 0.38, so the calculated value of r is not significant, it means NPBIT and TFA has some extent of positive relationship. It means TFA is in increasing trend but NPBIT is slightly increasing trend as whole.

4.9 Major Findings of the Study

Every research work is done to find something new, based on the objective of the study. From analysis of various data collected by secondary sources, the major findings of the study are as follows:

i) Actual operating income of the NTC is increasing in fluctuating trend. Its forecasted sales are Rs. 9654 million for fiscal years

2005/06. Sales plan of NTC is not systematic. So, it has not achieved its target to increase operating income.

ii) From the study operation revenue ratio shows that the operating revenue ratio (ORR) in 1998/1999 is 94.42% but it is in decreasing trend up to 2002/2003. From 2002/2003 to 2004/2005 it is going in increasing trend but less than the FY 1998/1999.

iii) Similarly the non operating revenue ratio (NORR) in year 1998/1999 is 5.58% and it is in increasing trend up to F. year 2002/2003. But, from fiscal year 2003/2004 to 2004/2005 it is in decreasing trend and decreased to 5.22%.

iv) Study shows that the total volume of revenue collection of NTC is increasing trend. In FY 1999/2000, NTC revenue is increased by 30.46% but in year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 are 7.68%, 7.85%, 11.27%, 10.58%, 16.98% and 11.35% respectively.

v) Collected revenue utilized by the Nepal Telecom on the following expenditure headings: (i) Employees costs, (ii) operation and maintenance cost, (iii) Administrative expenses, (iv) Interest on subscribers Deposits, (v) interest on loan, (vi) Depreciation (vii) loss (Gain) on foreign exchange, (viii) Bonus, (ix) Incentive package, (x) provision for Income Tax (xi) Income Tax Adjustments, relating to earlier years (xii) adjustment relating to earlier year (net) divided of Equity and (xiii) transfer to sinking fund.

vi) Study shows clearly that the total income, utilization and retained earning is in increasing trend year by year, so it is favorable condition for the NTC and the retained earning money should be utilized in productive sector to earn more benefit.

vii) Study shows that the fixed assets ratio in the year 1998/1999 is 55.45% and it is in decreasing trend up to the year 2005/2006 is

35.47, which is favorable condition for the company current asset ratio is in increasing trend from year 1998/1999 to 2005/2006 (44.55 to 64.09), so the working capital is in an increasing trend, which is favorable condition for the company.

viii) Study shows that the equity and reserve ratio is in increasing trend it means the company has sufficient equity capital and reserve volume.

ix) Assets position shows that fixed assets of NTC are increasing trend. Similarly current assets of NTC are increasing trend, it means working capital capacity is better and working capital is sufficient.

x) The NTC should decreased its fixed assets and increased its current assets to achieve the better performance of working capital, which can be help for future profit (benefit) and loan amount will be decreased.

xi) The liability side of balance sheet of NTC from F/Y 1999 to 2006 shows that capital reserve and retained earning with increasing trend of large volume ; which are kept ideality, is not a good sign. This shows that NTC financial structure is not well structured. The amount of retained earning should be used in productive sector for more benefit and for society improvement

xii) The current ratio of NTC is around standard (2:1). NTC is maintaining the standard of current ration and capable in payment of current liabilities at the time of requirement. Standard deviation and C.V. is also minimum. Among many public utilities, NTC seems too efficient in maintaining the good liquidity position.

xiii) Debt Equity Ratio standard is 1:1 Higher ratio shows the large amount of external source i.e. debt and lower ratio shows the less utilization of debt. NTC's mean ratio is 0.37 which is less than standard. NTC has emphasized internal funding rather than external.

xiv) An inventory turnover ratio of NTC is in increasing trend. The inventory turnover ratio's mean of NTC is 12.17. NTC is very good satisfactory (high inventory turnover). The ratio is going to in increasing trend; it indicates the positive relationship between them.

xv) Fixed Assets Turnover Ratios’ Mean, S.D and C.V. seemed 0.58, 0.07 and 12.07% respectively. The ratio in NTC depicted increasing trend year by year except 2001. Incerement in fixed asset turnover ratio indicates the improved work efficiency and Fixed Assets has been effectively mobilized and good financial condition. Average ratio of NTC is satisfactory. Higher mean ratio of NTC shows better utilization of Fixed Asset. CV analysis showed moderate uniformity in asset turnover ratio of NTC.

xvi) The total asset turnover ratios of NTC are in fluctuating trend. Mean ratio of NTC appeared considerably higher which signifies that NTC is more successful in utilizing the resources in revenue generating sector.

xvii) Though sales revenue has increased each year, total assets has also increased CV of the ratio depicted that the ratio remained more consistent in NTC.

xviii) Mean ratio and C.V. of net profit of NTC appeared 34.63 and 17.99%. It means the profitability position of the NTC in relation to this ratio is for better, which indicates that variability of the ratio in NTC is less. There is moderately informality in profitability position. The operating profit ratio of NTC shows the increasing trends. It means NTC used better utilization of all resources. Mean ratio of NTC is 55.45, it shows the efficient condition of the organization and its S.D and C.V are 3.0 and

5.4% respectively. This shows that there is less variability in operating profit and uniformity throughout the year.

xix) Return on capital employed of NTC Mean Ratio and C.V. are 12 and 16.18%. It shows that mean ratio of NTC appeared high. Less C.V. of the ratios of NTC signifies that moderately uniformity in the ratio. Return on capital employed of NTC appears satisfactory as per mean ratio.

xx) Return on Asset of NTC Mean ratio is 10.88. A high of ROA shows the better profitability of the organization. It shows that NTC is utilizing the asset in proper way. NTC utilize its assets satisfactory. Return on shareholder Equity in NTC reflects the good return to shareholder and Mean Ratio is 111.35, which is very high. NTC has very satisfactory return to shareholder.

xxi) The revenue per employee is increasing trend over the study period. It increased Rs. 830000 to Rs. 1490000 from the year 1999 to 2006. The revenue per employee is increasing throughout the study period. The revenue per employee is increased by 26.51%, 4.76%, 3.64%, 12.28, 9.38 and 7.89%, from the F.Y. 2000 to 2006 respectively. At the period of F.Y 2002 revenue is increased to 3.64% only.

xxii) Correlation between Net profit After Tax and sales Revenue is 0.65, which shows that the moderate positive correlation between the two variables i.e. Sale Revenue and NPAT. It implies that the NPAT change in the same direction of sales change. Since 6*PE> r, i.e. 0.8161> 0.65, so the calculated value of r is not significant, it means the sales revenue and NPAT has not significant relationship. Correlation between Current Assets and Current Liabilities is 0.99; it shows that there is high positive correlation between CA and CL. Since r > 6*PE i.e. 0.99> 0.0285 the calculated value of r is significant. In other words, current liabilities go in the same direction as the current Assets go. Correlation between NPAT and Capital Employed is 0.72. So it shows the positive relationship between these two variables i.e. NPAT and CE. It implies that NPAT change in the same direction as capital Employed. Since 6PE < r i.e. 0.6881 < 0.72, So the calculated value of r is significant. It means the NPAT and capital Employed has positive relationship. Correlation between Total Fixed Assets and NPBIT is 0.38. So it shows the positive relationship between these two variables TFA and NPBIT. It implies that NPBIT slightly change in the same direction of Total Fixed Assets. Since 6PE > r, i.e. 1.21> 0.38, so the calculated value of r is not significant, it means NPBIT and TFA has some extent of positive relationship.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Nepal is least developing country in the world. The main source of income is agriculture. For the socio-economic development of the nation industrialization is essential. Science and technological advancement plays vital role in industrialization of the nation. But it is not enough only the advancement of science and technology for development of the country. Management of all these sectors is very essential. Without good management organization cannot achieve its goal and objectives. Government of Nepal has established so many public enterprises to facilitate the people. Most of public enterprises are suffering loss, whether the government has invested huge amount of resources. There is no any concept of effective and appropriate planning system and procedure. Lack of expert, qualified and skilled manpower in the field of management, available resources, capacity and efficiency are not utilized properly. So many popular and systematic tools and technique of management are ignored. These tools are not practicing in public enterprises for measurement of financial statement.

The large public enterprise, Nepal Telecom has glorious history in the field of communications services. Government of Nepal has invested huge amount in this enterprise. NTC is running smoothly by earning profit. Profit shows the good financial position of the company.

In the communication sector, the government has liberalized its policy and authorized private sector to run communication service. Although up to now profit trend of NTC is increasing trend but now on ward they have to compete with private sector. So NTC should prepare it self to face many challenges which may come for other private company. To meet this challenge NTC should prepare it self and have to realize its management capacity.

NTC is the successful public enterprise of the Nepal, which are still running in the public sector service business. Nepal Telecom is operating in profitable from several years. Now-a-days private telecom companies are also opened in our country i.e. UTL, Mobile to compete it. But NTC is not any effect because public use its service too much than that of private only a few percent public use private companies' phone services. Recent entry of private operators in the sector should, therefore, be considered as government's initiative to make the sector grow at faster pace both in term of quantity and quality. But the facts remains that in spite of new liberal Telecom Act 2053, due to various reasons the market share achieved by private sector is still less than 10 percent of the total telecom business volume. Hence, the incumbent Nepal Telecom shall have to take responsibility of expanding infrastructure at faster pace covering nooks and corners of the country, not only as a competitive strategy but also to cater-ever-increasing demand from general public for both voice as well as data services.

NTC collects its own revenue from sales of telephone service on different sources to the different types of customers, which are as**:** (1) local telephone, (2) Domestic Trunk Telephone, (3) International telephone, (4) Domestic telegraph, (5) International telegraph, (6) International telex (7) Leased circuits, (8) Tele fax, (9) Mobile and Internet, (10) Interconnection (11) Others.

Study shows clearly that the total income, utilization and retained earning is in increasing trend year by year, so it is favorable condition for the NTC and the retained earning money should be utilized in productive sector to earn more benefit.

Study shows that the fixed assets ratio in the year 1998/1999 is 55.45% and it is in decreasing trend up to the year 2005/2006 is 35.47, which is favorable condition for the company current asset ratio is in increasing trend from year 1998/1999 to 2005/2006 (44.55 to 64.09), so the working capital is in an increasing trend, which is favorable condition for the company.

Study shows that the equity and reserve ratio is in increasing trend it means the company has sufficient equity capital and reserve volume.

Long term debt ratio in year 1998/1999 is 26.78% and its trend is decreasing and up to year 2005/2006 is zero so that Ltd. Ratio is the company is favorable and the company has no long term debt the company should not pay interest in future. Current liabilities and provision ratio is in increasing trend. In Fiscal year 1998/99 it shows that the company has more current payment and provision.

Assets position shows that fixed assets of NTC are increasing trend. Similarly current assets of NTC are increasing trend, it means working capital capacity is better and working capital is sufficient. Among the assets of NTC there are fewer amounts of account receivable and prepaid, advances loans and deposits. Instead of increasing this amount it is being decreased year by year.

The NTC should decreased its fixed assets and increased its current assets to achieve the better performance of working capital, which can be help for future profit (benefit) and loan amount will be decreased.

The liability side of balance sheet of NTC from F/Y 1999 to 2006 shows that capital reserve and retained earning with increasing trend of large volume ; which are kept ideality, is not a good sign. This shows that NTC financial structure is not well structured. The amount of retained earning should be used in productive sector for more benefit and for society improvement. The current ratio of NTC is around standard (2:1). NTC is maintaining the standard of current ration and capable in payment of current liabilities at the time of requirement. Standard deviation and C.V. is also minimum. Among many public utilities, NTC seems too efficient in maintaining the good liquidity position.

Debt Equity Ratio standard is 1:1 Higher ratio shows the large amount of external source i.e. debt and lower ratio shows the less utilization of debt.

NTC's mean ratio is 0.37 which is less than standard. NTC has emphasized internal funding rather than external. Mean ratio of debt to total capital ratio came to be 0.14 and C.V. is 92.86% of NTC. The ratio of NTC is in decreasing trend. NTC with lower ratio is subjected to lower risk and this will in turn decrease the chance of getting higher return.

A inventory turnover ratio of NTC is in increasing trend. The inventory turnover ratio's mean of NTC is 12.17. NTC is very good satisfactory (high inventory turnover). The ratio is going to in increasing trend; it indicates the positive relationship between them. Average collection period of NTC in 1999, 2000. 20001, 2002, 2003, 2004, 2005 and 2006 are 167.43, 182.5, 205.10, 213.45, 108.31, 137.22, 144.27 and 148.98 respectively. The ACP of NTC is worst in year 2002. Average ACP of 8 years of NTC is 162.91.

Fixed Assets Turnover Ratios' Mean, S.D and C.V. seemed 0.58, 0.07 and 12.07% respectively. The ratio in NTC depicted increasing trend year by year except 2001. Increment in fixed asset turnover ratio indicates the improved work efficiency and Fixed Assets has been effectively mobilized and good financial condition. Average ratio of NTC is satisfactory. Higher mean ratio of NTC shows better utilization of Fixed Asset. CV analysis showed moderate uniformity in asset turnover ratio of NTC. The total asset turnover ratios of NTC are in fluctuating trend. Mean ratio of NTC appeared considerably higher which signifies that NTC is more successful in utilizing the resources in revenue generating sector.

Return on capital employed of NTC Mean Ratio and C.V. are 12 and 16.18%. It shows that mean ratio of NTC appeared high. Less C.V. of the ratios of NTC signifies that moderately uniformity in the ratio. Return on capital employed of NTC appears satisfactory as per mean ratio. Return on Asset of NTC Mean ratio is 10.88. A high of ROA shows the better profitability of the organization. It shows that NTC is utilizing the asset in proper way. NTC utilize its assets satisfactory.

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5.2 Conclusion

In Nepal, most of the theoretical knowledge is not applied in practical. There is vast gap between theory and practice. There are so many tools and technique to measure the financial performance of the company but in proactive very few tools are used. Assets and liabilities management, its shows the relationship among the variables related to assets, liabilities, sales , profit etc.

Actual operating income of the NTC is increasing in fluctuating trend. Its forecasted sales are Rs. 9654 million for fiscal years 2005/06. Sales plan of NTC is not systematic. So, it has not achieved its target to increase operating income. From the study operation revenue ratio shows that the operating revenue ratio (ORR) in 1998/1999 is 94.42% but it is in decreasing trend up to 2002/2003. From 2002/2003 to 2004/2005 it is going in increasing trend but less than the FY 1998/1999. Similarly the non operating revenue ratio (NORR) in year 1998/1999 is 5.58% and it is in increasing trend up to F. year 2002/2003. But, from fiscal year 2003/2004 to 2004/2005 it is in decreasing trend and decreased to 5.22%. Study shows that the total volume of revenue collection of NTC is increasing trend. In FY 1999/2000, NTC revenue is increased by 30.46% but in year 2000/01, 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06 are 7.68%, 7.85%, 11.27%, 10.58%, 16.98% and 11.35% respectively.

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5.3 Recommendations

Based on the above study the following suggestions are recommended to improve the assets and liabilities management of public enterprises mainly in NTC.

1. Most of public enterprises are being controlled by government through political intervention. To run these enterprises smoothly there is need of cooperation among the various factors; participative management approach, expert, qualified manpower, out of from government intervention and controlling usual cost is the essential remedy.

2. The NTC should decreased its fixed assets and increased its current assets to achieve the better performance of working capital, which can be help for future profit (benefit) and loan amount will be decreased.

3. Cost plan of Nepal Telecom is not systematically maintained. So, cost of every sector should plan properly.

4. Sales revenue of Nepal Telecom is in increasing trend but it is not sufficient to cover the cost and earn desired profit. Sales plan of these enterprises should clearly maintain and improve.

5. NTC is running smoothly by earning profit. But, NTC's profit is not sufficient it should control fixed cost.

6. Cost control program should establish it will maintain the discipline about controlling cost.

7. Most of the Nepalese enterprises are facing the problem of government interfere and their programs are not implemented properly. NTC is facing these kinds of problem. So, it should control government interfere in decision making and planning.

8. There are many new and popular management theory like, management by objective, participative management etc. this principle can be more effective to every organization. NTC should apply this theory for better performance of the enterprises.

9. NTC is operating in monopoly situation to some extent, strength, weakness, threats and opportunity should properly analyze.

10. Regular inspection, evaluation, monitoring activities should undertaken by the central level to different department of Nepal Telecom.

11. Most of public enterprises like NTC is facing problem of poor communication among various departments. So, the strong coordination and communication is needed.

12. Service sector is main source of income for Nepal in present globalize situation. So, NTC should adopt various high technological equipments for servicing the people and complete with other country.

13. To satisfy the needs of customers and facilitating quality services in reasonable price. NTC should control the costs and improve the quality of services.

14. The costs are main factors to increase price of the products. So, controllable costs should minimize if possible.

15. Nepal Telecom 's management performance do not show the satisfactory results about profit, So, management of this enterprises should perform their program and task in planning way.

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