CHAPTER - 1

INTRODUCTION

1.1 General Background

Nepal is a land lock country inhabited by 26.43 (ADB 2007, Key indicators 2007, Manila) million people covering as area of 147181 square kilometers. The Country is surrounded by Tibet, The autonomous region of China in the north and several Indian states to the East, South and West. Nepal's Domestic market is limited. However, With the special relationship with India embodied in a trade treaty, Nepal has access to be the largest market in the region. Recently, Nepal has taken the membership of world trade organization (WTO) which allows trading with different countries.

Nepal introduced economic Liberalization tow decade ago and is committed to achieve high economic growth through the active participation of the private sector. In 1990, the first elected democratic government introduced economic liberalization policy emphasizing the private sector participation in the main stream of development.

In 1991, the government issued a policy on privatization which laid down the policies, Modalities and administrative mechanism for the privatization of public enterprises. The privatization process in Nepal is governed by the Act. The government many privatize any enterprise using any of the following methods :

- Selling shares of the enterprises to the general public including employees, workers any other persons of companies interested in the management of such enterprises.
- Setting up co-operative
- Selling the assets of the enterprises.
- Leasing out the assets of the enterprises.
- Involving the assets of the enterprises and

- Adopting any other modalities considered appropriate by the government on the basis of the recommendation of the Privatization committee.
  (Source Joshi Shyam, 2066 : 344)

An overview of Industrial Development in Nepal

Industrialization is major basic for stable and reliable economic development. In case of Nepal, industrial development started with the cottage and small industries for the sales of wooden goods. Handicraft, Statuses and Art. It is still infancy period. Since, the industrialization is in infancy the country is moving backward. The history of modern industrialization in not so long. It is started with the establishment of Biratnagar Jute Mills in 1973 A.D. There was no conductive environment for industrial development in Nepal. In 1992, Nepal formulated its first industrial policy to provide incentives to industries that development could be ensured.

There is no doubt the Regime of Juddha Samsher can be called the innovator period in Nepalese history, while contributed to the growth of industries. Juddha Samsher had not only launched the programs of industrialization in this period. First major step was establishment of Udyog parishad in 1936 AD. 63 companies were registered with total combined capital of Rs. 700 millions I.C. and Rs. 2.1 Millions. NC between 1964 to the down of democracy.

Nepal Bank Ltd. the first modern commercial bank in the country was established in 1964 BS in order to develop industrial and trading enterprises by providing financial and administrative help. Similarly, Ragupati Jute Mill (2003 BS) Morag Sugar Mill (2003BS), Janakpur Cigarette Factory Ltd. (2021BS Poush), Hetauda Cement Udyog Ltd. (2033 BS Aswin), Lumbini Sugar Mills Ltd (2038BS Jestha) etc were also established in the country. In this way a number of industry in different sectors and field like cotton. textiles, sugar, match, Hydropower, oil, Rice and so on were set.

The growth of Nepales industrial process took a race because the government had formulated various policies acts rules and regulations for maintaining and operting industrial activities. Different rules, polices, Acts, rules and regulation were made and amended according to time to support industrial sector. some of policies are industrial policy 1992 A.D. : Commercial policy 1992 A.D. Foreign investment and one window policy, privatization act 1993 A.D., Labor Act 1992 etc.

1.2 An Introduction of Bottlers Nepal Limited

1.2.1 Establishment

Bottler Nepal Ltd (BNL) was established in 1973 as a Private Limited Company under the company act 1964. It was converted into Public Limited Company in 1984. Coca-cola was introduced in Nepal in 1973. That time it was imported from India. The local production of Coca-coal begins is 1979 by the Bottlers Nepal Ltd. Coca-cola has been licensing bottlers around the world. Bottlers Nepal Ltd. situated at the Balaju Industrial District is also one of the host companies of Coca-cola for Nepal established in 1979 under company was started as a private enterprise & converted into a public enterprise in 1984 issuing shares to general public. The company is managed by Singapore based F & N Coca-cola pte Co. Ltd. The company covers 10,648 sq. m. of land and building covers 5823 sq. m. It is one the world's most famous multinational company. The fully automatic Effluent Treatment plants (ETP) are established and both its plant has been operational since 2001, to protect the local environment at well as to meet the standards of the Coca-cola quality system (CCQS) Different types of inputs are used for the production of different products. All inputs are not available in the Nepali Market. Thus it is imported from Singapore, Iran, Pakistan, Indonesia, Germany and India.

Quality products are main focus on BNL. They have well equipped laboratory for the identification of good quality finished goods. The raw materials for the soft drink production are imported from France & U.S.A. The crown crocks are imported from Philippines, Srilanka & Singapor. The sugar is bought from the Nepalese market.

The main objective of this company is to produce soft drinks and to bottle under the brand name of Coke, Fanta, Sprite etc. in 1986 under the company act, 1964 subsidiary company called Bottlers Nepal (Terai) limited, was established in Chitwan district, Bharatpur Narayangadh area with the objective of producing and bottling soft drinks under the brand name of Coke, Sprite, Fanta (Orange, Lemon and Soda). These products are transferred into the markets in 1000ml, 500ml, non-returnable plastic bottles and 200mlm 250ml and 175ml returnable glass bottles. The installed capacity of the plant is 350 bottling per minute. It is the leading multinational company among the manufacturing and processing company in Nepal.

1.2.2 Organization

Bottlers Nepal Limited was established in 1973 under the company act, 1964 with the object of producing and bottling soft drinks under the brand of Coke, Fanta, Sprite, etc. It was converted into Public Limited company in 1984 A.D. The first established company is in Balaju (Ktm) while the company has established subsidiary company Bottlers Nepal (Terai) Ltd a subsidiary company of Bottlers Nepal Ltd, Balaju, Katmandu, was established in 1986 under the company act 1964 with the objectives of producing and bottling soft drinks under the brand name of Coke, Sprite and Fanta (orange, lemon and soda). It has listed its ordinary shares of Nepal stock exchange in 1984/ 06/ 21. Company distributes its product through the "Manual Distribution Center" directly through the Troika traders. Four Boards of Directors of the company are nominated from coca-cola Sabco (Asia) Ltd and rest from the Nepalese shareholders.

1.2.3 The company has five main departments

Corporate

Operational

Finance

Administration

Marketing

A director heads each Department. The Director of each Department becomes member of Management Committee. The managing director chairs the Management Committee.

1.3 Background of the study

Cash is the lifeblood of a business enterprise, without cash no activities can take place. So, a business must have an adequate amount of cash to operate. The decision Maker must pay attention to the firm's cash position, events, and transactions that cash position. The analysis of events and transactions affecting the cash position in termed as cash flow analysis.

It is very remarkable to know the activity of cash from where it is received and to where it is applied. The cash flow statement answers such questions. Cash flow is a statement to show all the cash receipts (inflows) and cash payments (outflows) of a firm for a period. Cash flow statement is prepared to understand the relationship between accrual accounting events and their cash impacts. This statement classifies cash flows from operating. Financing and investing activates as required by accounting standards. On the other hand, the statement facilitates to convey information about receipts and cash payments of a firm during the accounting period. Though the same information comes through the cashbook already prepared in a different manner so that decision maker knows how much cash has increased or decreased in operating, investing and financing activities.

- Statement of cash flows reflects the ability of the company.
- To generate positive cash flows in future periods.

- To meet its obligations and to pay dividend.

This cash flow statement helps the user to evaluate a company's ability to have sufficient cash both on short term and long term basis. Due to this reason, the statement of cash flows in useful virtually everyone interested in the company's creditors, investors, manager's customers and prospective competitors.

The statement of cash flows assists management, investors, creditors and others by providing the following information.

- The enterprise's ability to generate positive future net cash flows.
- The enterprise's ability to meet its obligations.
- The enterprises need for external financing
- Reason for difference between net income and associated cash receipts and payments.
- Effect on an enterprise's financial position of both including cash and non-cash investing and financing transactions during the period.

The statement of cash flows in an important financial statement in terms of providing information for investors and creditors. It shows how the accrual accounting information is converted into cash better understand the cash effects of company's operating, investing and financing activities. The primary propose of the cash flow statement is to provide information about the cash receipts and cash payments of the entry. The cash flow statement helps to assess the solvency of a business and to evaluate its ability to generate positive cash flows in future periods, pay dividends and finance growth.

The balance sheet provides information about the assets of an enterprise and how these assets have been financed by owned and borrowed funds at a certain time but is does not explain the changes in assets, liabilities and owner's equity resulting from an enterprise's financial performance during a specific period but earning is measured by accrual accounting. It does not show cash generated through its operations.

The statement of cash flow has become a standard feature of financial reporting in a number of countries and is required in addition to the balance sheet and profit and loss statement. From 1988, companies in United State have been required to present statement of cash flows. Since the beginning 1992, British companies are required to present statement of cash flow information. Cash flow statements are also required in other many countries including Australia, New Zealand and South Africa, in 1992, the international accounting standard committee issued an accounting standard on cash flow statements. Nepal Company Act 2006 (2053B.S.) also made mandatory to present cash flow statement along with balance sheet and income statement. According to institute of chartered accountants of Nepal published the financial statement which should include cash flow with the balance sheet and profit and loss account.

So, every enterprise should prepare it as and integral part of its financial statement for each period for which financial statements are presented.

Cash flow analysis is done through the statement of cash flows. A cash flows statement is a statement of company's ability to generate cash from various activities such as operating, investing and financing.

1.4 Focus of the Study

Every manufacturing firm needs various types of assets to run the production process without any interruption. The management of cash is also important because it is difficult to predict cash accurately, particularly, the inflows, and there is no perfect coincidence between inflows and on outflows of cash. During some period cash outflows will exceed cash inflows because payment of taxes dividend or seasonal inventory builds up. Cash management is also important because cash considerable time is devoted in managing it. To run daily production activities of the company , besides the manpower, equipments etc one of the major components is cash management.

The present research work is the study of cash flow analysis of Bottlers Nepal Ltd. This study is useful for managers, accountants, policy maker's planners, creditors, government , potential investors and other researchers.

1.5 Statement of The Problem

Cash management in manufacturing companies of Nepal is primarily based on traditional approach, lacking in scientific approach. A more serous aspect of cash management has been the absence of any formalized system of planning and budgeting. So that the attempt has been made to identify the answer of the following questions as a major problem :

It is important to find out why BNL is facing with such problem the present analysis has tried to find out answer of following basic questions :

- What is the position of cash and bank balance of the company ?
- What is the situation of its operating activities ?
- Whether or not it is generating cash from its operating activities corresponding to investing in assets ?
- What is the situation of financial picture of liquidation position ?
- Whether or not BNL is able to meet the short and long term obligations ?
- Is it necessary for external financing to meet the required amount of cash ?
- What is the position of ending balance of cash during the year ?
- Whether or not it has sufficient amount of cash balance to handle the activities of the coming year ?

1.6 Objectives of the Study

The main objective of the study is to analysis cash flow statement of Bottlers Nepal Limited. The specific objectives of the study are

- To Provide information about a company's operating, investing and financing activities during the study period.
- To study and evaluate the financial position and liquidity.

- To provide information about the changes in the cash position of the company.
- To provide suggestions and recommendations for effective cash management.

1.7 Significance of the study

The overall study of cash flow analysis helps to analyze the present cash balance of Bottlers Nepal Ltd. Great consciousness is to be applied for determining the functional units as sales, production and expenses budgets of BNL. The study focuses on analysis of cash, cash flow budget.

The present research work is the study of cash flow analysis of Bottlers Nepal Ltd. This study is useful for managers, accountants, policy makers, planners, creditors, government, potential investors and other researchers.

1.8 Limitations of the study

The present study is not free from limitations. The limitations of the study are as follows :

- The study has been confined only to cash flow analysis of BNL as a part of profit planning and control.
- The study has covered the data of last five years from FY 200 /0 to FY 200 / 0
- The study is based on the secondary data. Using questionnaire, some primary data have been collected and analysis. This study depends upon the true response and data available.

  The conclusion depends upon the reliability of data provided.

1.9 Organization of the study

The entire study has been organized as follows :

Chapter - 1 Introduction

This chapter is the introductory framework that includes general background, introduction of the company, background of the study, statement of the problem, objectives and limitation of the study.

Chapter - 2 Review of Literature

This chapter reviews the existing literature in the relevant areas. It mainly includes the fundamental concept and brief review of previous research studies.

Chapter - 3 Research Methodology

This chapter deals with research mythology that includes research design, data collection, and method of analysis and research variables.

Chapter - 4 Presentation and Analysis of the study

This chapter is the final chapter of the study that includes summary of the study conclusion and recommendations.

Chapter - 5 Summary, Conclusion and recommendations

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

The bibliography and appendix have been incorporated at the end of the study.

CHAPTER 2

REVIEW OF LITERATUARE

2.1 Conceptual Framework

2.1.1 Meaning Of Cash

The term Cash a meaning according to the Purpose for which it is used and person with varying branches of knowledge convey various meaning of cash .If you ask with an economist, he consider cash as the means to satisfy human wants. But a lawyer opines the view that cash is the legal lender money issued by a determinate authority. However, over concern of the meaning of cash is to look from a view point of the balance sheet. But to obtain cash involves cost because corporations have to rise through issue of share of by borrowing with interest. Indeed cash has a cost, whether received internally through money market procurement is a liability and a wasted opportunity unless it is not put to its optimal use (saksen, 1974:54)

2.1.2.Meaning of cash Flow Statement

Cash flow statement is some what similar to funds flow statement. The funds flow statement includes both cash and accrual based figures; where as cash flow statement attempts to report only cash movement. It is called cash flow statement because it describes the source and uses of cash. it also provides information about the`inflow and outflow of cash of a company in an accounting period. It can thus be defined as a statement which explains the change in cash position from one balance sheet date to the next balance sheet data.

The institute of cost and work Accounts of India defines cash flow statement as "a statement setting out the flow of cash under distinct heads of source of funds and their utilization to determine the requirements of cash during the given period and to prepare for its adequate position."`

The statement which reports cash flows during the period classified by operating, investing and financing activities is known as cash flow statement. For this purpose of cash flow statement cash means cash and cash equivalents. FASB has also defined "cash" as including both cash and cash equivalents cash equivalents are short term highly liquid investments, such as money market funds, Commercial papers and treasury bills. Cash equivalents should not be confused with marketable securities. So that is not included in cash. They are treated as cash inflows and cash outflows. So, every enterprise should prepare it as an integral part of its financial statement for each period for which financial statement for each period for which financial statement are presented (Dangol, 2059:544)

2.2 Background on a Cash Flow Statement

Before getting into the nuts and bolts of cash flow statement, let's take a brief look at how its importance has evolved over the years.

Initially, business was required to evaluate the changes in financial position, or funds statement. The funds statement went through several years of development before it was widely used . In 1961, accounting research study No.2, Sponsored by the American Public Accountants (AICPA), recommended that a funds statement be included with the income statement and balance sheet in annual reports to shareholders.

Two years later, accounting principles Board (APB) opinion No.3 was issued and provided funds statement preparation guidelines. Although opinion No. 3 did not go so far as to make the funds statement mandatory, most businesses, aware of the statement's value, included it in their annual reports. Finally in 1971, APB opinion no 19 officially made the funds statement one of the three primary financial documents required in annual reports to shareholders. The

APB said that funds statement must be covered by the auditor's report. opinion no 19 did not specify a particular format for the funds statement, business still enjoyed considerable flexibility in how chose to report their funds flow information.

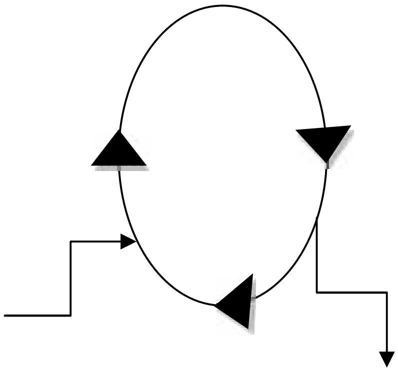
That flexibility came to an end in late 1987, with the financial accounting standard board's (FASB) issuance of statement no 95, which called for statement of cash flows to replace the more general funds statement. The FASB, in an effort to help investors and creditors better predict future cash flow, specified a universal statement format that highlighted cash flow from operating investing and financing activities. This format is still used today. (Source : The Practical Accountant page 1 & 2 of 8)

The statement of cash flows is now a standard feature of financing reporting in number of countries and is required in addition to the balance sheet and profit and loss statement. From 1998, companies in United States have been required to present statement of cash flows. Beginning 1992, British companies are required to publish cash flow information. Cash flow statements are required in other many countries including Australia, New Zealand and South Africe.

In 1992,the International Accoutingstandardcommittee issued an accounting standard on cash flow statements. Nepal Company Act 2053 also made mandatory to present cash flows statement along with Balance Sheet and Income statement. So, every enterprises should prepare it as an integral part of its financial statements for each period for whidh financial statement are presented. (Gyawali, Fago and subedi;2006:11.1)

2.3 Understanding How Cash Flow Works

The Cash Flow Cycle



In its simplest form, cash flow is the movement of money in and out of business. It could be described as the process in which business uses cash to generate goods or service for the sale to customer. Collects the cash from the sales, and then completes this cycle all over again.

Inflows : inflows are the movement of cash into business. Inflows are most likely from the sale of goods or service to the customers. If credit is extended to customers and allows them to charge the sale of the goods or services to their account. Then an inflow occurs as the business collection on the customers accounts. The proceeds from a bank loan are also cash inflow.

Outflows: outflows are the movement of money out of business. Outflows are generally the result of paying expenses. If business involves reselling goods, then largest outflow is most likely to be for the purchase of retail inventory. A manufacturing business largest outflows will mostly be for the purchase of raw materials and other components needed for the manufacturing of the final product. purchasing fixed assets, paying back loans and paying accounts payable are also cash outflows.

2.4 Need of cash flow statement

Cash flow statement is an important financial tool for the management, it is useful internally to the management and externally to investors and creditors. It helps the management to assess the liquidity of business, to determine dividend policy, to evaluate the policy regarding investors and creditors in assessing the company's ability to manage cash flows, to generate positive future cash flows, to pay divided and interest etc.

The needs of cash flow statement is presented below:

- The cash flows statement is prepared on the basis of cash. Hence, Cash position of a firm can be easily evaluated.
- Cash flow statement is helpful to a firm for planning and coordinating financial operation properly.
- The statement can provide the concerned organization the necessary assistance for the effective steps to strengthen the internal financial position.
- It also helpful in planning the repayment of loan , repayment of fixed assets and other long term cash planning.

It is useful for both internal & external users. The external users. The external users refer to the bank and other financial institutions. They provide the loan to the firm on the basic of cash flow statement (Dangol, 2059:545)

2.5 Importance of cash flow statement

- Information about the cash flows of enterprises is useful in providing user of financial statement with a basis to assess the ability of the enterprises to generate cash and cash equivalents and the needs of the enterprises to utilize those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an enterprise to generate cash and cash equivalents and the timing and certainly of their generation. It provides useful information to the users of the statement to:

- Asses an enterprise's ability to generate positive future cash flows.
- Asses an enterprise ability to meet its obligations, its ability to pay dividends and its need for external financing.
- Asses both cash and non-cash aspects of a company's investment and financial transaction.
- Asses an enterprise's quality of earning. The quality of earning refers to how loosely income is correlated with cash flow -higher the correlation, the higher the earning quality.
- Asses a company's solvency, liquidity and financial flexibility, solvency is the ability of a company to pay its debts as they mature, liquidity is the ability of a company to pay its debts as they mature, liquidity is the ability to generate adequate amounts of cash and also refers assets and liability nearness to cash. Financial flexibility refers to adopt during the period of financial adversity, to obtain financing, to liquidate non-operating assets for cash.(Bajracharya;2004:901)

2.6Objectives of cash flow statement

Cash flow statement serves a number of objectives, which are as follow:

- To provide information about cash receipt and cash payment of a company during an accounting period.
- To provide information about a company's operating, investing and financing activities during the accounting period.
- To provide information about the changes in cash position of the company.
- To evaluate the financial polices of the company.
- To help in understanding liquidity position of the firm.
- To locate the reasons for variations in cash position.
- To assist the firm in short term cash planning.(Dangol,2059:546)

2.7 Benefits of cash flow statement

- A cash flow statement, when used in conjunction with the rest of financial statement provides information that enables users to evaluate the changes in net assets of an enterprise, it's financial structure (including its liquidity and solvency) and it ability to affect the amounts and timing of cash flows in order to adopt to changing circumstances and opportunities.
- Cash flow information is useful in assessing the ability of the enterprise to generate cash and cash equivalents and enables users to a develop model to assets and compare the present value of the future cash flows of different enterprises.
- It also enhances the comparability of the reporting operating performance by different enterprises because it eliminates the effects of using different accounting treatments for the same transaction and events.
- Historical cash flows information is often used as an indicator of the amount, timing and certainly of future cash flow.
- It is also useful in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flows and in examining the relationship between profitability and cash flow and the impact of changing prices.

2.8 Preparation of cash flow statement

Nepal accounting standard has made it compulsory that every enterprise should prepare the cash flow statement showing cash classified by operating, investing and financing during the period. An enterprise presents its cash flows from operating; investing activities in a manner that is a most appropriate to its business classification by activities provide information that allows user to asses the impact of those activities on the financial position of the enterprise and the amount of its cash and cash equivalents. The information may be used to evaluate the relationship among those activities.

a)Operating activities

The amount o cash flow arising from operating is a key indicator o the extent to which the operations of the enterprise have generate sufficient cash flows to reply loans, maintain the operating capability of the enterprise , pay divided and make new investments without recourse to external sources of financing. Information about the specific components of historical operating cash flows is useful in conjunction with other information, in forecasting future of operating cash flows. cash flows from operating activities are primarily derived from the principal revenue producing activities for the enterprise. Therefore, they generally result from the transactions and other events that enter the determination of net profit or loss. Examples of cash flows from operating activities are:

a) Cash received from the sales of goods and rending of service.
b) Cash receipts from royalties, fees, commission and other revenue.
c) Cash payment to suppliers for good and services.
d) Cash payment to and on behalf of employee.
e) Cash receipts and payment of an insurance enterprise for the premiums and claims, annuities and other policy benefits;
f) Cash payments or refund of income taxes unless they can be specifically identified with financing and investing activities; and
g) Cash receipts and payments from contracts held for dealing or trading purpose.

Some transaction such as the sale of an item of plant, may give rise to gain or loss which is included determination of net profit or loss. However, the cash flows relating to such transactions are cash flows from investing activities. An enterprise may hold securities and loan for dealing or trading purpose in which case they are similar to inventory acquired specifically for resale therefore cash flow arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly cash advances and loans made by financial intuitions are usually classified as operating activities since they relate to the main revenue producing activity to the enterprise.

B. investing activities

The separate disclosure of cash flow from investing activities is important because the cash flow represents the extent to which expenditures have been made for resources intended to generate future income and cash flows. Example of cash flows arising from investing activities are:-

- Cash payments to acquire plants and equipment, intangibles and other long-term assets. These payment include those relating to capitalized development costs and self -constructed properly, plant and equipment;
- Cash receipts from sale of properly, plant and equipment, intangibles and other long-term assets;
- Cash payment to acquire equity or debt instruments of other enterprises and interests in joint venture (other than payments for those instruments considered to be cash equivalents or those held for deadline or trading purpose);
- Cash receipts from sales of equity or debt instrument of other enterprise and interest in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for deadline or trading purpose);
- Cash advances and loan made to other parties (other than advances and loans made by a financial institution);
- cash receipt from the repayment of advances and loan made to other parties.
- (other than advances and loan of a contracts ,forward are held for dealing or trading purpose or the receipt are classified as financing activities, and
- Cash receipts from future contract ,forward contract , option contract trading purpose the receipts are classifieds as financing activities , the cash flow of the

contract is classified in the same manner as cash flows of the position being hedged.

C. Financing activities

The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows arising from financing activities are :-

- Cash proceeds of cash flows arising shares or other equity instruments
- Cash payments of cash flows arising shares or other equity instruments
- Cash proceeds from issuing debentures , notes ,bonds mortgages and other short or long-term borrowings ,
- Cash repayments of amounts borrowed; and
- Cash payments by lessees for the reduction or the outstanding liability relating to a finance lease.

2.1 Method of preparation of cash flow from operating activities

International accounting standard permits an enterprise to report its cash flows from operating activities using either:

i. Direct method, where by major classes of gross cash receipts and gross cash payments are disclosed; or

ii. Indirect method, whereby net profit or loss is adjusted for the effect of transaction of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payment, and items of income or expenses associated with investing or business cash flow.

Direct method

Enterprises are encouraged to reports flows from operation activities using the direct method. The method provides information which may be useful in station of future cash flows. Under the direct method, information about major classes of gross cash payments may be obtained either.

a) from the accounting records of the enterprise: or

b) by adjusting sales, cost of sales (interests and similar income and interests expenses and similar charges for a financial institution) and other items in the income statement for:

i. Changes during the period in inventories and operating receivable and payables;

ii. other non cash items; and

iii. other items for which the cash effects are investing or financing cash flows.

Cash Flow statement under Direct Method

Particulars	Rs
Cash from operating activities	
A cash collection from debtor and cash sales	…………………….
Net sales (less sales return)	……………………..
Add: Decrease in debtor/ bills receivable/ account receivable	…………………….
Less: Increase in debtor/ bills receivable/ account receivable	……………………..

Add: bad dept recovered	………………………
Less: bad dept written off	…………………….
Add: increase in provision for doubtful dept	………………………
Less: decrease in provision for doubtful debt	……………………
Total	……………………….
B. cash purchase and payment made to suppliers	…………………..
Net purchase/ cost of good sold/ materials suppliers	………………………..
Add: Increase in inventory/stock	……………………….
Less: Decrease in inventory/ stock	…………………..
Add: Decrease in creditors/bills payable/ account payable	…………………..
Less: Increase on creditors/ bill payable/ account payable	…………………..
Add: purchase related expenses	……………………….
Total	………………………
C. payment made to employee and other operating expenses	…………………..
Direct labor	……………………
Add: Manufacturing overhead	…………………………
Add: General expenses	………………………..
Add: Selling expenses	…………………..
Add: Interest paid	………………………..
Add: Decrease in outstanding expenses	……………………….
Less: Increase in outstanding expenses	………………………..
Add: Increase in prepaid expenses	……………………..
Less: Decrease in prepaid expenses	……………………….
Total	……………………….
D: Payment for tax expenses	……………………….

Income tax paid	……………..
Add: Opening tax payable	…………………
Less: closing tax payable	………………….
Total	…………………
E: Interest and divided received	…………………
Interest received	………………..
Divided received	…………………..
Ddd: Decrease in outstanding interest	…………………
Less: Increase in outstanding interest	…………………
Total	…………………
Operating cash flow before extra ordinary items(A+B+C+D+E)	………………..
Add: Increase in short term loan	………………
Less: Decrease in short term loan	…………………
Add: Increase in bank overdraft	………………
Less: Decrease in bank overdraft	…………………..
1) Net cash flow from investing activities	………………….
Purchase of fixed assets	(………………)
sales of fixed assets	....
Purchase of investment	(………………..)
Sales of share and debenture for other company	………………
2. Net cash flow from investing activities	………………
Cash flow from financing activities	…………………
Issue of share and debentures	…………………
Redemption of preference share and debenture	(………………)

Issue of term loan	………………
Repayment of long term loan	(……………..)
payment of divided	(……………….)
3. Cash flow from financing activities	……………….
Net change in cash or cash equivalents (1+2+3)	………………..
Add: opening balance of cash	…………………
Less: Closing balance of cash	………………….

(Source: Gyawali , Fago and Subedi; 2006: 11. 7)

Indirect Method

Under the direct method, the net cash flow from operating activities is determined by adjusting net profit or loss for the effects of:

a) change during the period in investing and operating receivable and payables:
b) non cash items such as depreciation, provisions, taxes unrealized foreign currency gains and losses, undistributed profits of associates and where consolidated financial statements are prepared, minority interest : and
c) all other items for which the cash effect are investing or financing cash flows. Alternatively, the net cash from operating activates may be presented under the indirect method by showing the revenue and expenses disclosed in the income statement and the change during the period in investing and operating receivables and payables.

Cash flow statement under indirect method

Particular	**Rs**
Cash flow from operating activities	…………………
Net profit for the year	…………………
Add : Non cash or non operating expenses	…………………
Depreciation for the period	…………………
Amortization of good will / patent / trademark / copyright	…………………

General reserve maintain	…………………
Discount on issue of share and debenture	…………………
Premium on redemption of preference share and debenture	…………………
Loss on sale of fixed assets	…………………
Preliminary expenses written off	…………………
Provision for taxation	…………………
Provision for dividend	…………………
Less : Non operating income	…………………
Appreciation on fixes assets	…………………
Premium on redemption of preference share and debenture	…………………
Profit on sale of fixed assets	…………………
Dividend received	…………………
Funds from operation	…………………
Add : Increase in current liabilities	…………………
Add : Decrease in current liabilities	…………………
Less : Increase in current assets	…………………
Net cash available from operating activity before tax	…………………
Less : Tax paid	…………………
1) Net cash available from operating activity	…………………
Cash flow from investing activities	…………………
Purchased of fixed assets	…………………
Sales of fixed assets	…………………
Purchase of investment	…………………
Sales of share and debenture of the company	…………………
2) Net cash flow from investing activities	…………………
Cash flow from financing activities	…………………
Issue of share and debenture	…………………
Redemption of preference share and debenture	…………………
Issue of long term loan	

Repayment of long term loan	
Payment of dividend	
3) Net cash flow from financing activities	
Net change in cash or cash equivalents (1+2+3)	
Add : opening cash balance	
Closing balance of cash	

(Source : Gyawali, Fago and Sudebi; 2006:11:6

Work sheet method

This method is not recognized by the accounting standard. But most of the writers have included it as a method of determining the cash flow.

In this work sheet, half of the space on the left hand is left for particulars and half of the space towards right hand side first divided into three columns. The first column is meant for the net change, the second column is used for adjustments, and the third column tabulate the cash changes (i.e. increase or decrease) A Performa a work sheet is given below.

Work sheet cash-flow statement

Balance sheet and income statement items	Net change		Adjustment		Cash change	
	Debits	Credits	Debits	Credits	Debits	Credits

Role of preparing the above Work sheet

- Net change should be determined by making a comparative study of balance sheet of two dates. Increase in assets, decrease in liability and decrease in shareholder's fund should be shown to the debit of net change column. Similarly, decrease in assets, increase in liabilities and increase in share holders fund should be shown to the credit of net change column.

- Items of expenses shown in income statement should be shown to the debit side of the column of net change and items of revenues shown to the debit side of the column of the net change and items of revenues shown in income statement should be shown to the credit of the net change.
- By analyzing the increase and decrease in the items of balance sheet and by making a through study of the items of income statement , it should be found whether they carry any effects of non-cash transaction or not. It is to be remembered that the changes in balance sheet and items of income statement are the collective results of cash inflows, cash outflows and non-cash transactions.
- Adjustment entries are to be passed for eliminating the effects of non-cash transactions which are shown in the column of adjustments only by the amount involved. such amounts in the column of adjustments is shown against these items of balance sheet or income statement respect of which adjustment has to be made if the item has debit balance and decrease has to be given effects by adjustment, then the amount would be shown to the credit of the column of adjustment and vice-versa.
- After making this adjustment, the change in the items of balance sheet and it items of income statement would disclose the amounts of cash inflows and cash outflows. As such these are transferred to increase and decrease column of cash changes. But it should be remembered that debit and credit do not represent corresponding increase and decrease. If debit are higher than credits, the excess represents the decrease in cash and excess of credit over debit represent the increase in cash. Hence, credit balances are shown in the column of increase and debit balances are shown in the column of decrease.

  Cash flow statement is prepared by listing the balance shown in the column of cash changes of the work sheet under destine heads of sources of cash and uses of cash. However, the amount is taken as base for such listings. That item of cash inflows or cash outflow is shown first which carries higher amount and it is followed by an item of fewer amounts. Alternatively , items of cash inflows may be listed category wise, vise, operations, sales of fixed assets and financial heads, similarly, the items of outflows may be shown under distinct sub-heads of operations purchase of fixed assets and financial heads. In both cases sources of cash are shown first and use of cash afterwards and the differences between the two are known as net change in cash.(Gupta;1998:284-285)

Free cash flows

"Free cash flow is included to represent the cash flow available to management for discretionary purpose after the company has met all of its basic obligations relations to business operations. Many analyses put a company's cash flows into respective by computing a subtotal called free cash flow. The term free cash flow is widely used within the business community. Different analysis compute this measure in different ways because there is no widesfread agreement as to the basic obligation relating to business operations."

(Bjracharya, Ojha, Goet, Sharma; 2004:935)

Computation of free cash flow

Net cash flow from operating activities	………………..
Less: Net cash used for acquiring plant assets	………………..
Divided paid	………………..
Free cash flow	……………….

2.9 Cash budget:- a tools of assessing future cash flow

" The primary tool used by management to anticipate and shape future cash flow is a cash budget . Cash budget helps to forecast future cash receipts and payments. It is not a financial statement and is not widely distributed to people outside the organization. But it is most useful for all accounting reports." (Bajracharya.2004:935)

Although a cash budget is similar to a statement of cash flows, it shows the result expected in future but cash flow statement shows the achievement in the past.

The past budget is more detailed and prepared by showing expected cash flows month by month and separately for every department within the organization .

"The cash budget however does not explain the type of activities, operating, investing and financing from and to which cash in generation and applied. Cash budget simply shows the projected cash receipts and disbursement irrespective of any activity." (Bajracharya, 2004:936)

Importance of cash budget

- Forcing managers to plan and coordinate the activities of each department in advance.
- Providing managers with an advance noting of resource at their disposal and the result they are expected to achieve.
- Providing targets useful in evaluating department performance.
- Providing advance warming of potential cash storage.

2.10 Strategies for improvement in cash flows

No business can afford to run out of cash default on its obligation. Even being a few days late in payroll or paying suppliers or creditors can damage business relationship thus. The management's most basic responsibility are to ensure that the business has enough cash to meet its obligation as they become due.

i. Increase sales (particularly those involving cash payments).
ii. Reduce direct and indirect costs and overhead expenses.
iii. Defer discretionary projects which cannot achieve acceptable cash paybacks (e.g. within one year).
iv. Increase price especially to show payers.
v. Review the payment performance of customers -involved sales force .

vi. Become more selective when granting credit.

vii. Seek deposited or multiple stage payments.

viii. Reduce the amount/ time credit given to customers.

ix. Bill as soon as work has been done or order fulfilled.

x. Improve system for paying suppliers.

xi. Use the 80/20 rule to control on inventories, receivable and payables.

xii. Improve system of paying suppliers.

xiii. Generate regular reports on receivable ratios and aging.

xiv. Established and adhere to sound credit practice- train staff.

xv. Increase the credit taken from suppliers.

xvi. Use more pro-active collection techniques.

xvii. Add late payment charges for fees where possible.

xviii. Negotiate extended credit from suppliers.

xix. Make prompt payments only when worthwhile discounts apply.

xx. Reduce inventory levels and improve over work- in- progress.

xxi. Sell off or return obsolete/ excess inventory.

xxii. Use alternative financing methods, such as leading to gain acesssto the use but not ownership) of productive assets.

xxiii. Re- negotiation bank facilities to reduce charges.

xxiv. Seek to extend debt repayment periods.

xxv. Net off of consolidate Bank balance.

xxvi. Sell of surplus assets or make them productive.

xxvii. Enter into sale and leaseback arrangements for productive assets.

xxviii. Defer divided payments.

xxix. Raise additional equity.

xxx. Convert debt into equity.

xxxi. Make medium and short- term cash flow forecasts and update them regularly.

2.11 Review of Articles

Various scholars as well as authors have give different views about cash flow statement some of them have to be taken as review of nooks for cash flow statement. According to Jennifer a rivers (2007) cash flow statement over a period of time, rather than being a snapshot at a fixed point in time as in the balance sheet. This statement reflects all the movements of cash into the company (cash inflow) and out of the company (cash outflow) in a given period of time. This statement is essential for understanding the company's ability to survive over time. It is possible, for example, for a company to be profitable, yet to consume more cash than it has (for instance, due to a delay in receiving some of its revenues) and therefore to find itself in a cash shortage. (A later section on accounting revenues and actual cash flows will give a more detailed discussion.)

The cash flow statement is divided into three components describing the changes in the company's cash flows from operating, investing and financing activities. We will first demonstrate how the cash statement may be constructed on the basis of the company's other main financial statements, namely the balance sheet and the income statement. We will then review the three components of the cash flow statement; the cash flows from operating activities, investing activities, and financing activities. The analysis proposed here is essentially economic, and although it is consistent with the accounting standards for the reporting of cash flows in countries such as the United States, it is not constructed according to such reporting (GAAP) standards.

The starting point for analyzing a company's cash flows is the cash item in the company's balance sheet at the beginning of the period, and the end point is the cash item at the end of the forecasted or analyzed period. The change in the company's cash positions is the difference in its cash between these two points in time. This difference takes into account all of the movements and transactions to understand the company's cash needs, cash generation, and cash consumption over the period. Clearly, the value of cash infused into the company as a result of the sale of products or services is different from an inflow of cash to the company created by raising new capital.

The company's cash flow from operating activities is composed, in principal, of actions revolving the sale of products and services. Accordingly, expenses relating to the creation of such flows, such as the acquisition of raw materials, sale expenses, marketing expenses, and general expenses, as well as tax payments, are some of the components of the company's cash outflow resulting from operating activities.

The company's cash flow from investing activities is composed of actions such as the sale of real and financial assets of the repayment of long-term loans given to third parties. Accordingly, acts such as the acquisition are some of the components of the company's cash outflow resulting from investing activities, as are the receipt of dividends and interest from real and financial investments. The main component of the cash flow from investing activities is usually the change in the company's net fixed assets. As mentioned above, the company's net fixed assets at the end of period are equal to its net fixed assets at the beginning of the period, plus assets purchased over the period, minus depreciation accumulated over the period and minus net sales of assets sold over the period.

Joseph Devine have described about cash flow statement is the motor oil for any business finance engine. It measures the amounts of money that come into a company and out of it over a given time period. This way a company is able to keep track of how much cash it has on hand to pay expenses and buy assets.

Some people might confuse a cash flow statement with an income statement. An income statement only measures whether or not the company made a profit, whereas a cash flow statement can tell you whether or not the company generated cash during the time period. These concepts many seem a bit confusing. Just because a company has generated cash does mean that is has generated profit and vice versa. Cash flow statements work particularly with cash where as income statements many also deal with assets.

Cash flow statement use information from both income statements and balance sheets. Using this information, the cash flow statement will reveal the net increase or decrease in cash for the period. Most cash flow statements are dividend into separated activities : operating activities, investing activities and financing activities.

2.12 Review of Previous research studies

2.12.1 Mr. Khila Nath Dahal (2000) has conducted a research entitled "A study in financial performance of STCL" submitted to Minbhavan Campus covering the period F.Y. 2049/50 to 2055/56. He has collected the data from Secondary sources published by STCL and other information from questionnaire, journals and direct interview. The main objectives of his study are :

- To analyze the sources and uses of funds and change in financial position of STCL.
- To identify the strengths and weakness of the corporation by analyzing the financial statement and their behavior through ratios of various type.
- To investigate the financial condition and position of the corporation.
- To analyze the bankruptcy score of STCL.
- To examine the liquidity positions.

Some major findings of study are :

- Liquidity position of corporation.
- Turnover position of STCL during the study period is in fluctuating trend. It indicates that the degree of utilization of resources varied year to year to the study period.
- The average collection period also exhibits wide fluctuation. It ranges between minimum of 25.33 day to maximum 64.57 days leading to average collection period of 44.62 days during the study period. Thus STCL has maintained more liberal credit policy which is a resultant to adverse impact on its profitability.
- The analysis of total assets turnover shows that STCL has not been able to utilize its total assets as it expected.

- The profitability position of the corporation is not satisfactory the ration shows fluctuating trend during the study period.
- Operating expenses ration of corporation is very high and so net income after tax of the corporation seems to very low.
- STCL has not satisfactory return over its total assets during the study period. An average return on total assets of the corporation is only 7.11%.
- Return on capital employed and return equity is 10.71% and 11.05% respectively.

2.12.2 Mr. Kiran Neupane (2004) has conducted a research entitled in "A study of cash Management of Nepalese public enterprises" (A case study of salt trading Corporation Limited). He has collected the data from secondary sources that are published by salt trading corporation limited and related information through the direct interview and questionnaire. The period covered was F.Y.2055/56 to 2059/60

He has set the following objectives

- To study the existing cash management in STCL.
- To critically review the cash management technique procedure by STCL.
- To suggest review the cash management policies for future.

He has pointed the major findings of his research as follows:

- Cash management in STCL is primarily based on the traditional practice lacking in scientific approach. A more serious aspect of cash management has been the absence of any formalized system of cash planning and cash budgeting is STCL.
- Modern practices with respect of debt collection, monitoring the payment behavior of customers and relevant banking arrangement in collection of receivable have been virtually ignored in STCL.
- STCL could not make the best use of available cash balance prudently.
- The average cash turnover time in a year is found 40 times which is in fluctuating trend over the study period.
- The average inventory conservation period into cash is found a little more than two months. i.e.62 days, which is very slow.

- Average cash conversion cycle takes 64 days. i.e. little more than two months which is not a good signal for the cash management or cash collection efficiency of corporation is very low.
- No optimum cash balance is maintained. The cash and bank balance with respect to current assets has been fluctuating. Similar is the cash with respect to the total assets.

2.12.3 Miss Sapana Shahi (2004) did a research work on "A study of financial performance and capital structure of STCL." She has used secondary data covering the period F.Y. 2054/55 to 2058/59 and other published and unpublished reports and bulletins of the corporation. The objectives of her research work are :

- To analyze sources and uses of funds resulting in financial position of STCL.
- To identify the strength and weakness of the corporation by analyzing the financiala statement and behavior through various ratios.
- To highlight the capital structure of STCL.

  She has drawn the following finding

- The analysis of liquidity position of the corporation concludes that the funds invested in current assets are more that the required amount on the other hand there is no appropriate adjustment between the current assets and current liabilities of the corporation holding more of the inventory.
- Assets utilization position of the corporation has been analyzed by using the various turnover ratios like inventory turnover, receivable turnover, current assets turnover, fixed assets turnover and total turnover.
- The inventory turnover on sales is 7.32 in average. I.e. inventory cycle is only 8 times in a year. The analysis shows that average inventory represent 24% of its total assets.
- On average account receivable turnover stands about 6.38 times and average collection period is 58 days.
- The current assets turnover ratio of the corporation during the study period is 1.88 on average. The analysis shows that corporation has invested more funds in current assets assets unnecessarily.

- The analysis of the total assets shows that STCL has been able to utilize its total assets as much as expected. The average ratio is 1.5 times which shows that STCL has not been able to utilize resources to generate sales revenue as compared to inventory in total assets during the study period.
- Debt to net-worth of the corporation is 11.11 on average. Most of the total assets are financed by the debt capital. The corporation has maintained more risky capital structure and unable to take benefit of trading on equity by employing debt.
- An average gross margin of corporation is 8.47% which is not satisfactory for the trading corporation like STCL. Average net profit margin on sales during the study period is only 3.59% which is a very low margin. Due to unnecessary administrative and selling overheads, STCL is unable to earn sufficient net profit margin.
- Operating expenses ratio of the corporation seems to be in decreasing trend average ration stands about 94% which is very expenses ratio.

2.12.4 Mr. Niraj Adhikari (2004) has submitted a dissertation on topic "A comparative and Analytical study on cash flow of selected finance companies" to faculty of management T.U. in the course of partial fulfillment of M.B.S. The data were collected from both primary and secondary sources. The period covered way from F.Y. 2054/55 and 2057/58. the basic objectives of this research paper is to analyze the trend of cash flows of selected institutes, to examine the strengths and weaknesses of working capital management especially cash management of those financial institutions.

Major Findings

I National Finance Company

- In the case of the NFC, the total cash flow from operating activities is in increasing trend in the first two years but in the final year it is decreasing.
- Deposit mobilization / collection is in decreasing trend.
- The cash flow from investing activities is not regular.

- Borrowing is in decreasing trends, which in the final fiscal year has decreased to zero.

II Lumbini Finance and Leasing Company

- The amount of total cash flow from operating activities is in increasing trend in the first two years but in the final year it is decreasing.
- Deposit mobilization / collection is in increasing trend.
- The amount of current assets is decreasing in the first two years but in final year of study, it is in increasing trend and current liabilities is in decreasing trend.
- The amount of loan is decreasing in the first two years of study period but it is increasing in the final year.
- Cash flow from investing activities is in decreasing trend.
- Borrowing is in decreasing trend

2.12.5 Mr. Rohit Kumar Dhakal has counducted a research entitled "Cash flow budget analysis of service industry as component of profit planning and control" (A case study of Sagarmatha Insurance Company Pvt.Ltd.) in 2005.

The objectives of the study are :

- To find the tend of premium collection and investing and its impact in cash budget.
- To evaluate various budgets with actual results.

  To analyze sales and expenses budgets with cash budget of Sagarmatha Insurance Co Pvt. Ltd.

  To accomplish the above objectives, he has made research covering the F.Y. 2055/56 to 2059/60. Other essential information was taken from the Primary data while secondary sources of data were used in the research methodology.

His major findings are as follows :

- The company follows the traditional method for planning the cash.
- The company posses a large amount of fund but it is not profitability invested. The company could not invest its available fund for national interest. The

company is having narrow look for its investment. Even its return o investing is decreasing (10.4%) toward the end of study period.

- The company does not follow the optimum cash balance process. There is high idle cash (15-20%) of total cash available with it which invested prudently would have handsome returns.
- Though the total premium is increasing, its net profit is continuously decreasing.
- The company is under capitalized. It does not posses borrowed capital. Its return on assets is 7.95% and if it could get cheaper fund, it can of for borrowed capital.
- The company does not seem applying the effective managerial tool "Profit planning and Control" for controlling it activities.

He has drawn the following conclusion :

- The management should plan the cash management of any company because of its importance.
- The proper cash flow management depends upon managing cash in flow and cash outflow. The management should give high priority for encouraging the cash inflow timely. Similarly, the payments are to be made appropriately.
- The investment decision should be cost effective as well as appropriate time base.
- Factors like nature of business, level of revenue, credit term, types of customers, economic condition greatly affect the cash flow management. These factors are to be considered and used appropriately. The banking arrangement for meeting the cash short and depositing the excess cash immediately is also another factor.
- The motive of holding cash, determining the optimum balance of cash, cash flow cycle and statistical analysis of cash flow are in separated activities in the cash flow management.

It is very difficult to determine the bankruptcy position of company. The result will volatile with the change in the volume of the various components affection the bankruptcy score criteria. However result is higher that the score fixed to determine the possibility of bankruptcy. Hence the probability of bankruptcy of company is not seem during the study period.

2.12.6 Mr. Surendar Karki (2008), Conducted a study under topic " Cash Management in Listed Manufacturing Companies. Unilever Nepal Ltd, Nepal Lube Oil Ltd, Bottlers Nepal Ltd, Nepal Banaspati Ghee Ltd and Raghupati Jute Mills Ltd.

The objectives of the study are :

- To examine and critically analysis the cash management practices in listed manufacturing companies.
- To identify the liquidity position of the companies.
- To study the relationship of cash with other influencing aspects of cash managemt. Whether it is significant or not.
- The analyze cash conversion cycle of the companies.
- To provide necessary recommendation for improvement of cash management on the basis of analysis.

To accomplish the above objectives, he has made research covering the F.Y. 2000/2001 to 2005/ 2006. Other essential information was taken from the Primary data while secondary source of data were used in the research methodology.

His major findings are as follows :

- Listed manufacturing companies don’t have any definite policy regarding how much cash balance to hold in each period.
- Listed manufacturing companies have failed to maintain adequate proportion of cash on its current assets. The average cash to current ratio has been observed to be 7.95%, 1.25%, 11.92%, 10.06% and 13.86% percent in 2000/01 to 2006 respectively.
- Companies have not been precisely meeting their current liabilities payment.

- Companies are found to maintain adequate proportion of cash as its quick assets.
- The average collection period and payable deferral period have been found to be 531 days and 88 days.
- Liquidity position of listed manufacturing companies has not been satisfactory. the companies overall average of CR and QR have been obtained to be 1.51:1 and 0.92:1.

2.13 Research Gap

The present research is focused upon the cash flow analysis of Bottlers Nepal Limited in the field of profit planning and control. No Previous research was yet made on cash flow analysis of BNL. Therefore. Literature on the subject matter is not available.

CHAPTER-3
RESEARCH METHODOLOGY

3.1 Introduction

The main purpose of this chapter is to focus on different research methods which are used while conducting this study. Every study needs a systematic methodology to show the better results of the research. In this cash flow analysis of Bottlers Nepal Limited also needs an appropriate research method. In order to conduct this study, the following processes are adopted.

3.2 Research Design

"Research design is the plan structure and strategy of investigation conceived so as to obtain answer to research question and to control variance" (Sthapit 2004, 45)

"Research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to research purpose with economy in procedure". (Kothari)

Thus research design is a research plan or structure which is path for conducing research work. Without research, it is not possible to conduct a research work. A well settled research design is necessary to fulfill the objective of this study. It means definite procedure and techniques that guide to study and propounds way of research variability. The present study is basically a case study of Bottlers Nepal Limited. This study is based on descriptive and analytical research design. For the study, historical data of last five year are collected find out the performance of Bottlers Nepal Limeted.

3.3 Population and sample

Although there are many private enterprises which are involved in manufacturing and trading fields in our country. It is not possible to study all or them regarding the research topic. Therefore, among theses one reputed company i.e. Bottlers

Nepal Limited is taken as a sample company from population of this research study.

3.4 Source of Data

The study mainly uses the secondary data published by BNL. Beside theses data other supplementary data and information have been acquired from various source like newspaper, Magazine, website, unpublished reports and articles. Related information have been collected through the direct interview and techniques.

3.5 Data collection procedure

The data are collected from head office of Bottlers Nepal Limited, Balaju Kathmandu. This study is based on secondary data. The financial statement has been collected directly from the account department. Five years' Balance sheet, profit and loss account and other related document published are collected. The data are collected from the fiscal year 2003/04 to 2007/08.

3.6 Data Processing and Tabulation

The available data are complied and processed according to the objectives of the study. Before processing the data, they are tabulated. This tabulation is based on the time series covering five years period from fiscal year 2003/04 to 2007/08.

Percentage and index are also used in tabulation depending upon the necessity of the subject.

3.7 Tools and Techniques used to analyze the data.

The data analysis is made on the basis of various financial and statistical tools to find the true position of Bottlers Nepal Limited. Following tools and techniques were used.

3.7.1 Financial Ratio Analysis

Financial analysis is the process of analyzing various items of financial statement of firm to ensure its comparative strength and weakness. Financial analysis is equally fruitful to the internal as well as external parties concerned to a corporate firm. Financial statement analysis involves a study of the relationship between income statement and Balance sheet, how this relationship change over time and how a particular firm with other firm in its industry.

These are various types of financial ratios used to make a comparative analysis or financial statement. For the purpose of research studies, following financial ratios are used :

- Liquidity Ratio
- Leverage Ratio
- Assets and investment Management Ratios
- Profitability Ratio

3.7.2 Statistical Tools

The research holds various statistical tolls which are as follows

- Mean
- Correlation and Regression Analysis
- Probable Error (P.E)
- Trend Analysis

3.7.3 Cash flow Statement

The cash flow analysis is done by preparing cash flow statement. The statement of cash flow visualizes the picture of movement on cash owing to the operating, investing and financing activities on the enterprise.

The information in the firm of statement of cash flows provides a basis for analyzing financial result. Additional analysis is possible through the use of three ratios relating to cash flow. Cash flow per share of common stock. Cash flow margin and cash flow liquidity ratio.

I. Cash flow per share = Net cash flows from operating activities/Average no of common share.
II. Cash flow Margin = Net cash flow from Operating activities / Net Sales .
III. Cash flow liquidity ratio = Net cash flows from operating activities plus cash balance / Current liabilities.

Research Variables

Sales, purchase operating expenses, profit and loss account, Balance sheet items, cash from operating activities, cash from investing activities cash from financing activities are the major research variables of the study.

CHAPTER - 4

PRESENTATION AND ANALYSIS OF DATA

The presentation and analysis of data section are the main text of the study to find out the answer of research question and get objectives of the study. For the purpose of presentation of data, most recent financial statements of the company published so far are analyzed. The collected and tabulated data have been analyzed using different financial and statistical tools. The chapter includes presentation, analysis and integration of collected data with organizing sequentially as per the objectives of study.

4.1 Analysis of Cash and Bank Balance

The term "Cash" is the most important current assets for the operation of a business. Therefore the company should keep sufficient cash, neither more nor less. More cash balance reduces the rate of return on equity. Total cash balance refers to the cash in hand, cash at bank and cash in transit. The following table presents the level of Cash balance during the study period.

Table No. 4.1

Cash and Bank Balance

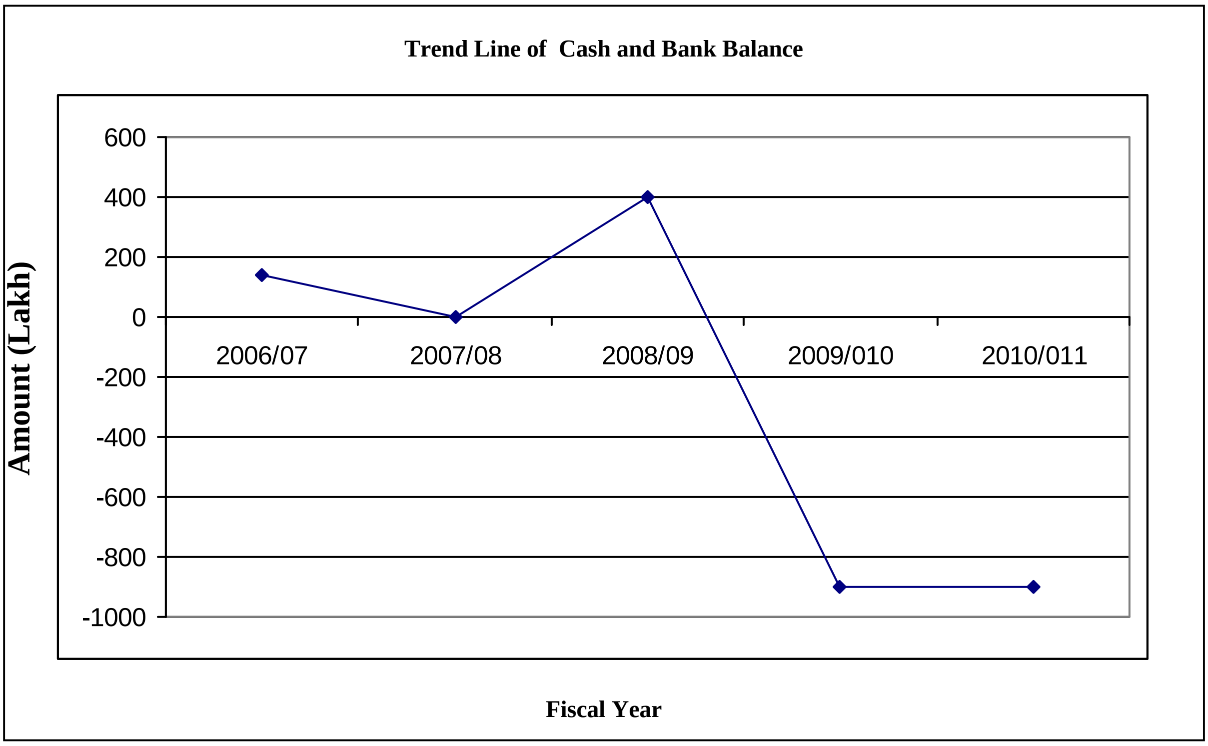
Fiscal Year	**Cash and Bank Balance (Y)**	**Y-Y**	**$(Y\text{-}Y)^2$**
2006/07	137.55	4.6.97	1,65,624.58
2007/08	19.18	288.60	83,289.96
2008/09	359.26	628.68	3,95,238.54
2009/010	(925.09)	(655.68)	4,29,9.3.15
2010/011	(937.97)	668.55)	4,46,959.10
Total	∑Y = (1347.07)		15,21,015.33
Average	(269.42)		3,.4,203.7
		SD	616,.65
		CV	(2.29)

(Source: Annual Reports of BNL and Appendix-6)

The above table no. 4.1 shows the amount of cash and bank balance of BNL during the study period. The company had average Rs. 269.42. Lakh negative cash and bank balance during the study period.

In the F/Y 2006/07 cash and bank balance of BNL were observed Rs. 137.55 Lakh that was decreased to Rs. 19.18 Lakh in F/Y 2007/08. In the F/Y 2008/09, it was sharply increased up to Rs. 359.26 Lakh. But in the F/Y 2009/010 & 2010/011, negative cash and bank balance could be seen. BNL cash balance observed in a wide variation in different period of study poses high fluctuation on cash holding pattern.

The cash and bank balance during the study period can be shown in graphical



The above trend line shows the company had fluctuating cash and bank balance. BNL has strongest position of cash balance in F/Y 2008/09 and weak position in year 2010/011. The figure suggests that the cash and bank balance held were very inconsistent in nature. The company had taken facility of bank overdraft Rs 925.08 Lakh in the fiscal year 2009/010. The company had increased its current assets in the fiscal year 2006/07. The company paid interest, gratuity and other operating expenses in the fiscal year 2009/010 and 2010/011. The company uses its fund in purchase of fixed assets addition to capital work in progress. The company had also paid its bank loan in the fiscal year 2009/010. In thus way it can be said that the cash inflows is less than cash outflows so,the company's cash balance seems to be negative in last two years.

4.2 Cash and sales

4.2.1 Analysis of Cash Turnover Ratio

The cash balance of the company should be optimum to meet its current obligation in course of daily business transaction. The cash turnover ratio explains how quickly cash is received from the sales. In other words, it measures the speed with which cash moves through an enterprise's i.e. companies , operation. Htgher ratio represents sound liquidity or vice- versa . However, too high ratio indicates excess cash balance being held idle.

Cash Turnover Ratio=Cash and Bank Balance/Sales

Table No. 4.2 .

Fiscal year	Cash and Bank Balance	Sales	Ratio
2006/07	137.55	6321.15	2.18
2007/08	19.18	6147.40	0.31
2008/09	359.26	6218.28	5.78
2009/010	(925.09)	6341.90	(14.59)
2010/011	(937.97)	7465.82	(12.56)
Total	(1347.07)	32494.55	
Average	(269.42)	6498.91	(3.76)

(Source: Annual Reports of BNL and Appendix-6)

The table no. 4.2 shows the BNL has fluctuating cash turnover ratio. The highest ratio was recorded 5.78 tomes in the F/y 2008/09 and lowest ratio of (14.59) times were observed in the F/y 2009/010. The average ratio was 3.776 times negative. The company's cash turnover ratio is negative in last two years which shows that the cash collection policy of the company is not so much effective. The company is not able to collect cash in time. The company's trade and other receivables are Rs 528.23 and Rs 368.03 Lakh in the last two years of the study period. The company's cash and bank balance is only Rs 34.64 and Rs 24.28 Lakh in the two fiscal years balance sheet. In this way, it can be said that the company is to apply appropriate policy of cash collection which increases inflows of cash only then these negative ratios will be changed in positive ratio.

Normally, cash balance held at the end of each year could fluctuate in relation to different variables. One of the variable to change cash balance is considered as sales volume. The higher the sales volume, the higher the cash balance held in each and vice-versa. Generally, cash balance and sales volume are positively correlated. Here, an effort is made to find out the relationship between sales volume and cash & bank balance using correlation coefficient.

The correlation (Y) between sales revenue (X) and cash & bank balance (Y) has been calculated as (0.66). which shows high degree of negative correlation between these two. This indicates that sales and cash & bank balance move in same direction, i.e. if sales volume increase then cash & bank balance also increase and vice-versa (Appendix-6)

Whether r was significant or not, 6xP.E. has been calculated. The value of 6xP.E. has been 1.02 which is greater than calculated value r. This indicates the correlation between sales revenue and cash & bank balance r=-0.66 has not been significant. It can be concluded that BNL is not considered the higher sales volume, higher cash & bank balance and vice-versa. (Appendix-6)

4.2.2 Analysis of the relation between cash (y) and sales (x)

	Coefficient of Correlation (r)	Relationship	Coefficient of determination(r^2)	P.E.	Remarks
BNL	(0.66)	High degree negative correlation	0.4356	0.17	In significant

(Source: Appendix-6)

To analyze the relationship between cash (y) and sales (x). Karl pearson's correlation coefficient has been observed to be(0.66) of BNL. Which indicates the high degree of negative relationship between cash and sales. To confirm, whether it is real or not, it is compared with probable error and r<6P.E. of BNL indicates the correlation coefficient is not practically certain. i.e. the value or r is not significant. It may not be the fact that the incremens of one increase in other.

4.3.1 Analysis of cash to total assets ratio

Cash is most liquid current assets. The amount of cash balance in company helps in meeting the current obligations. The ratio of cash balance to total assets indicates the proportion of cash - bank, balance to total assets. It is calculated as follows.

Cash to total assets ratio = Cash/Total Assets

Table No. 4.3

Cash to total assets ratio

Fiscal year	Cash	Total Assets	Ratio(x)	X-x	$(X-x)^2$
2006/07	137.55	8865.65	0.0155	0.0357	0.00127449
2007/08	19.18	9752.65	0.00197	0.02217	0.00049151
2008/09	359.26	10483.51	0.0343	0.0545	0.00297025
2009/010	(925.09)	12520.67	(0.0739)	(0.0537)	0.00288369
2010/011	(937.97)	11901.51	(0.0788)	(0.0788)	0.00343369

Total	(1347.07)	53523.89			0.0110539
Average	(269.49)	10704.778	(0.0202)		
				S.D.	0.0526
				C.V.	(2.60390

(Rs in lakh)

(Source: Appendix-3)

According to the above table, cash to total assets ratio has been observed widely in fluctuation trend in different study periods. The ratio was highest for BNL .i.e. 0.0343 in the fiscal year 2008/09 and the lowest (0.0739) in the fiscal year 2009/010. The company increased its current assets in the fiscal year 2007/08 and 2009/010. The company decreased its current assets in the fiscal year 2006/07. 2008/09 and 2010/011 respectively. The company decreased its current liabilities in the fiscal year 2006/07 $ 2007/08 and increased in the fiscal year 2008/09, 2009/010, 2010/011 respectively. The company made its investment in purchase of fixed assets and addition of capital work in progress. The excess investment in total assets causes short of cash bank balance at the end of last two year.

The strong variation in cash tot total assets ratio explains that the company has not been adopted specific policy for investment of cash in total assets.

	Coefficient of correlation (r)	Relationship	Coefficient of determination (r^2)	P.E.	Remarks
BNL	(0.84)	Very high Negative	0.7056	0.0888	In Significant

4.3.1 Analysis of relation between cash (x) and total assets (y)

(source: Appendix -3)

To analyze the relationship between cash (x) and total assets (y), Karl pearson's correlation coefficient has been observed to be (0.84). It indicates the negative relationship between cash and total assets of BNL. To confirm, whether it is real or not, compared with probable error and r<6PE of BNL indicates that the correlation coefficient is not practically certain i.e. the value of r is not significant; it is said the increment of one may not increase in other.

4.4 Analysis of cash and bank balance to current assets ratio

Cash is the liquid current asset and as such the more the amount of cash balance in a company, more liquid the company, liquid the company in meeting the current obligation. However bearing excess cash signifies cash balance being held idle with out any motive.

Table no. 4.4

Cash to Current Assets Ratio

Fiscal year	Cash & Bank Balance	Current Assets	Ratio (x)	X-x	$(X\text{-}x)^2$
2006/07	137.55	4478.31	0.0307	0.08994	0.00809
2007/08	19.18	5531.58	0.0035	0.06274	0.00394
2008/09	359.26	4360.43	0.0824	0.14164	0.02006
2009/010	(925.09)	4697.03	(0.197)	(0.13776)	0.01898
2010/011	(937.97)	4345.59	(0.2158)	(0.15656)	0.02451
Total	(1347.07)	23412.94	(0.2962)		0.07558
Average	(269.42)	4682.588	(0.05924)	S.D.	0.13746
				C.V.	(2.32)

(Source: Annual Reports of BNL and Appendix-8)

From the above table, it has been observed that the highest ratio was 8.24% in the f/y 2008/09 and the lowest ratio was (19.70%) negative in the f/y 2009/010 cash to current assets ratio was 3.07%, 0.35% and (21.58%) in the f/y 2006/07, 2007/08 and 2010/011 respectively. It shows that the liquefied position of BNL decrease in f/y 2007/08 and it has sharply increased up to 802% in f/y 2008/09 which indicates that the contribution of cash into current assets was increasing. Overall cash to current ratio was (0.05924) which was not satisfactory to meet its current obligations from cash and bank balance. In This way it can be concluded that the company should be able to maintain appropriate funds in current assets. The above analysis shows that cash to current ratio is not so much satisfactory to meet its current obligations from cash and bank balance.

4.5 Analysis of cash and bank balance to current liabilities ratio

The ratio is used to indicate the amount of cash available to pay current obligations of the company. A moderate ratio is considered to be satisfactory. Too high ratio indicates excess cash balance held idle and too low ratio indicates that the company is unable to pay its liabilities from cash and bank balance. It is better to pay its liabilities in time to get credit facilities. It is calculated as follows:

Cash to Current Liabilities Ratio= cash x 100 /current Liabilities

Table No. 4.5

Fiscal year	Cash & Bank Balance	Current Liabilities	Ratio (x)	X-x	$(X\text{-}x)^2$
2006/07	137.55	1740.22	0.079	0.104	0.010816
2007/08	19.18	2289.90	0.0084	0.0334	0.00116
2008/09	359.26	2754.82	0.1304	0.1554	0.024149
2009/010	(925.09)	5763.99	(0.1605)	(0.1355)	0.0183603
2010/011	(937.07)	5079.97	(0.1845)	(0.1595)	0.025440
Total	(1347.07)	17628.90	(0.1272)		0.0798813
Average			(0.025)	S.D	0.14132
				C.V.	(5.6528)

(Source: Annual Reports of BNL and Appendix-8)

The above table shows the ratio between cash & bank balance and current liabilities. The average cash to current liabilities has been observed (0.025) of BNL. The ratio of cash to current liabilities varied widely over the study period that ratio of BNL Varied significally from 0.1304in the fiscal year 2008/09 to the lowest (0.1845) in the fiscal year 2010/011.

From the above analysis, it can be concluded that high ratio indicates excess cash balance held idle too low ratio indicates that the company is unable to pay its liability from cash and bank balance. So, the company should be able to maintain sufficient liquidity.

4.6 Analysis of Cash and Quick Assets Ratio

The purpose of this ratio is to test the ability of the firm for immediate payment of current liabilities. It establishes the relationship between liquid assets and current liabilities. Quick asset includes all current assets other than stock and prepaid expenses.

Table No.4.6

Fiscal year	Cash	Quick Assets	Ratio (x)	X-x	$(X-x)^2$
2006/07	137.55	2628.51	0.05233	0.1433356	0.0205451
2007/08	19.18	3068.79	0.00625	0.097276	0.009463
2008/09	359.26	2591.07	0.13865	0.229676	0.0527511
2009/010	(925.09)	2804.47	(0.32986)	(0.238834)	0.0570417
2010/011	(937.07)	2905.55	(0.3225)	(0.231474)	0.0535802
Total	(1347.07)	13998.39	(0.45513)		0.1933811
Average			(0.091026)	S.D.	0.219876
				C.V.	(2.4155)

(Source: Annual Reports of BNL & Appendix - 8)

The above Table shows cash to quick assets ratio of bottlers Nepal Limited over the study period.

The average cash to quick assets ratio of the company has been observed (0.091026). The ratio of cash to quick assets varied widely over the study period that ratio of BNL varied highly from 0.13865 percent in the fiscal year 2008/09 to the lowest (0.32986) percent in the fiscal year 2009/010.

From the above analysis, it can be said that the ability of the firm for immediate payment of current liabilities is not much satisfactory. The ratio of cash to quick assets varied widely over the study period.

4.7 Analysis of cash and Net Profit

From this ratio the relation between cash and net profit becomes clear. The amount after subtracting the whole operating expenses, income tax, interest etc from gross profit is known as net profit. To ascertain this ratio, cash is divided by net profit.

Table No. 4.7

Cash to net profit ratio

Fiscal year	Cash	Net profit	Ratio (x)	X-x	$(X-x)^2$
2006/07	137.55	378.01	0.3639	(0.1252)	0.01567504
2007/08	19.18	347.35	0.0552	(0.4339)	0.18826921
2008/09	359.26	249.61	1.4393	0.9502	0.90288004
2009/010	(925.09)	(272.77)	3.3915	2.9024	8.42392576
2010/011	(937.07)	334.15	(2.8044)	(3.2935)	10.84714225
Total	(1347.07)	1036.35	2.4455		20.3778923
Average			0.4891	S.D.	2.2571
				C.V.	4.6148

(Appendix -7)

The above table shows cash to net profit ratio of BNL over the study period.

The average cash to net profit has been observed 0.4891. The ratio of cash to net profit varied widely over the study period that ratio of BNL varied highly from 3.3915 percent in the fiscal year 2009/010 to the lowest (280.44) percent in fiscal in year 2010/011.

From the above analysis, it can be said that the company's position of net profit is not so much satisfactory. In the fiscal year 2009/010, the company was not obtaining profit due to increase in distribution and administrative expenses which is not good for management.

4.8 Financial Ratios

Financial ratio analysis helps to evaluate the performance of the company by using various financial data extracted from different financial statements. Ratio analysis is a technique to study the relationship between two or more items of financial statement connected with each other. It is a mathematical relationship between two related items expressed in quantitative from. The quantitative relationship may be expressed in either of the following ways.

(a) In proportion

(b) In rate or time or coefficient

(c) In percentage

These are various types of financial ratios used to make the analysis of financial statement.

They are as follows:

(i) Liquidity Ratios

(ii) Leverage/Capital Structure Ratio

(iii) Profitability Ratios

4.8.1 Liquidity Ratio

Liquidity Ratios measure that short term solvency position of the firm. Under this, there are two types of ratios.

4.8.1.1 Current Ratio

It is the test of liquidity. It evaluates short term dept paying ability of the firm. It measures the availability of current assets for meeting current liabilities. It is calculated by dividing current assets by current liabilities. It is calculated by dividing current assets by current liabilities. It is calculated as follows:

$$\text{Current Ratio} = \frac{CurrentAsset}{CurrentLiabilities}$$

Generally current ratio 2:1 is considered satisfactory. Higher current ratio indicates that the firm has sufficient liquid and has ability to pay its current obligations in time whey they become due.

Lower current ratio indicates in sufficient liquid to meet current obligations in time whey they become due.

Table 4.8

Current ratio

(Rs in Lakh)

Fiscal year	Current Assets	Current Liabilities	Current Ratio (Times)
2006/07	4478.31	1740.22	2.57
2007/08	5531.58	2289.90	2.42
2008/09	4360.43	2754.82	1.58
2009/010	4697.03	5763.99	0.81
2010/011	4345.59	5079.94	0.86
Average	4682.588	3525.78	1.648

(Source: Annual Reports of BNL)

From the above table, it can be observed that BNL has not been able to maintain sufficient liquidity. In the fiscal year 2006/07 the company has sufficient and has ability to pay its current obligation in time. The current ratio was 2.57, 2.42,1.58,0.81 and 0.86 in the f/y 2006/07, 2007/08, 2008/09,2009/010 and 2010/011 respectively. In the study of last two fiscal years, current ratio was considered very low than the above standard which indicated that there was insufficient liquid to meet current obligations in time. The average current ratio recorded 1.648 during the study period.

4.8.1.2 Quick Ratio.

Quick Ratio measures the short term liquidity of the firm. the liquid assets should cover the obligation of current liabilities. Liquid assets include current assets minus stock and prepaid expenses. Liquid ratio is calculated by dividing liquid assets by current liabilities. The standard position of liquid ratio is 1:1. Quick ratio is calculated as follows:

$$\text{Quick Liquid / Acid Test Ratio} = \frac{\text{Liquid/Quick Assets}}{\text{Current Liabilities}}$$

Higher the quick ratio, better the liquidity position is.

Table No. 4.9

Quick Ratio

Fiscal year	Quick Assets	Current Liabilities	Current Ratio (Times)
2006/07	2628.51	1740.22	1.51
2007/08	3068.79	2289.90	1.34
2008/09	2591.07	2754.84	0.94
2009/010	2804.47	5763.99	0.49
2010/011	2905.55	5079.97	0.57
Total	13998.39	3525.78	-
Average	2799.678	705.156	0.97

(Source : Annual Reports of BNL ands Appendix-8)

The above table shows the quick ratio of the company over the study period. The average quick ratio of the company during the study period has been observed 0.97 times. In the fiscal year 2006/07 and 2007/08, the company is le to meet short term obligations. But in the f/y 2008/09, 2009/010 and 2010/011, the company is not able to maintain sufficient liquidity.

4.8.2 Leverage Ratio

Leverage Ratios help to test long term solvency position of the firm. It helps to know the relationship of long term dept with shareholders fund or total capital. The following ratios are included in leverage ratios:

4.8.2.1 Dept - equity Ratio

The relationship between long term debts and owners equity is known as Debt - equity Ratio. It is a test of long term solvency of a firm. It is calculated as follows:

$$\text{Debt - equity ratio} = \frac{\text{Long term debt}}{\text{Share holders Equity}}$$

or

$$\text{Debt - equity ratio} = \frac{\text{Total Debt (Long term Debt + CL)}}{\text{Shareholders Equity}}$$

Table No. 4.10

Debt - equity ratio

Fiscal year	Total Debt	Shareholders Equity	DER(%)
2006/07	1740.22	7271.54	0.24:1
2007/08	2289.90	7618.89	0.30:1
2008/09	3474.82	7045.68	0.49:1
2009/010	5763.99	6759.14	0.85:1
2010/011	7079.98	4821.77	1.47:1
Total	20348.91	33517.02	-
Average	4069.782	6703.404	0.67

(Source: Annual Reports of BNL And Appendix - 8)

The above table shows that in the fiscal year 2006/07, 2008/09 and 2009/010 he company's debt equity ratio was observed 0.24, 0.30, 0.49 and 0.85

respectively which indicates less risk to debt holder. But in the f/y 2010/011 the company's ratio was observed 1.47 whish shows that more of the funds invested in the business are provided by the owners. The average debt - equity was 0.67.

4.8.2.2 Debt to Total Assets Ratio

The debt to total assets ratio shows the relationship between total debt and total assets. Low debt ratio indicates better solvency position. As a result, creditors prefer low debt ration. It is calculated as follows:

Table 4.11

Debt to Total Assets Ratio

Fiscal year	Total Debt	Total Assets	D/A Ratio(%)
2006/07	1740.22	8865.55	19.62
2007/08	2289.90	9752.65	23.48
2008/09	3474.82	10483.51	33.15
2009/010	5763.99	12520.67	46.04
2010/011	7079.98	11901.51	59.49
Total	20348.91	53523.89	-
Average	4069.78	10704.778	36.356

(Source: Table No.4,10&4.3)

company had 19.62% debt assets ratio in the fiscal year 2006/07 which indicates better solvency position. Similarly, the company had maintain low debt ratio in fiscal year 2007/08, 2009/010 and 2010/011 with average percentage of 23.48%, 33.15%, 46.04% and 59.49% respectively. Overall average ratio was recorded at 36.356%

4.8.3 Activity Ratios

The relationship between sales and resource is indicated by turnover ratios. The ratios reflect how efficient the company is managing its resource. Thus, these ratios measure the degree of effectiveness in use of resource or funds by a firm. The common ratios of turnover are as follows:

4.8.3.1 Inventory Turnover Ratio

The relationship between cost of good sold and average inventory is shown by this ratio. It is computed by dividing the cost of goods sold by average inventory. It indicates as to how fast the goods are sold.

4.8.3.2Average Collection Period

It represents the average number of days for collecting the cash from debtors .measures the efficiency of the concern for collecting from debtors. It indicates the rapidity or slowness with which the money is collected from the debtors. It calculated

as follows:

$$ACP = \frac{\text{Debtors x 365}}{\text{Sales}}$$

The minimum day on ACP is favorable for a company. The minimum days shows that firm is efficient on collecting cash from debtor and also reduces the chance of bad debt. A higher average collection period shows the excessive blockage of funds with debtors which increase the chances of bad debts.

Table No. 4.12

Average Collection Period

Fiscal year	Sales	Receivables Debtors	ACP in Days
2006/07	6321.15	1241.78	71.70
2007/08	6147.40	1585.84	94.16
2008/09	6218.28	594.62	34.90
2009/010	6341.90	528.23	30.40
2010/011	7465.82	368.03	17.89
Average	6498.91	863.70	49.83

(Source: Annual Report of BNL and Appendix-8)

The above table shows that the average collection period of BNL during the first two years of the study period was too high which indicates that BNL had not been collecting its credit sales. ACP was 71.70 and 94.16 days in the both fiscal years. But, during the year 2008/09 it drastically fell down to 34.90 days and again in 2010/011 it reached the lower point, i.e. 17.99. The average receivables is not so satisfactory.

4.8.3.3 Fixed Assets Turnover Ratio

A relation between sales and fixed assets is known as Fixed Assets Turnover Ratio. It shows the efficiency of concern on utilizing its fixed assets. This ratio is calculated by dividing net sales by net fixed assets. Symbolically

$$\text{Fixed Assets Turnover Ratio} = \frac{NetSales}{NetFixedAssets}$$

4.8.3.4 Total Assets Turnover Ratio

This ratio is employed to take information on total assets for generating sales in operation of business by the firm. It shows the relationship between total assets and sales. He total assets include current assets, fixed assets and investment. In ascertaining the total assets, fictitious assets and differed expenditure must be excluded. It is calculated as follows:

$$\text{FATR} = \frac{Sales}{TotalAssets}$$

4.8.4 Profitability Ratio

Profitability ratios are calculated to test overall efficiency of the firm. The efficiency of any business concern is measured in terms of profit. The main profitability ratios are as follows:

4.8.4.1 Gross Profit Margin

This ratio establishes a relationship between gross profits to net sales and shows the efficiency of management to earn profit through sales. This ratio is expressed in terms of percentage. The formula of gross profit ratio is

$$\text{Gross Profit Ratio} = \frac{Gross\,\mathrm{Pr}\,ofit}{Sales} \text{ x100}$$

4.8.4.2 Net Profit Margin

This ratio establishes a relationship between net profits to net sales and shows the efficiency of management to earn net profit through sales. This ratio helps to determine the operational efficiency of the management . Higher the ratios shows the higher efficiency of the management and lower the ratio shows the lower efficiency of the management. This ratio is calculated as follows:

$$NPM = \frac{Net\,\Pr ofitaftertax}{Netsales}$$

4.8.4.3 Return on Asses (ROA)

This ratio shows the relationship of net profit and total assets and is to determine how efficiency the total assets have been used by the management. This ratio indicates the ability of generating profit per rupees of total assets. It also evaluates the present return on the total assets as a guide for return expected on future purchase of assets. Higher ratio shows the more efficient operating of management and lower ratio the low efficient operating of management.

This ratio is computed by:

$$ROA = \frac{Netprofitbefore\,\mathrm{int}\,erestedandtaxes}{TotalAssets} \text{ x } 100$$

Table No. 4.13

Return on Assets Ratio

Fiscal year	NPBIT	Total Assets	ROA(%)
2006/07	1050.56	8865.55	11.85
2007/08	1013.54	9752.65	10.39
2008/09	989.88	10483.51	9.44
2009/010	419.72	12520.67	3.35
2010/011	492.28	116901.51	4.14
Average	793.196	10704.778	7.83

(Source: Appendix - 7 and 8)

From the above table, it observed that the return on assets in the all fiscal years of the period was positive, i.e.11.85%, 10.39%, 3035% and 4.14%.This indicate that the company was able to use available resources. The average return on assets was observed 7083% which was considered as low return on the company's assets.

4.9 Analysis of Cash Flow statement

This statement of cash flow reflects the change in financial position from F/Y 2006/07 to 2010/011, classifying transaction into three categories: Operating, investing and financing activities. Bottlers Nepal Limited prepares cash flow statement under indirect method that is most often used in annul reports. Under indirect approach, net profit or loss is adjusted for the effect of transaction of non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments and item of income or expenses associated with investing or financing cash flows. The following table shows the cash flow statement of Bottlers Nepal Limited during the study period.

Table No. 4.1

cash flow statement

Fiscal Year / Particular	2006/07	2007/08	2008/09	2009/010	2010/011
Cash flow from operating activities					
1.Profit/(loss) before taxation	450.09	438.76	309.62	(272.77)	302.72
Add:					
Depreciation	573.31	491.75	641.65	602.27	654.14
Amortization	60.41	66.01	5.03	5.32	10.30
Write offs	19.65	-	-	-	-
Interest expenses	0.036	2.65	13.28	88.75	207.89
Provision for Bonus & Staff	70.19	69.27	48.89	-	51.33
Provision for Gratuity	-	-	-	70.22	-
Other non-cash exp	34.84	-	25.44	39.89	-
Loss/(Profit) on sale of fixed assets	-	-	-	(3.85)	100.70
2.Cash flows from operating before change in WC	1208.53	1068.46	1043.93	459.60	1397.34

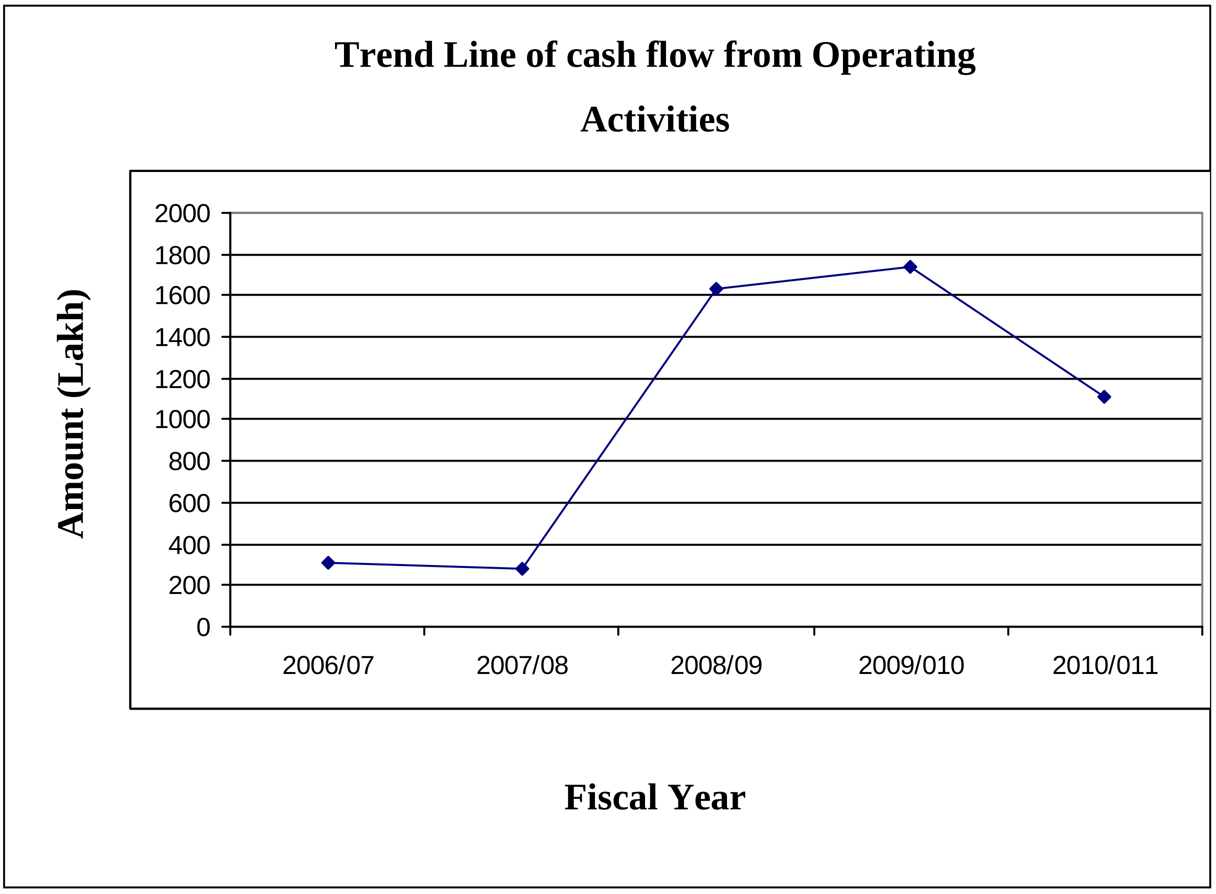
Decrease/(Increase)in CA	245.05	(1173.57)	224.27	(631.99)	821.43
Increase/(Decrease)in CL	(993.11)	(472.01)	463.01	2058.20	859.33
Interest Paid	(0.036)	(2.65)	(13.29)	(88.14)	(149.64)
Payment for Gratuity	(3.98)	(0.399)	(18.99)	(4.38)	(29.10)
Payment for Bonus & SQ	(47.01)	(76.15)	(69.27)	(44.27)	-
Special fees paid	(6.32)	(5.56)	-	-	-
Taxes paid in respect of earlier years	(94.88)	-	-	(13.77)	(29.59)
Net cash flows(A) from operating activities	308.23	282.14	1629.65	1735.25	1113.48
Cash flow from Investing activities					
Sale/(purchase) of FA/Inv	(79.98)	(324.56)	(364.32)	(257.55)	(21.28)
Proceeds form sale of FA	-	-	-	-	4.99
Addition of FA	-	-	-	-	(14.18)
Addition of CWIP	-	-	(1767.07)	(2042.03)	(854.67)
Other(Capitalization)	-	-	114.10	-	-
Additional to Deferred Expenditure	(46.60)	(755.95)	-	-	-
Net cash flow from investing activities (B)	(126.58)	(400.51)	(2011.29)	(2249.58)	(885.14)
Cash flows from FA					
Borrowing/(repay) of Bank loan	-	-	720	(720)	2000
Others	-	-	1.72	-	-
Dividend Paid	(97.44)	-	-	-	(2241.22)
Net cash flow from FA (c)	(97.44)		721.72	(720)	(241.22)
Net increase/(Decrease) in cash (A+B+C)	84.20	(118.37)	340.08	(1284.33)	(12.88)
Cash & cash eq. at the beg.	53.34	137.55	19.17	359.25	(925.08)
Cash & cash eq. at the end	137.54	19.17	359.25	(925.08)	(937.96)

(Source : Annual Reports of BNL & Appendix-9)

4.9.1 Analysis of Cash Flow from Operating Activities

Net cash flows operating activities of BNL was Rs 308.23 Lakh in f/y 2006/07, but in the fiscal year 2007/08 it decreased to Rs 282.14 Lakh due to increase in current liabilities and increase in current assets. In the fiscal year 2008/09 it has increased to Rs 1629.65 Lakh due to decrease in current assets and increase in current liability. In the current fiscal year, the cash flows from operating activities was Rs 1113.48 Lakh due to decrease in current assets and increase in current liabilities.

The above statement of cash flow shows that BNL had maintained the positive cash flows from operating activities. But CFOA was fluctuating during the study period. The CFOA decreased in f/y 2007/08 drastically increased in f/y 2008/09 and 2009/010 respectively. But in the f/y 2010/011 it fell down to Rs 1113.48 Lakh due to the payment of current liabilities of the company. Overall performance of the company was good which helped the creditors. The cash flow from operating activities during the study period can be shown in graphical representation as follows:



The above trend line show that the company's current assets decreases in the fiscal year 2006/07, 2007/08 and increases in the fiscal year 2007/08 and 2009/010. In the F.Y. 2008/09 and 2009/010 the company's trend line is upward sloping which shows that the company decreases its current assets and increases its current liabilities. In the fiscal year 2008/09 the company's paid its interest Rs 13.28, gratuity Rs 18.99 and bonus Rs 69.27 Lakh respectively.

From the above analysis, it can be said that BNL had positive cash flow from operating activities and the above trend line shows the company had fluctuating CFOA during the study period.

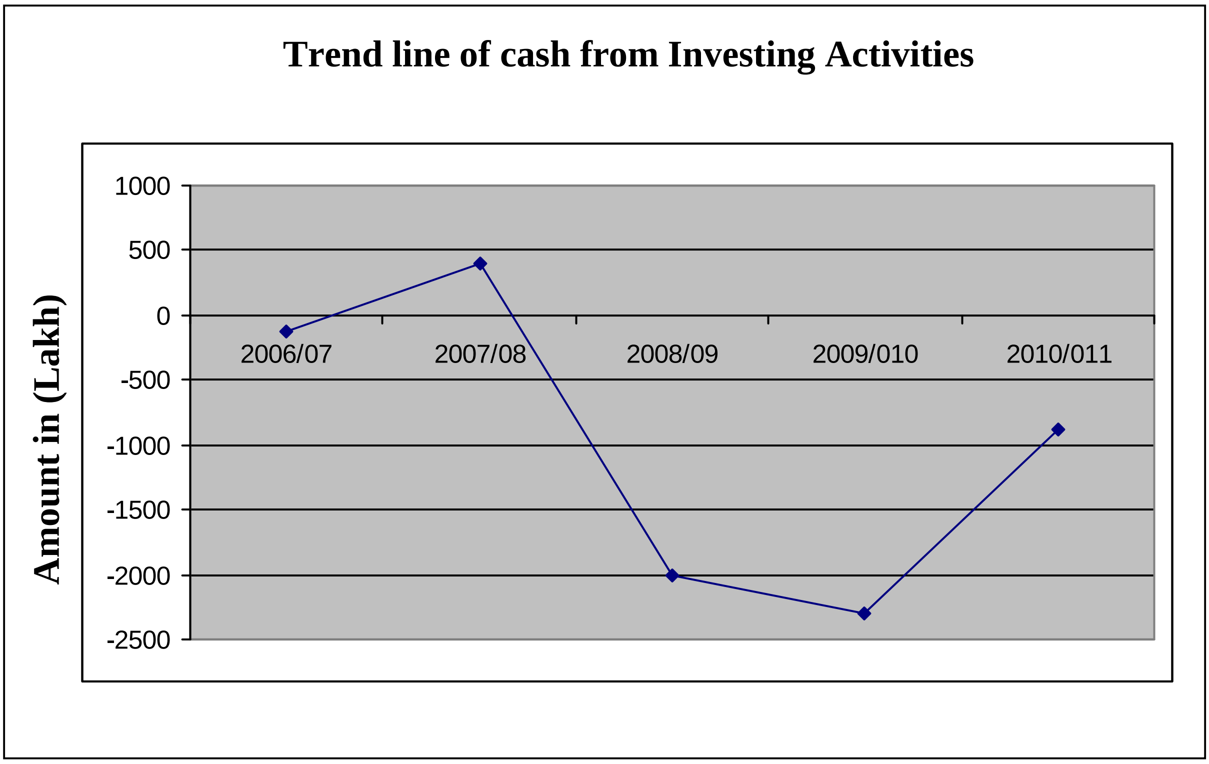
Normally, there is positive correlation between sales revenue and CFOA. The higher sales revenue results in higher CFOA, and versa. The correlation co-efficient (r) between sales revenue (x) and CFOA (y) was identified 0.13, this shows that the sales revenue and CFOA are positively less correlated. The reliability of r was tested by calculating 6xP.E., Which was found to be 1.78. Since r <6xP.E.,it was not significant which shows the calculated value of r was not reliable. Appendix-1)

4.9.2 Analysis of Cash flows from Investing Activities

Cash flow from investing activities of BNL was observed negative in the following fiscal years, i.e. 2006/07, 2007/08, 2008/09, 2009/010 and 2010/011 the indicated more procurement of fixed assets and purchase of investments. There was small portion of cash inflows from sale of fixed assets. It was observed that cash flows from investing activities were (Rs 126.58), (Rs 400.51), (Rs 2011.29), (Rs 2299.58), (Rs 885.14) Lakh during the study period.

During the study period, the main investing activities involve new investment acquisition and purchase of fixed assets to enhance future growth opportunities. The negative cash flow from investing activities in every year indicated that the company was able to expand business.

The cash flow from investing activities during the period can be shows in graphical representation as follows.



The above trend line shows that the cash flow investing activities was negative during the study periods of 2006/07, 2007/08, 2008/09, 2009/010 and 2010/011 which indicated that the company had purchased more fixed assets and made investment in other companies.

The trend line shows the unstable cash flows from investing activities which is not satisfactory for the company growth.

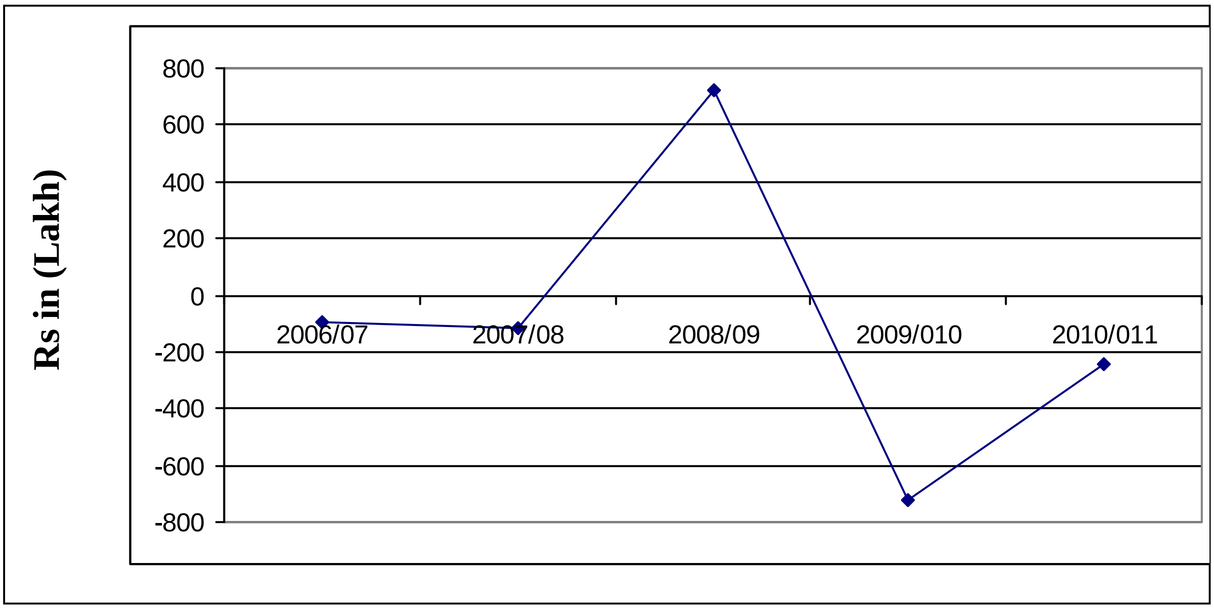
The correlation coefficient (r) between sales revenue (x) and cash flow from investing activities (y) was observed 0.11 which showed there was low degree of positive correlation between them. The value of r was tested by calculating the value of 6xP.E. which was found to be 1.79 and that indicated the value of r was not reliable because r<6xP.E. (Appendix - 2)

4.9.3 Analysis of Cash Flow from Financing Activities

Financing activities involve obtaining resource from owners and providing them with a return of, their investment, borrowing money and repaying amount borrowed. It also includes incoming of cash by issues of share and debenture, issue of long term loan etc. Outgoing of cash is due to redemption of preference share and debenture, repayment of long term loan, payment of dividend, repayment of principal with interest etc. The cash flow statement of BNL showed that the company had borrowed Rs 720 Lakh in fiscal year 2008/09 and repaid this in the fiscal year 2009/010. BNL had borrowed loan Rs 2000 lakh in the f/y 2010/011. The company had borrowed others loan Rs 1.72 Lakh in the fiscal year 2008/09.

The company financing activities has been observed positive in the f/y 2008/09, i.e. Rs 721.72 due to the inflows of secured and unsecured loans to the company, but it was negative i.e. (Rs 97.44 Lakh), (Rs 720 Lakh) and (Rs 241.22 Lakh) in the fiscal years 2006/07, 2009/010 and 2010/011 due to the payment of the loans and dividend.

The cash flows financing activities during the study period can be shown in graphical representation as follows:

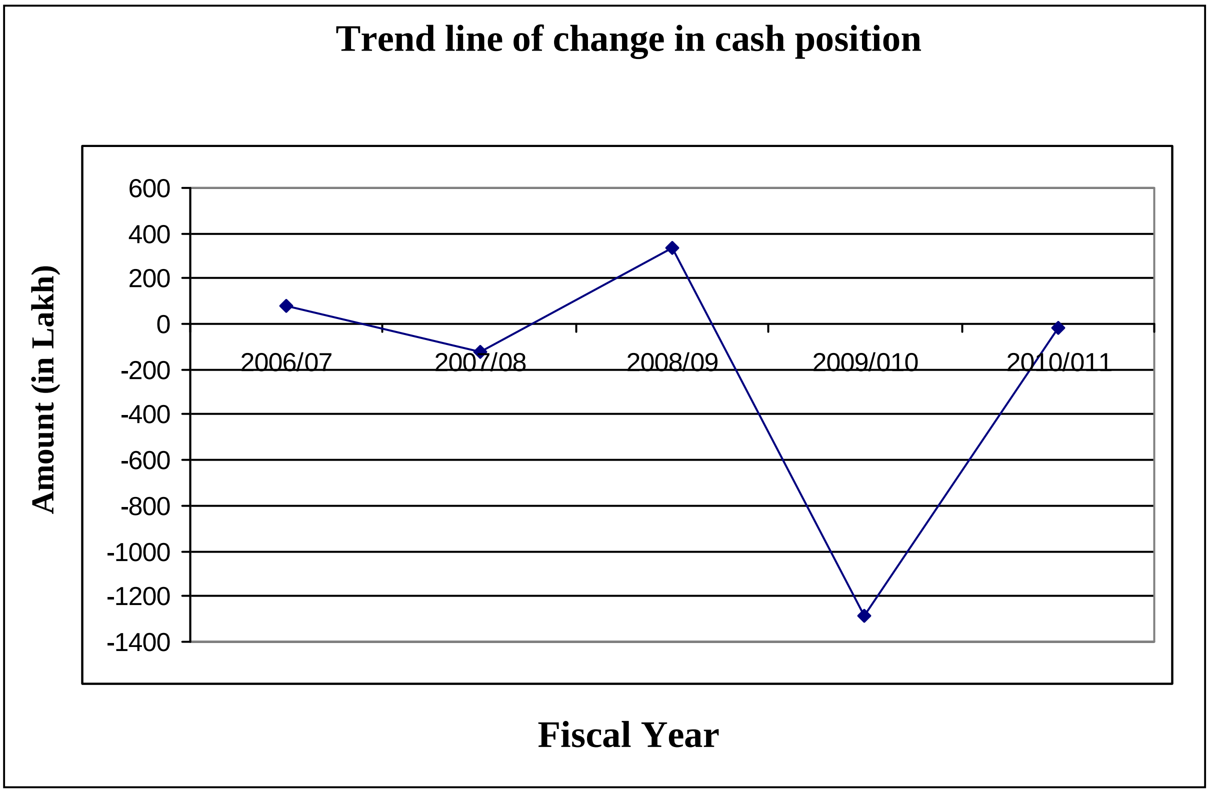


The above trend line shows that the cash flow from financing activities was fluctuating during the study period cash flow from financing activities was positive during one year. After then, it was negative. In the F/Y 2008/09 it sharply increased but in the F/y 2009/010 it has sharply decreased and reached to the lowest point. The trend line shows the unstable cash flows from financing activities.

The correlation coefficient (r) between sales revenue (x) and CFFA (y) has been observed 0.027 which shows there was positive correlation between them. The value of r was tested by calculating the value of 6xP.E. which was not reliable because r<6xP.E. (Appendix-4)

4.10 Cash Positive Analysis

The change in cash positive during the study period can be shown in graphical representation as follows.



The above trend line shows the fluctuating change in cash positive. In the first year of the study period, it was positive change in cash positive, which signified the increasing trend. In the F.Y. 2007/08, the cash positive of the company was decreased to (Rs 118.37). But in the fiscal year 2008/09 it has increased sharply to its highest point. Then, dramatically it feel down to the lowest point in the fiscal year 2009/010. It was due to the purchase of the fixed assets and payment of the loans by the company.

The company should make policy to maintain consistent change in cash position. The trend line shows the unstable cash position of the company ehich is not so much satisfactory.

4.11 Analysis of Profit and Loss

Profit and Loss A/C contains all the items of revenue losses and operating expenses incurred in carrying on the business and in selling and distributing the goods for the particular accounting period. Revenue refers to the amount which the customers pay to the company for providing goods and services. To provide goods and services to customer the company uses economics resource which result in expenses. Profit and loss account shows the actual net profit or loss from its operating for a particular period. Net profit is an indicator of the company's efficiency in term of business operation.

The following table shows the profit and loss trend of BNL during the study period.

Table No. 4.15

Profit and Loss

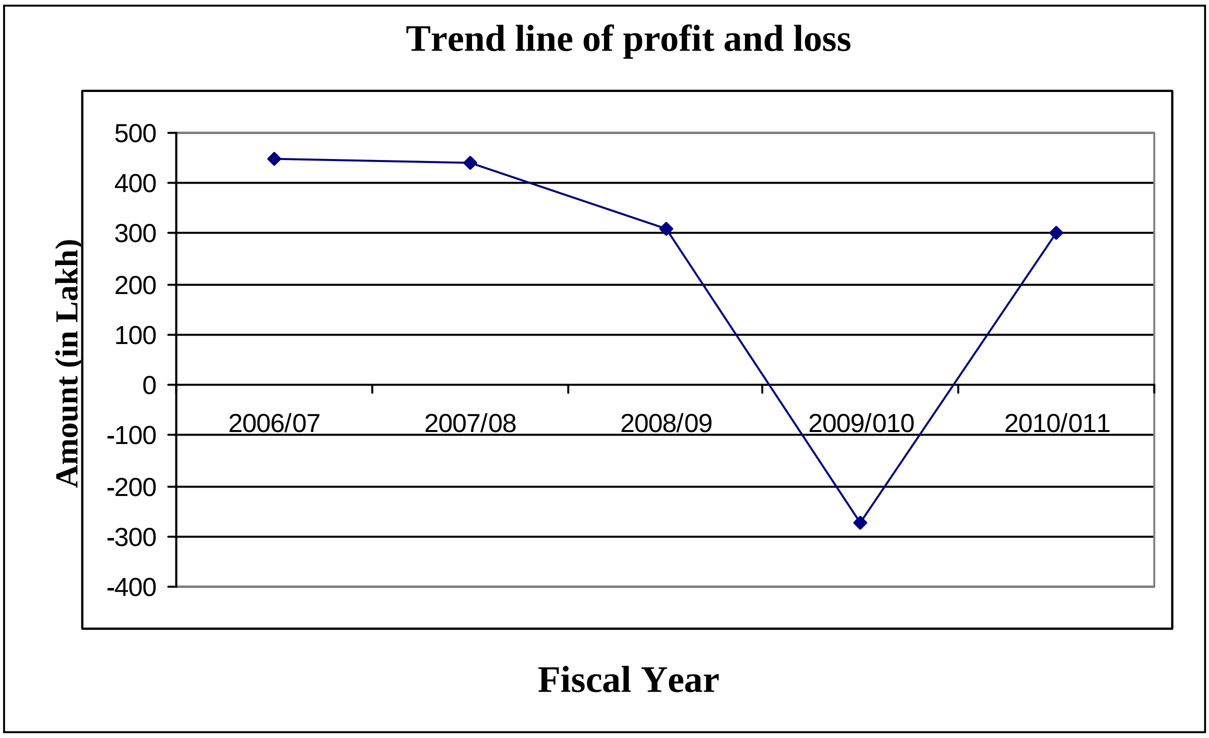
Fiscal year	Profit and Loss
2006/07	450.09
2007/08	438.76
2008/09	309.62
2009/010	(272.78)
2010/011	302.73
Total	1228.47
Average	245.69

(source : Annual Reports of BNL)

From the above table, it is observed that the net profit before tax was positive in the first three years of the study period, i.e. Rs 450.09 Lakh, Rs 438.76 Lakh, Rs 309.62 in the F/Y 2006/07, 2007/08, and 2008/09 respectively. But after 2008/09, it was negative i.e. (Rs 272.78) and in the F/Y 2010/011 the company's showed positive profit. It was average Rs 245.69 during the study period.

In the fiscal year 2009/010 the net profit before tax was negative, i.e. (272.78). In this fiscal year, the company's distribution and administrative expenses were excess in comparison with fiscal year 2008/09. It is better to control unnecessary expenses, then the company will be able to make maximum profit.

It can be shown with the help of graphical representation as follow:



From the above trend line of P/L it is obvious that BNL had incurred profit in the first three years of the study period.

The BNL had incurred loss in the fourth year of study period and in the last year the company obtained profit.

Generally, there is positive relationship between sales and profit & loss. It is assumed that when sale increase, then P/L also increase and vice-versa. This relationship is calculated by using the Karl Pearson's coefficient correlation (r) between sales (x) and NPBT (Y). The reliability of r is tested by calculating the value of 6xP.E. The value of 6xP.E. has been calculated 1.81, which indicated that the value of r was not reliable because r<6xP.E. (Appendix-5)

4.12 Major Finding of the Study

a) The company does not have any definite policy regarding how much cash balance to hold in each period. Cash and bank balance held during different period of study were observed to be highly fluctuated and thus the fact indicates the firm to be locking definite policy regarding how much of cash balance to hold during each period. The average cash balance held by BNL is (Rs269.42) Lakh.

b) Cash turnover ratio: As a fact the higher cash turnover ratio of cash indicates the sound liquidity position of company and vice versa. Average cash turnover ratio of BNL is (3.776). However the cash turnover ratio was found to be highly fluctuated. correlation coefficient has been observed 0.66 negative. It indicates the negative relationship between cash and sales of BNL. The company has not planned to hold cash specific proportion of sales volume in any year of study.

c) The company has not been precisely meeting their current liabilities payment. The proportion of cash to current liabilities of BNL is 0.25 negative. Cash and bank balance held compared to current liabilities indicates that for some year it was high whereas for some other years it was very low. This shows mismanagement of cash by the company.

d) BNL has failed to maintain adequate proportion of cash on its current assets. Relationship between cash to current assets of BNL is low positive level in terms of cash to current assets.

e) BNL is unable to maintain adequate proportion of cash as its quick assets, i.e. (0.0191026) of BNL in an average.

f) BNL seems to be unable to maintain the adequate proportion of cash in total assets, i.e. Average (0.0202) percentage.

g) Average collection period is 49.83 days, which showed the slow collection from debtors.

h) Liquidity position of BNL is satisfactory, i.e. CR is 1.65 and QR is 0.97 which is able to meet the standard 2:1 and 1:1.

i) The company is holding higher level of inventory which is considered to be unproductive and treated as idle assets that earn nothing.

j) The cash flow from operating activities is positive and the company is able to meet the short term and long term obligations. The trend of cash flow from operating activities fluctuated and on an average it was Rs 1013.75 Lakh.

k) The company had not adequate cash and bank balance to meet its short term and long term debts.

CHAPTER-5

SUMMARY, CONCLUSION AND RECOMMENSATIONS

5.1 Summary

The study focuses on the cash flow analysis of Bottlers Nepal Limited. As stated earlier, cash flow is done by preparing a cash flow statement which shows cash inflows and outflows of a company from different activities viz, operating, investing and financing activities during a period. The main objective of the cash flow statement is to convey information about the cash receipts and cash payment of a company during the accounting period. The statement of cash flow is useful to virtually every company short and long term creditors, investors, management and both current and perspective competitors.

To make research complete review of related studies has been concerned in second chapter. To make major finding and to reach close to summary of major finding recommendation and conclusion explanation the tools and techniques have been concerned in chapter third and then implemented in chapter four.

Hence an effort has been made in this chapter to present major findings on overall cash flow analysis practices of the company's recommendation.

5.2 Conclusion

The analysis of cash flow stated helps to conclude that the normal business operation of Bottlers Nepal Limited was not sufficient during the study period. The cash flow from operating activities also can not cover the short term and long term liabilities. The company has also made investments through loans and overdraft which cause excessive payment of interest. So, it is better to call amount on the issued common stocks or raise funds from low cost sources.

The company is not holding optimum level of cash balance at the end of each year, which is indicated by unstable ending balance of cash of BNL. Shortage of cash puts obstruction in smooth operation of the business whereas excessive cash than what is required contribute nothing to the profitability of the company, since idle cash earns nothing. So, the company should follow the policy to purchase marketable securities at the time of excessive cash balance and sell them at the time of shortage of cash.

Cash flow analysis is one of the major elements in financial function. It is said that main function of financial manager is to apply better technique to improve cash management.

There are other numerous aspects of finance involved in the overall financial performance of firm, such as human resources management, organizational structure, marketing etc. However, all down falling trend of the financial position is the indication of the fact that the company should immediately seek for drastic change in its managerial is concerned, the recommendations suggested above could support to a greater extent. Uplift the company's cash flow management situation.

5.3 Recommendations

The detail analysis of cash flow statement and other related information of Bottlers Nepal Limited has made possible to provide some suggestions. These recommendations will be beneficial to the interest of the company while conducting business activities and will help to increase the cash flows in the future.

- ❖ The company should properly segment its internal as well as external markets and make accordingly sales plan for the future period.
- ❖ The company should take the advantage of new market by extending its market in various places. For this purpose, the company should introduce new qualitative products according to the demand of existing and potential customers and also make research and development programs effective.
- ❖ The company should make appropriate capital structure which helps the reductions of cost of capital.
- ❖ Maintain optimum cash balance every year. The study has identified that the company has not been maintaining optimum cash balance. Holding of optimum cash as per its sales, profit and other influencing variables are recommended.

- Company should prepare cash budget cash planning and cash budgeting on a formal basis so as to project cash surplus and cash deficit for a period not exceeding one year and break up into shorter intervals, cash budget should be prepared with considering the influencing variables on cash flow statement.
- Surplus cash should manage its cash in a such way as to keep cash balance at a minimum level for daily operating purpose and invest surplus cash in profitable opportunities. The idle cash increases opportunity cost and profit will be decreased.
- Cash planning manager and experts should be appointment. The lack of knowledge of modern financial management tools and technique among existing employees in the manufacturing sector is one of the causes of poor financial performance of the manufacturing companies.
- The company should try to maintain considerable liquidity position so that it may be able to meet current obligation.
- No business can run without cash and make default on its obligations. The basic management responsibilities are to ensure that the business has enough cash to meet its current obligations as they become due. so, the company should adopt practical procedure and practices for handing cash flow management. It encourages taking right and immediate decision by responsible person. It helps to implement the budget on time.

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